

# Investor and Analyst H1 2010 Conference Call

Essen, August 12, 2010

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# Forward Looking Statement

This presentation contains certain forward-looking statements within the meaning of the US federal securities laws. Especially all of the following statements:

- Projections of revenues, income, earnings per share, capital expenditures, dividends, capital structure or other financial items;
- Statements of plans or objectives for future operations or of future competitive position;
- Expectations of future economic performance; and
- Statements of assumptions underlying several of the foregoing types of statements

are forward-looking statements. Also words such as “anticipate”, “believe”, “estimate”, “intend”, “may”, “will”, “expect”, “plan”, “project” “should” and similar expressions are intended to identify forward-looking statements. The forward-looking statements reflect the judgement of RWE’s management based on factors currently known to it. No assurances can be given that these forward-looking statements will prove accurate and correct, or that anticipated, projected future results will be achieved. All forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. Such risks and uncertainties include, but are not limited to, changes in general economic and social environment, business, political and legal conditions, fluctuating currency exchange rates and interest rates, price and sales risks associated with a market environment in the throes of deregulation and subject to intense competition, changes in the price and availability of raw materials, risks associated with energy trading (e.g. risks of loss in the case of unexpected, extreme market price fluctuations and credit risks resulting in the event that trading partners do not meet their contractual obligations), actions by competitors, application of new or changed accounting standards or other government agency regulations, changes in, or the failure to comply with, laws or regulations, particularly those affecting the environment and water quality (e.g. introduction of a price regulation system for the use of power grid, creating a regulation agency for electricity and gas or introduction of trading in greenhouse gas emissions), changing governmental policies and regulatory actions with respect to the acquisition, disposal, depreciation and amortization of assets and facilities, operation and construction of plant facilities, production disruption or interruption due to accidents or other unforeseen events, delays in the construction of facilities, the inability to obtain or to obtain on acceptable terms necessary regulatory approvals regarding future transactions, the inability to integrate successfully new companies within the RWE Group to realise synergies from such integration and finally potential liability for remedial actions under existing or future environmental regulations and potential liability resulting from pending or future litigation. Any forward-looking statement speaks only as of the date on which it is made. RWE neither intends to nor assumes any obligation to update these forward-looking statements. For additional information regarding risks, investors are referred to RWE’s latest annual report and to other most recent reports filed with Frankfurt Stock Exchange or SWX Swiss Exchange and to the material furnished to the US Securities and Exchange Commission by RWE.

# Today's Agenda

A

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**Jürgen Großmann**

H1 2010 Highlights & Update on Group issues







B

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Rolf Pohlig

H1 2010 Group results and divisional performance & Outlook for 2010

# Good start to 2010 continued

-  Strong operating performance: EBITDA +22%, operating result +21%, recurrent net income +23%
-  Solid earnings contribution from German Power Generation, Central Eastern / South Eastern Europe and Essent
-  Joint Venture established for construction and operation of 576 MW Gwynt y Môr wind farm with Munich municipal utility and Siemens
-  Bio coal production plant shared with Topell Energy kicked off
-  Investment decision made for RWE Dea gas production project in Egypt to secure about 50 bcm natural gas reserves
-  Outlook for 2010 confirmed – good prospects for an attractive dividend


# Nuclear fuel tax proposal creates major uncertainties

## Current draft of the nuclear fuel tax law

- > German **government's** reasoning:
  - **“Substantial extraordinary revenues”** earned by operators of nuclear power plants since the introduction of a CO<sub>2</sub> cap and trade system
  - Nuclear power plant operators do not participate enough financially in **“the clean up of, e.g., the final storage Asse II”**
- > The tax's introduction will be **irrespective of a lifetime extension** for nuclear power plants, i.e. it also considers currently allowed production volumes
- > The draft law includes a tax of **€220 per gram of U235** which translates into at least €22/MWh (depending on fuel type and thermal efficiency)
- > The tax is expected to be corporate tax deductible, hence, the pre-tax burden of at least €22/MWh would translate into at least **~€15/MWh after tax**

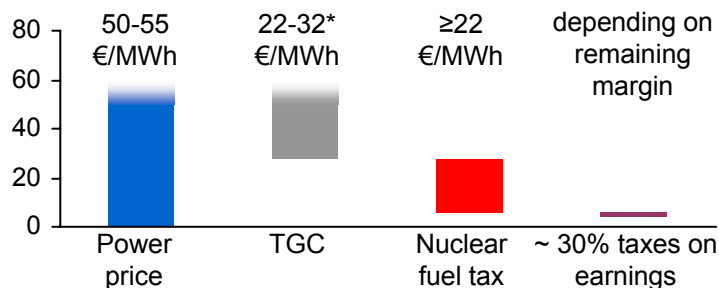
## Our view...

- > The government's CO<sub>2</sub> reasoning **contradicts the concept of a market-based** and technologically unbiased CO<sub>2</sub> reduction mechanism
- > **RWE already bears all costs** incurred for the final storage of nuclear waste from our plants
- > The tax is **not compatible with European law** (System Directive, Energy Tax Directive or EURATOM Treaty) **or** the fiscal principles of the **German Constitution** (Art. 106 Grundgesetz, GG)
- > Introduction without any compensation (e.g. lifetime extension) is unconstitutional as it would **violate the guarantee of ownership** (Art. 14 GG)
- > The tax also **violates the 2001 nuclear phase-out agreement** in which any further burden on nuclear power generation (including taxation) was ruled out
- > German corporate law obliges us to **pursue all legal options** if such a law were to be introduced

 The nuclear fuel tax is not justified and its introduction would be questionable legally. We are ready to share the benefits of a lifetime extension fairly.

# The impact of a nuclear fuel tax on the profitability of nuclear power generation would be significant

## The financial burden of the proposed tax



- > The +€22/MWh pre-tax (about +€15/MWh post-tax effect) has **to be added to the total generation costs (TGCs)** of a fully depreciated nuclear power plant
- > TGCs include significant cost components besides the nuclear fuel: mainly labour costs (internal and external staff) and maintenance costs
- > **TGCs depend mainly on the size of the plant** (the bigger the plant, the lower the specific TGCs)

## Important aspects remain unclear...

- > **How many additional years** will nuclear power plants be allowed to operate?
- > What can a **legally binding agreement** between the plant operators and the government look like as the main burdens are front-end loaded whereas the benefits of a potential lifetime extension would tend to be back-end loaded?
- > Will the government call for **additional safety requirements** and what is the necessary CAPEX?

Depending on the assumed power price, the proposed tax will take small nuclear units to the limits of profitability. This will not be helped by additional burdens which are under discussion.

# Uncertainties from nuclear debate put our mid-term outlook for 2012/13 under review

	2008 reported € million	forecast 2012 versus 2008	2009 reported € million	forecast 2013 versus 2009
EBITDA		No guidance	9,165	above 2009
Operating result	6,826	CAGR + ca. 5%	7,090	above 2009
Recurrent net income	3,367	CAGR + ca. 5%	3,532	above 2009
			Dividend target 2010 – 2013	
Dividend	€ 3.50	Payout ratio 50% – 60% with goal to at least match the previous year's dividend for each fiscal year from 2010 to 2013		

- > We expect the impact of the proposed nuclear fuel tax on operating result (as on EBITDA) to be in a magnitude of € 1 billion, or 14%
- > We expect the impact on our recurrent net income to be around €650 million or about 18%
- > Our financial headroom for investments would be consequently reduced by between € 3 to 4 billion to stay in line with our leverage target which we assume corresponds to an A-flat rating
- > Therefore, the introduction of a nuclear fuel tax would significantly influence our earnings and cash flows and hence, our dividend, CAPEX and growth potential

# Power plant new build programme: making good progress

## Renewables Projects (RWE Innogy)

### Offshore Wind Germany

- > Nordsee Ost (295 MW): Bremerhaven chosen as offshore base port in May 2010; contract for supply of foundations signed in June 2010, construction due to start in 2011



### Offshore Wind UK

- > Greater Gabbard (504 MW; 50% share): first electricity production expected to start by August 2010, fully operational by end of 2011
- > Gwynt y Môr (576 MW; 60% share): onshore works started, offshore construction begins in 2011, completion in 2014



### Biomass USA

- > Construction started on the world's largest biomass pellet production plant in Georgia/USA, production capacity of 750,000 t/year



## Conventional New Builds (Power, npower, Essent)

### Germany

- > Neurath (2 x 1,050 MW): First compression test in June successfully completed, BoA 2&3 will go online mid/end of 2011
- > Hamm (1,560 MW): Problems with steel construction of boiler solved



### UK

- > Staythorpe (1,650 MW): The four units of the CCGT will be commissioned successively between end of August and end of November 2010



### Netherlands

- > Moerdijk (426 MW): CCGT project on track for completion and within budget
- > Claus C (1,304 MW): Project ahead of schedule, important milestone of physically connecting the greenfield gas turbines and the brownfield steam turbine reached



# ...as are our projects in gas upstream and midstream

## Upstream Gas & Oil (RWE Dea)

### Algeria

- > Reggane (n/a<sup>1</sup>): approval of Declaration of Commerciality from authorities expected for third quarter of 2010



### UK

- > Breagh (7.0 mmmboe<sup>2</sup>): project on track, development intensified to take up production in 2012



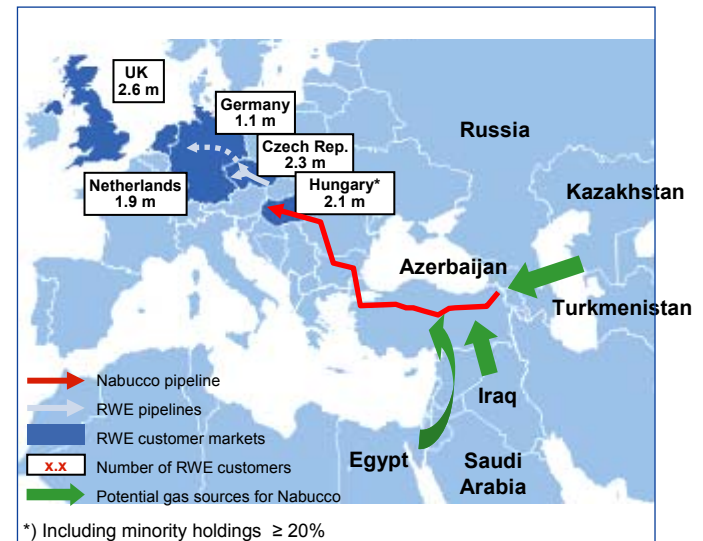
### Norway

- > Gjøa (2.2 mmmboe<sup>2</sup>): start of production as planned by the end of year 2010
- > Luno (5.3 mmmboe<sup>2</sup>): field development approval by Norwegian authorities expected by the end of this year



<sup>1</sup> Production target confidential  
<sup>2</sup> Production target by 2016

## Gas Midstream (Nabucco)



- > Intensive talks with potential supply countries like Azerbaijan, Turkmenistan, and Northern Iraq
- > We received an invitation to concrete negotiations from Azerbaijan

# Outlook 2010

		2009 € million	2010 forecast
EBITDA		9,165	+ 5 – 10%
Operating result		7,090	+ ca. 5%
Recurrent net income		3,532	+ ca. 5%
Dividend	€	3.50	Payout ratio of 50 – 60% of net recurrent income
Capex on fixed assets	€bn	5.9	ca. 7.0

# Today's Agenda

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**Rolf Pohlig**  
H1 2010 Group results and divisional performance & Outlook for 2010

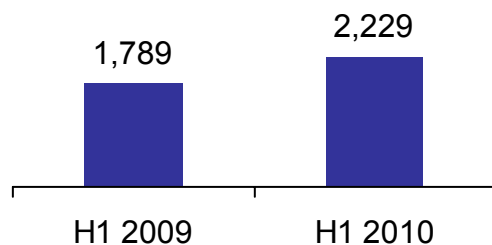
# RWE Group key performance indicators

January – June € million	2010	2009	Change in %
External revenue	27,354	24,386	+12.2
Cash flows from operating activities	1,736	1,634	+6.2
EBITDA	6,150	5,047	+21.9
Operating result	4,956	4,084	+21.4
Non-operating result	-1,009	216	-
Financial result	-787	-916	+14.1
Taxes on income	-934	-1,022	+8.6
Minorities	183	143	+28.0
Net income	2,043	2,222	-8.1
Recurrent net income	2,746	2,232	+23.0
Average number of shares (thousand)	533,559	532,709	+0.2
Earnings per share (EPS) (€)	3.83	4.17	-8.2
Recurrent EPS (€)	5.15	4.19	+22.9

# Performance of the Germany Division (I) Power Generation Business Area (RWE Power)

## H1 operating result: +24.6 %

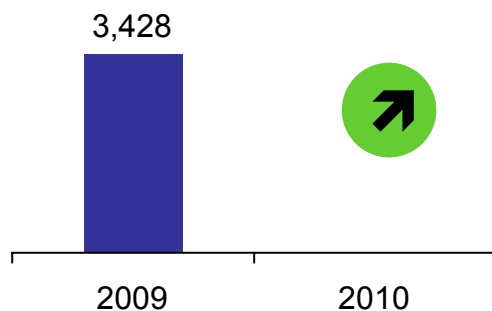
€ million



- ⊕ Lower fuel costs (ca. +€ 420 million) and costs for CO<sub>2</sub> certificates (ca. +€ 100 million)
- ⊕ Lower realised electricity prices and higher volumes (ca. +€ 50 million) including positive margin impact of Biblis (ca. +€ 290 million)
- ⊖ Higher staff costs (ca. -€ 30 million)

## Guidance for 2010: significantly above previous year

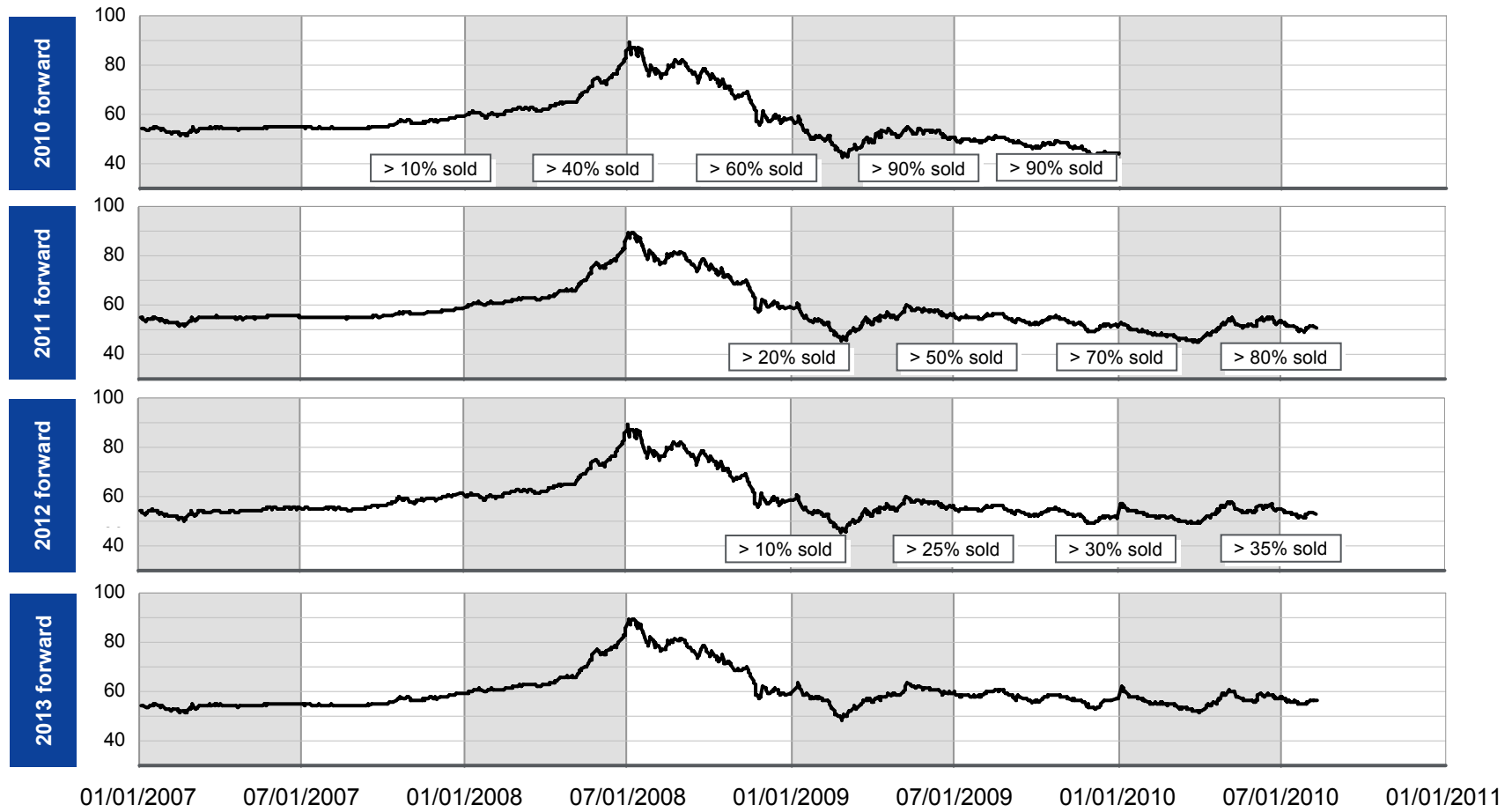
€ million



- ⊕ Higher availability of Biblis nuclear power plant
- ⊕ Lower fuel costs and costs for CO<sub>2</sub> emission certificates
- ⊕ Lower fixed operating and maintenance costs
- ⊖ Lower realised electricity prices
- ⊖ Higher staff costs

# Forward selling by RWE Power in the German market

(Base load forwards in €/MWh)



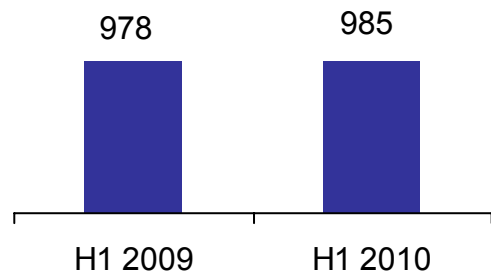
(average realised price for 2008 forward: €58/MWh, for 2009 forward: €70/MWh)

# Performance of the Germany Division (II)

## Sales and Distribution Networks Business Area

H1 operating result: +0.7%

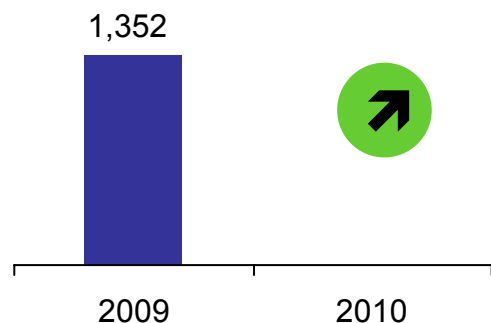
€ million



- Sales
- + Stable gas margins
  - Reduced electricity margins
- Distribution networks
- + Positive volume effect due to economic recovery
  - + Allowed costs for growth capex in network fees
  - Refunding of excess proceeds (“Mehrerlösabschöpfung”), partly offset by lower costs for transmission losses

Guidance for 2010: above previous year

€ million

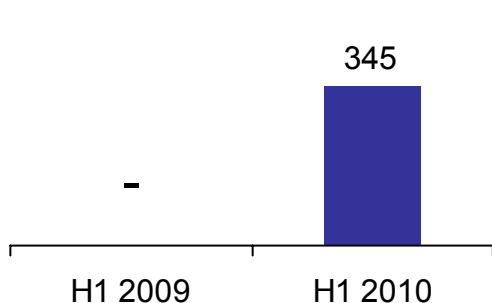


- + Efficiency enhancements
- Sales
- + Absence of negative impact of gas-to-oil spread in year-earlier period
  - + Improved gas margins and positive volume effects
- Distribution networks
- + Allowed costs for growth capex in network fees
  - Refunding of excess proceeds (“Mehrerlösabschöpfung”), partly offset by lower costs for transmission losses and positive volume effects

# Performance of the Netherlands/Belgium Division (Essent)

## H1 operating result: -

€ million



First-time consolidation of Essent



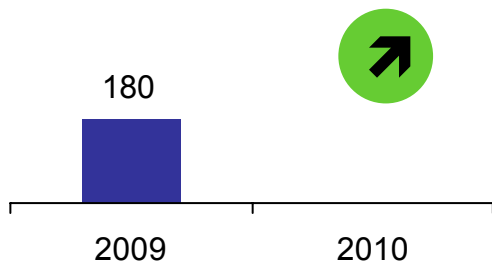
RWE Energy Nederland (REN) included in “other/consolidation” in H1 2009



Operating performance: Higher gas sales mainly due to weather effects

## Guidance for 2010: significantly above previous year

€ million



Full-year consolidation of Essent in 2010; 2009 figure only reflects 4<sup>th</sup> quarter



2010 earnings of Essent’s proprietary trading activities are reported in the Trading/Gas Midstream Division. 2010 earnings of Essent’s wind activities are reported in the Renewables Division.

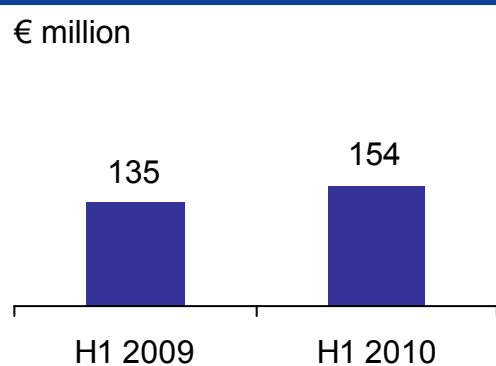


Q1-Q3 2009 earnings of REN are part of “other, consolidation”

# Performance of the United Kingdom Division (RWE npower)

## H1 operating result: +14.1%

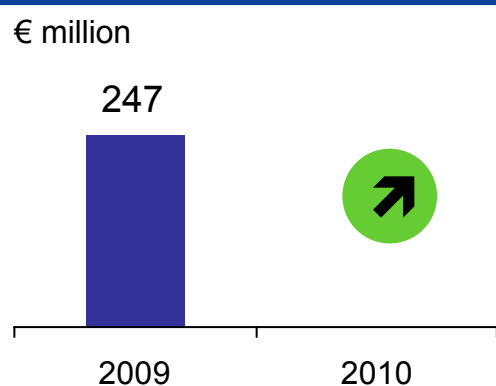
€ million



- ⊕ Sustained cost and efficiency improvements
- Power generation
- ⊖ Reduced generation margins and lower income from short-term position management
- ⊕ Lower maintenance costs
- Retail
- ⊕ Higher residential gas demand due to cold winter
- ⊕ Slightly lower commodity costs, mainly offset by tariff cuts for both electricity (March 2009) and gas (March 2010)

## Guidance for 2010: slightly above previous year

€ million

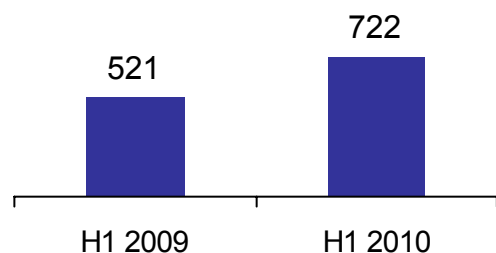


- ⊕ Sustained cost & efficiency improvements
- Power generation
- ⊖ Lower generation margins partly offset by reduced maintenance costs
- ⊕ Commissioning of Staythorpe CCGT in H2 2010
- Retail
- ⊕ Overall slightly recovered performance in H1, but pressure in H2 from rising commodity costs and tariff cuts (see above)
- ⊖ Higher electricity network fees

# Performance of the Central Eastern and South Eastern Europe Division

## H1 operating result: +38.6%

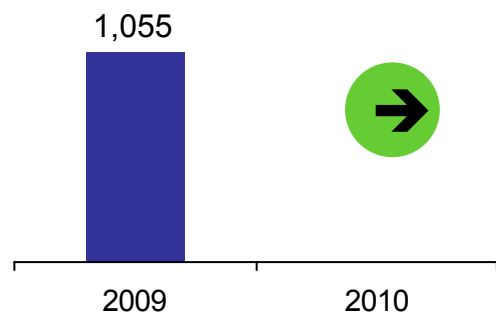
€ million



- + Higher margins in the Czech gas sales business but
- Lower gas sales volumes and transit revenues
- + Improved electricity sales margins in Hungary and Poland
- + Positive f/x effects

## Guidance for 2010: in the order of last year

€ million

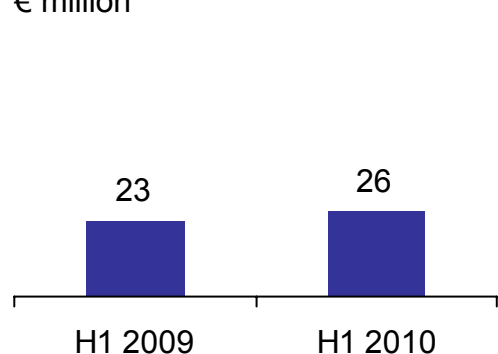


- Lower gas margins in the Czech gas sales business
- + Higher earnings contribution from our Czech regional gas network business
- Lower electricity generation and electricity sales margins in Hungary
- + Positive f/x effects

# Performance of the Renewables Division (RWE Innogy)

## H1 operating result: +13.0%

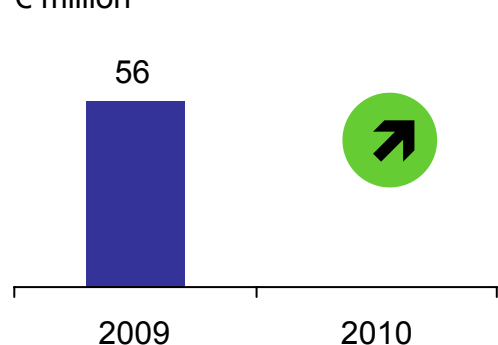
€ million



- + First-time consolidation of Essent wind activities (+€9 million)
- + First-time consolidation effect from Danta de Energías
- + Commissioning of Rhyl Flats wind farm (90 MW) in December 2009
- Upfront costs of large investment programme
- Lower realised electricity prices in Germany and Spain
- Less wind in the UK

## Guidance for 2010: above previous year

€ million

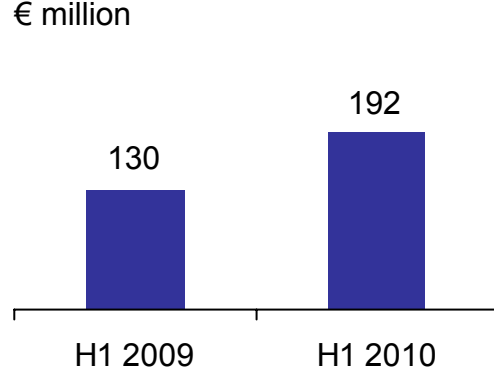


- + First-time consolidation of Essent's wind activities
- + Further results from growth investment programme
- + Commissioning of Rhyl Flats
- Upfront costs of large investment programme
- Reduced electricity prices

# Performance of the Upstream Gas & Oil Division (RWE Dea)

## H1 operating result: +47.7%

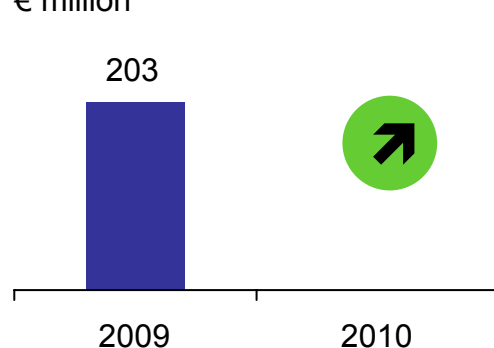
€ million



- ⊕ Higher oil prices
- ⊖ Lower gas prices
- ⊖ Lower production volumes
- ⊕ German business: lower royalties
- ⊕ North Africa: reduced exploration costs

## Guidance for 2010: significantly above previous year

€ million

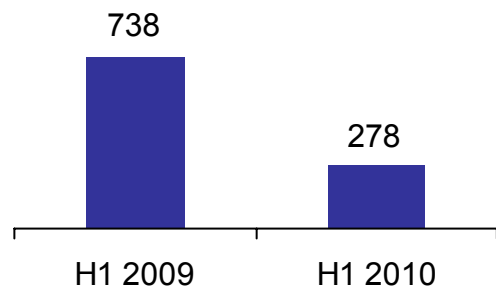


- ⊕ Improved oil prices
- ⊖ Lower gas prices and volumes
- ⊕ Lower exploration costs
- ⊖ Increased production costs

# Performance of the Trading/Gas Midstream Division (RWE Supply & Trading)

## H1 operating result: -62.3%

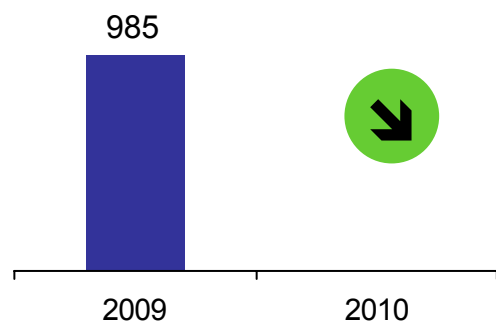
€ million



- Trading
- ⊕ First-time consolidation of Essent's trading activities (+€68 million)
  - ⊖ Performance below high level of H1 2009
- Supply
- ⊖ Absence of one-offs (successful conclusion of price reviews) in the previous year
  - ⊖ Burdens from oil-indexed gas contracts

## Guidance for 2010: significantly below previous year

€ million



- Trading
- ⊕ First-time consolidation of Essent's trading activities
  - ⊖ Performance below high level of 2009
- Supply
- ⊖ Absence of one-offs (see above)
  - ⊖ Burdens from oil-indexed gas contracts

# Non-operating result

January – June € million	2010	2009	Change (absolute)
Capital gains	1	7	-6
Impact of commodity derivatives on earnings	-1,064	514	-1,578
Restructuring, other	54	-305	359
<b>Total</b>	<b>-1,009</b>	<b>216</b>	<b>-1,225</b>

- Capital gains: No major capital gains in 2009 and 2010.
- Impact of commodity derivatives on earnings (timing differences):  
Mainly related to derivatives to secure our gas forward sales in our Trading/Gas Midstream Division. In H1 2010 also related to the first-time marked-to-market valuation of our German gas purchase portfolio.
- Restructuring, other:
  - Adjustment of provisions for loss-making contracts
  - Amortisation of RWE npower's customer accounts (-€130 million; H1 2009: -€130 million)
  - In H1 2009 we recognised an impairment loss of -€187 million for our at-equity investment in Exceleerate

# Financial result

January – June € million	2010	2009	Change (absolute)
Net interest	-337	-253	-84
Interest accretion to non-current provisions	-442	-446	4
Other financial result	-8	-217	209
<b>Total</b>	<b>-787</b>	<b>-916</b>	<b>129</b>

## ➤ Net interest

- Higher interest expenses due to increased debt used to finance our growth investment programme, especially the Essent acquisition
- Lower interest income due to disposal of securities

## ➤ Interest accretion to non-current provisions

- No major changes compared to the year-earlier period

## ➤ Other financial result

- Gains from the sale of securities in H1 2010 and absence of losses realised by the sale of securities and write-downs of securities in H1 2009

# Cash flow statement

January – June € million	2010	2009	Change (absolute)
Funds from operations (FFO)	4,020	2,643	+1,377
Change in working capital of which variation margins	-2,284 -904	-1,009 +421	-1,275 -1,325
Cash flows from operating activities	1,736	1,634	+102
Capex on fixed assets	-2,497	-2,133	-364
Free cash flow	-761	-499	-262

- FFO
  - Mainly positive operating earnings trend and Essent consolidation
- Change in working capital
  - Mainly driven by change in variation margins
- Capex on fixed assets
  - Increased mainly due to Essent consolidation

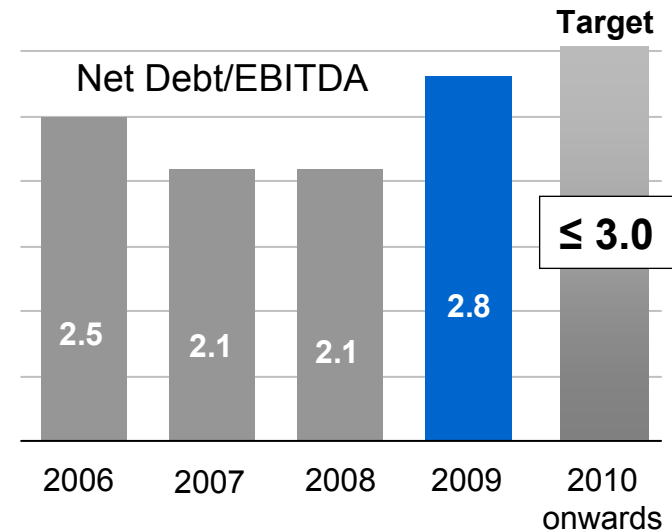
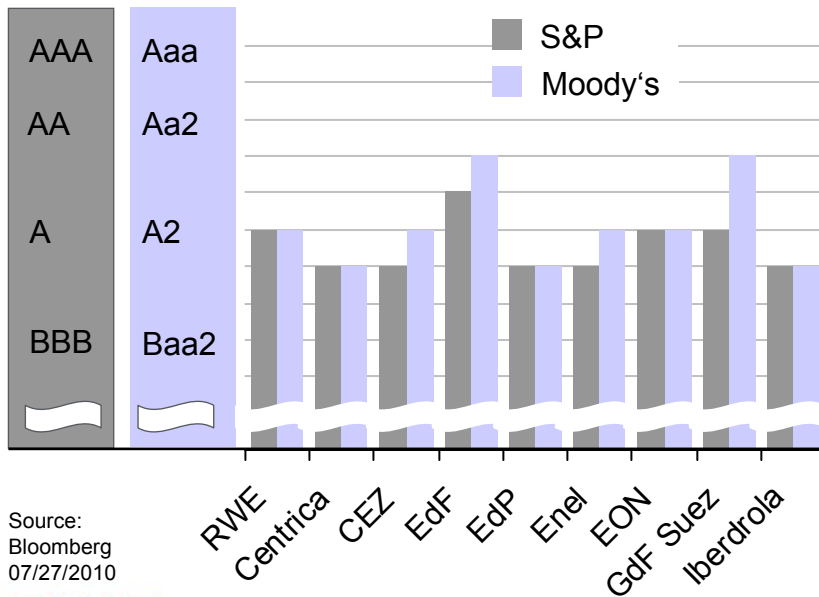
# Major goal remains to secure sound credit standing as expressed by A-flat/A2 rating

## Securing A-flat rating remains a major goal

- > RWE is well positioned with an A-flat / A2 rating compared to peers
- > Rating category has proven right during financial market crisis

## Leverage factor as an operational tool

- > Target is to keep leverage factor below or equal to 3.0
- > Target can be exceeded in single years but has to be brought back to  $\leq 3.0$  thereafter
- > Leverage factor remains the main internal tool for managing our rating category



Source:  
Bloomberg  
07/27/2010

# Back-up

# RWE Group electricity production (by geographic regions)

January – June in TWh	Germany	UK	NL	Other Internat.	Total 2010	Total 2009
Lignite	32.9			2.7	35.6	36.0
Nuclear	22.6				22.6	17.8
Hard coal	19.7	4.9	3.1	0.3	28.0	21.0
thereof contracts	11.8				11.8	7.0
Gas	6.2	10.6	3.5	0.2	20.5	11.6
Renewable energies	2.2	0.4	0.9	0.9	4.4	2.9
thereof contracts	0.3	0.2			0.5	0.7
Pumped storage, oil, other	0.9		0.1		1.0	1.1
thereof contracts	0.7				0.7	0.7
<b>Subtotal</b>	<b>84.5</b>	<b>15.9</b>	<b>7.6</b>	<b>4.1</b>	<b>112.1</b>	<b>90.4</b>
Electricity purchases <sup>1</sup>	27.4	11.4	3.6	10.2	52.6	61.3
<b>Total</b>	<b>111.9</b>	<b>27.3</b>	<b>11.2</b>	<b>14.3</b>	<b>164.7</b>	<b>151.7</b>

<sup>1</sup> Net, excluding trading. Purchases for physical deliveries to customers only.

# RWE Group electricity sales volume (by geographic regions)

January – June in TWh	Germany	UK	NL	Poland	Hungary	Other	Total 2010	Total 2009
Private and commercial customers	14.2	9.9	5.9	1.2	2.8		34.0	29.1
Industrial and corporate customers	29.4	15.6	5.0	2.2	2.9		55.1	47.7
Distributors	47.3				3.0	0.7	51.0	48.9
Electricity trading <sup>1</sup>	15.2						15.2	17.7
<b>Total</b>	<b>106.1</b>	<b>25.5</b>	<b>10.9</b>	<b>3.4</b>	<b>8.7</b>	<b>0.7</b>	<b>155.3<sup>2</sup></b>	<b>143.4</b>

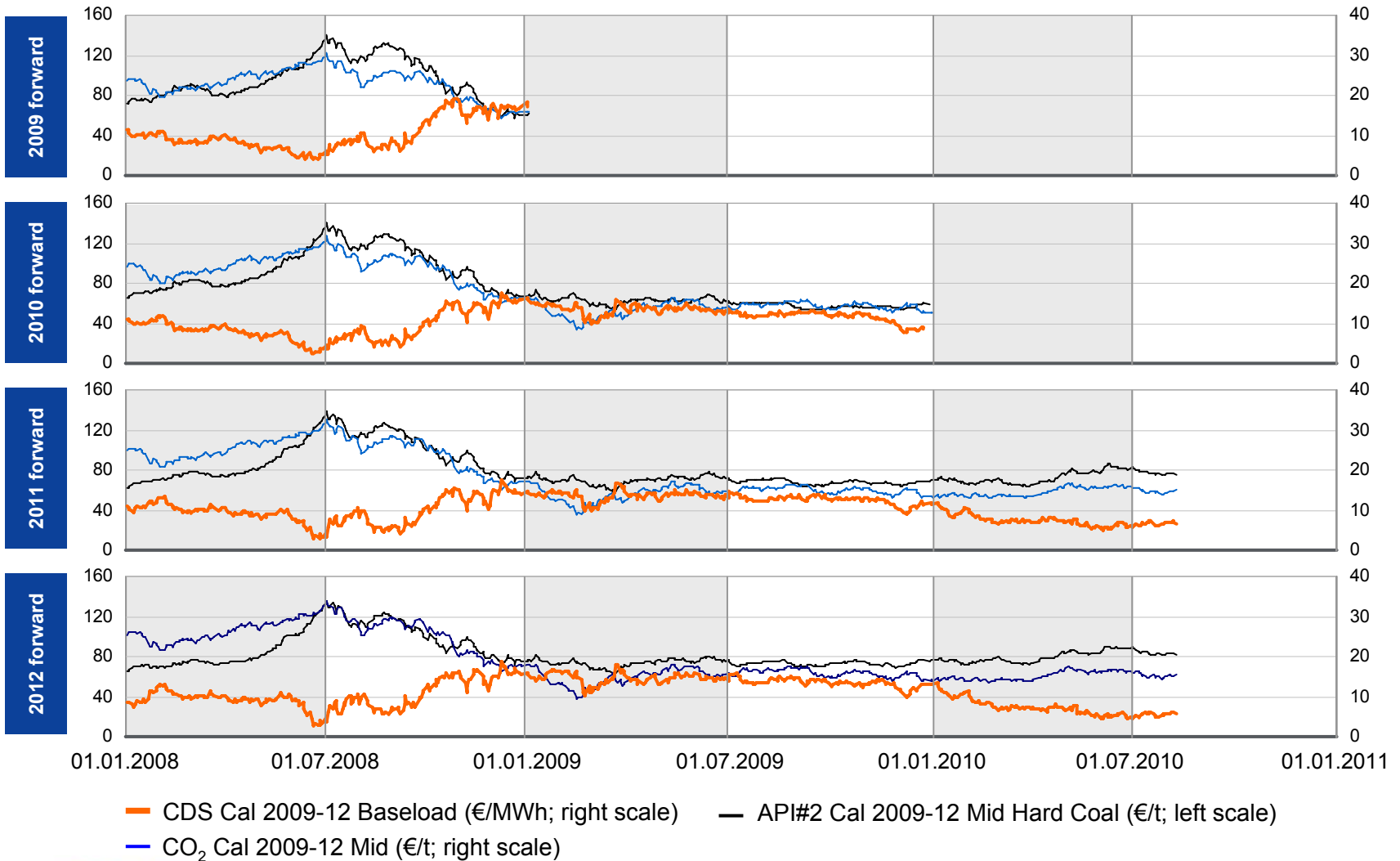
<sup>1</sup> Net of electricity purchased from third parties.

<sup>2</sup> Difference between electricity production and electricity sales volume due to grid losses, own consumption by lignite production and pumped-storage power plants.

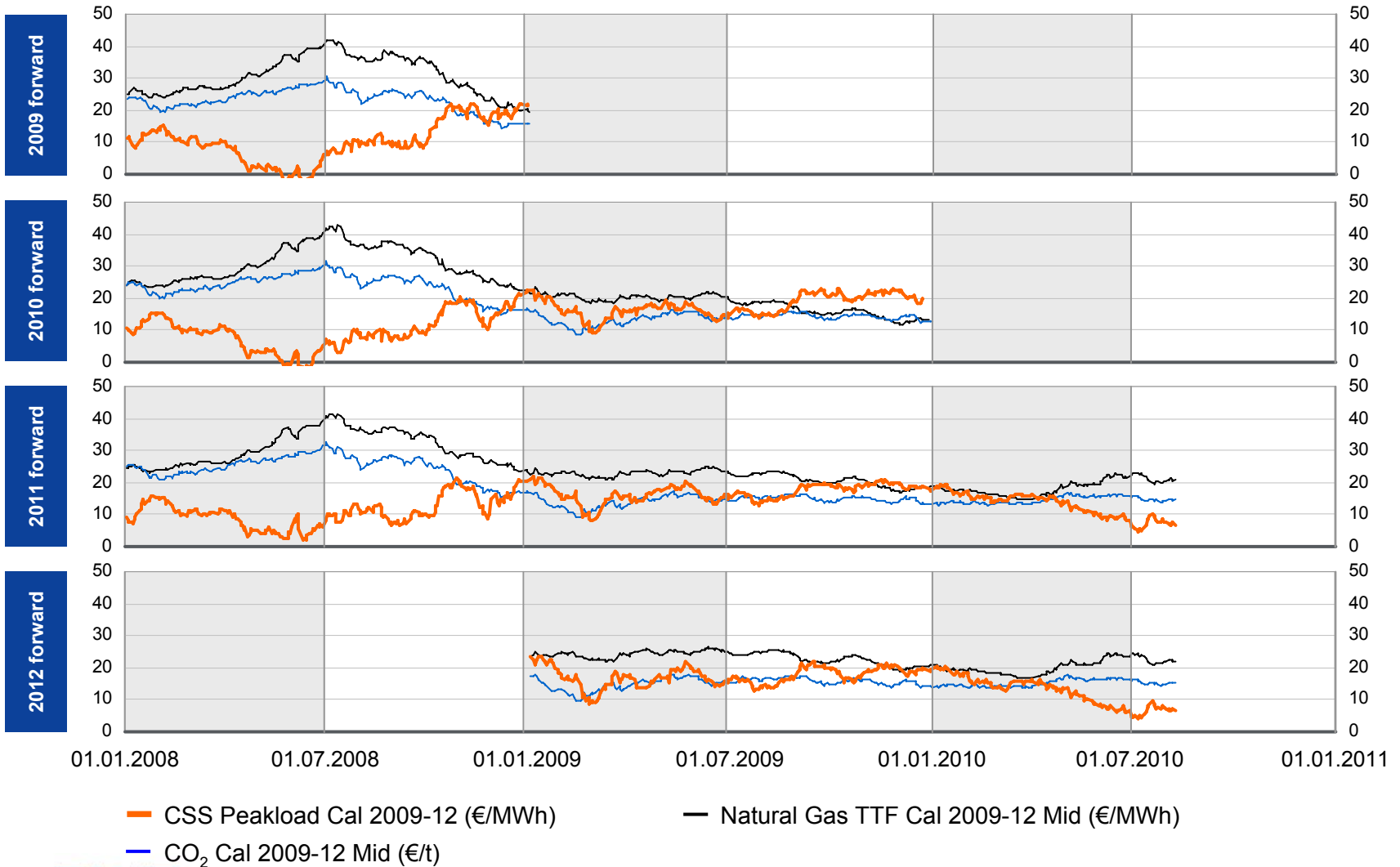
# RWE Group gas sales volume (by geographic regions)

January – June in TWh	Germany	Czech Rep.	NL	UK	Other	Total 2010	Total 2009
Private and commercial customers	17.0	20.9	41.8	27.7	2.1	109.5	67.2
Industrial and corporate customers	22.7	11.9	29.2	2.8	5.3	71.9	49.9
Distributors	44.9	4.5	0.0	0.0	0.0	49.4	51.1
<b>Total</b>	<b>84.6</b>	<b>37.3</b>	<b>71.0</b>	<b>30.5</b>	<b>7.4</b>	<b>230.8</b>	<b>168.2</b>

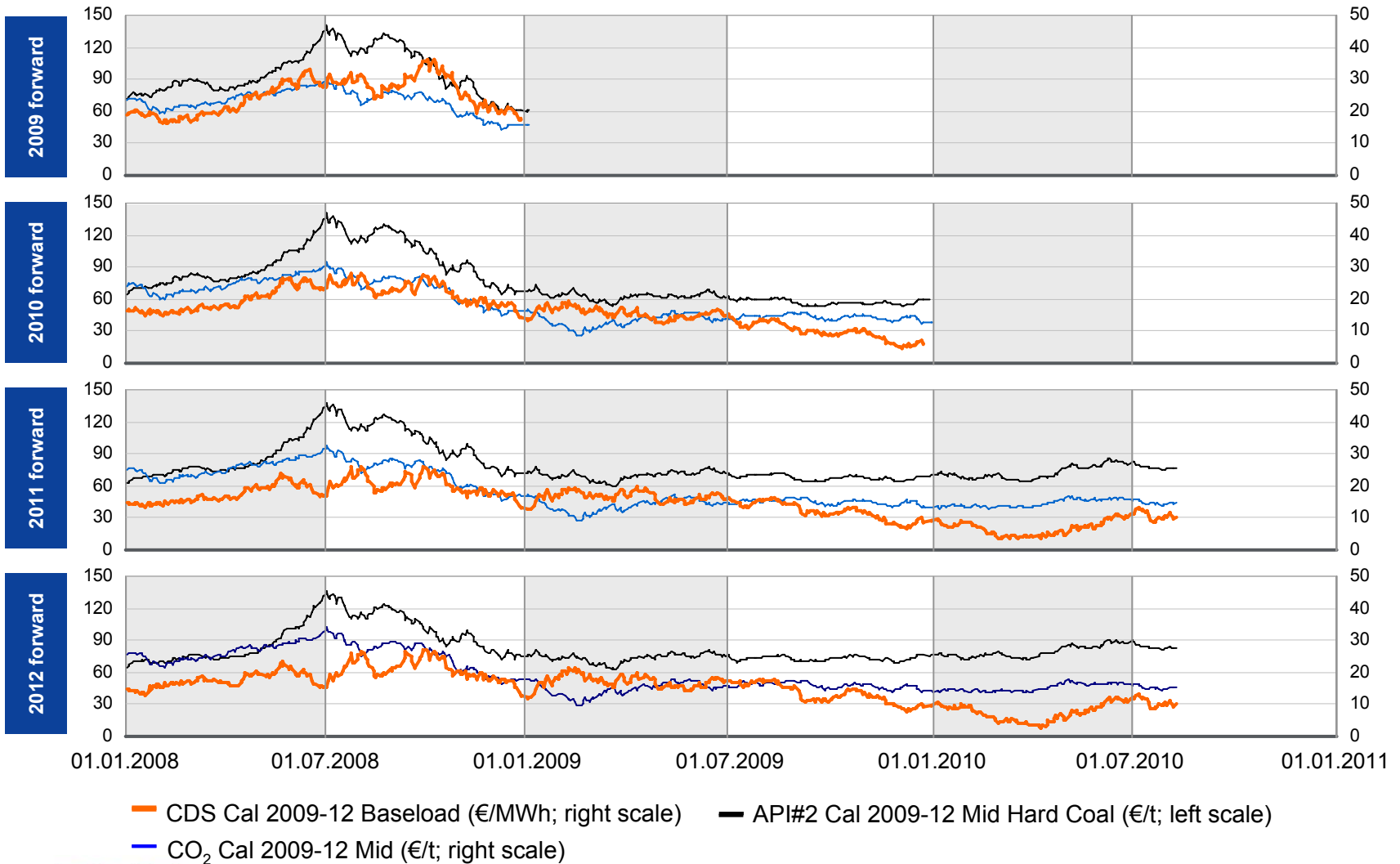
# Germany: Clean Dark Spread (CDS) versus hard coal and CO<sub>2</sub> prices



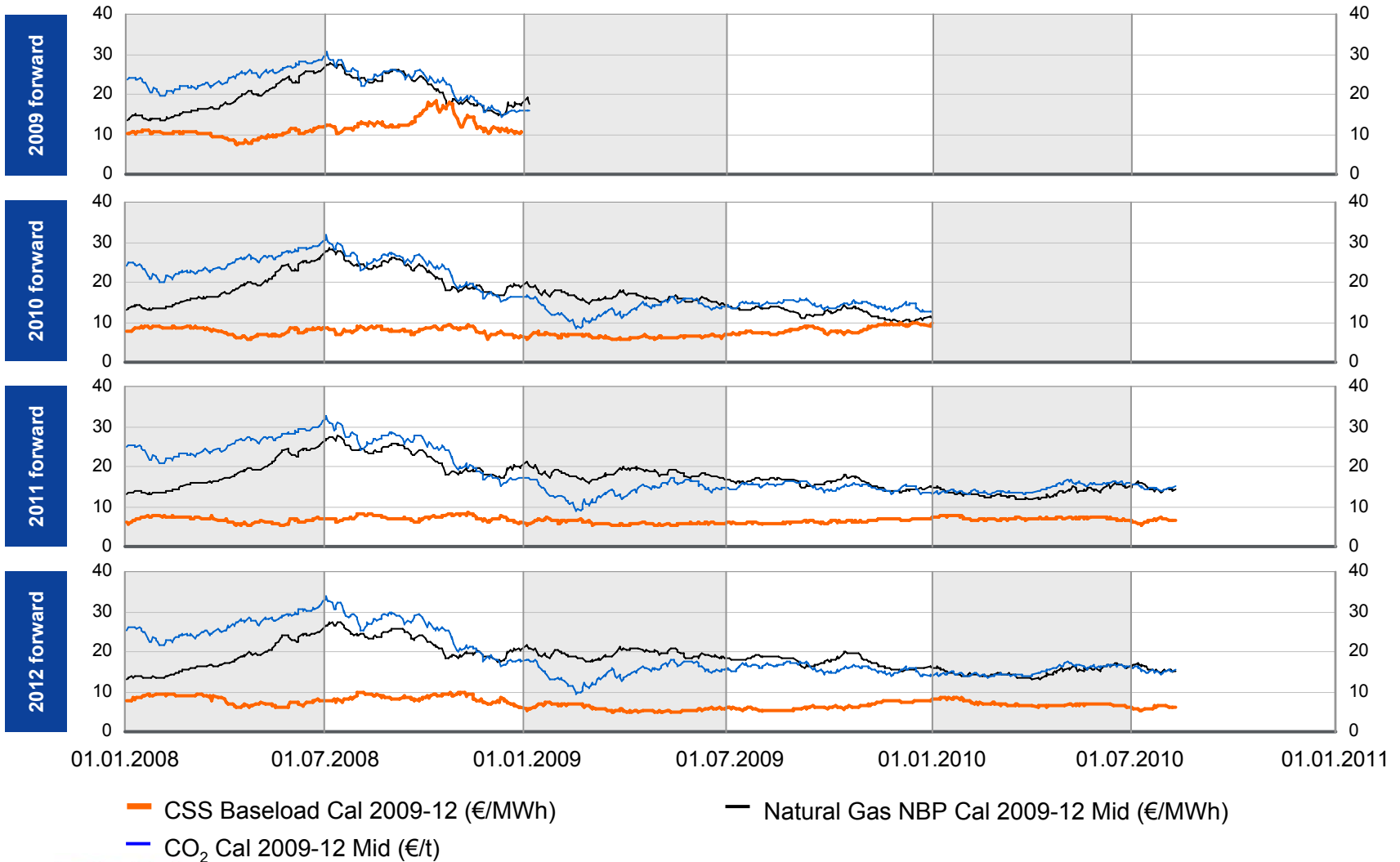
# Germany: Clean Spark Spread (CSS) versus natural gas and CO<sub>2</sub> prices



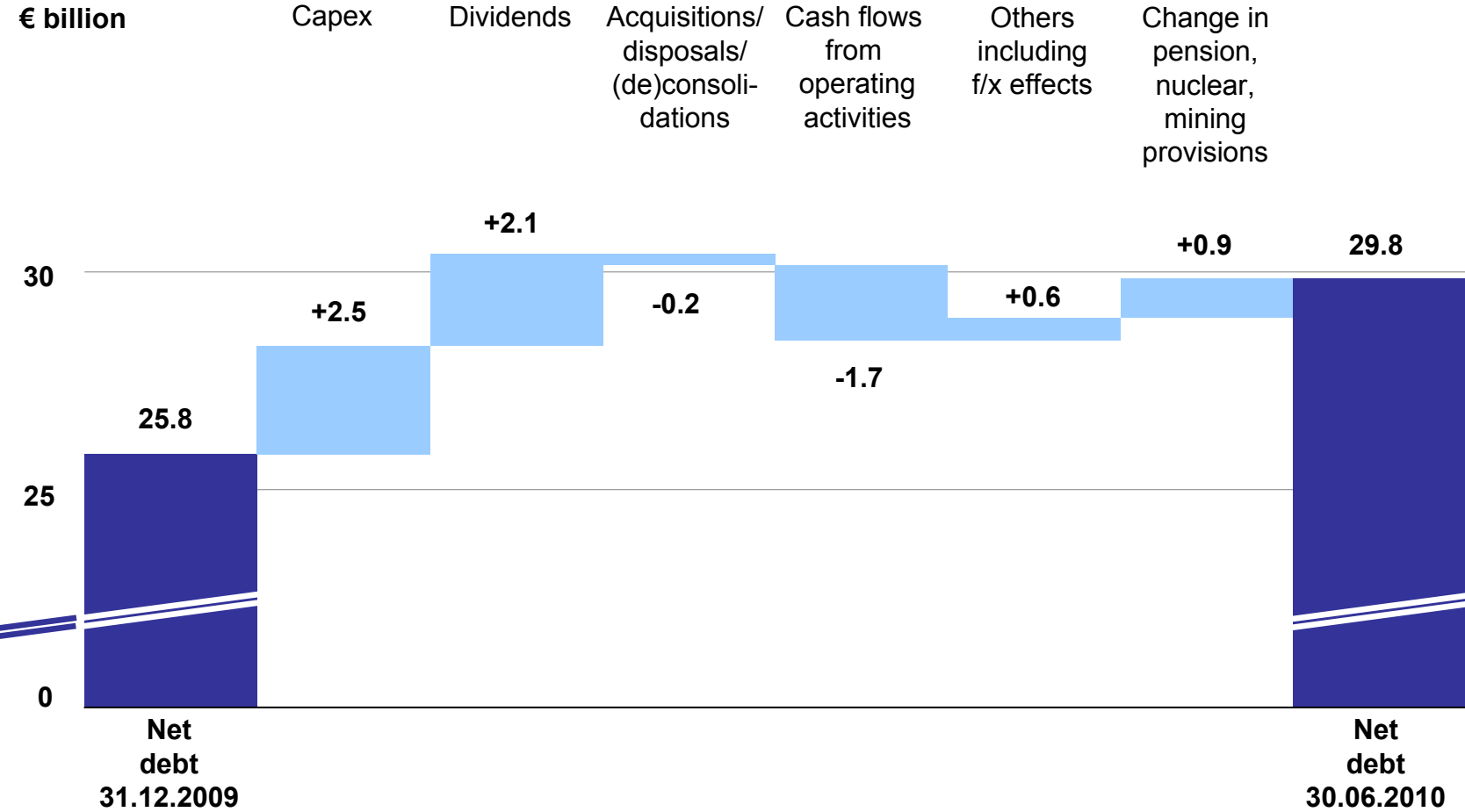
# UK: Clean Dark Spread (CDS) versus hard coal and CO<sub>2</sub> prices



# UK: Clean Spark Spread (CSS) versus natural gas and CO<sub>2</sub> prices

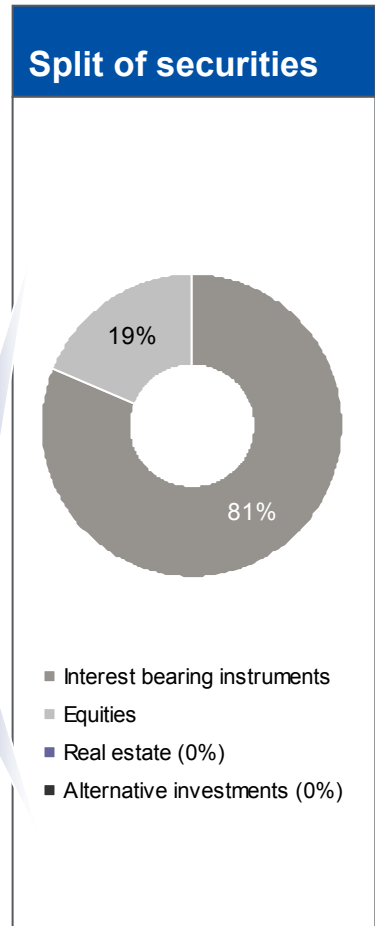
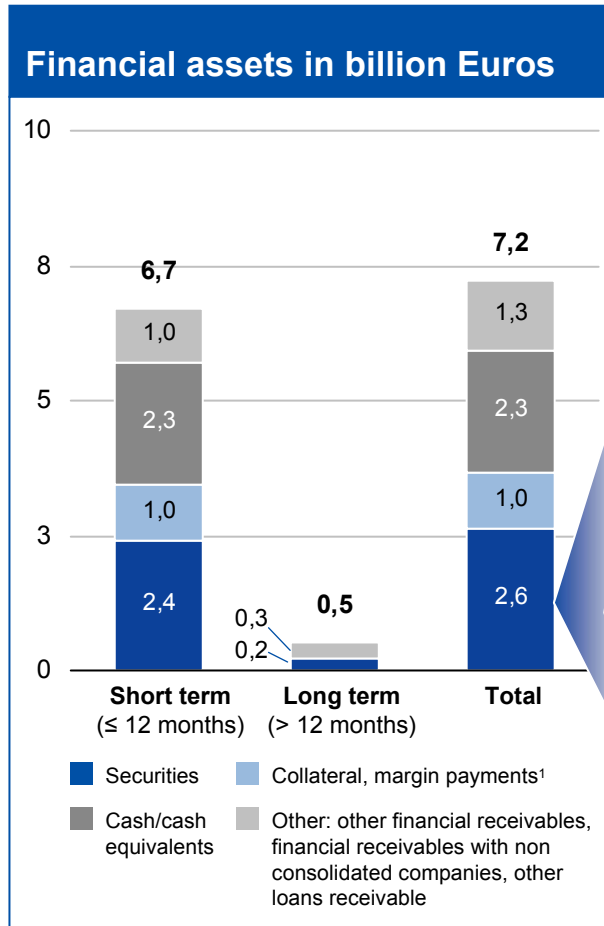
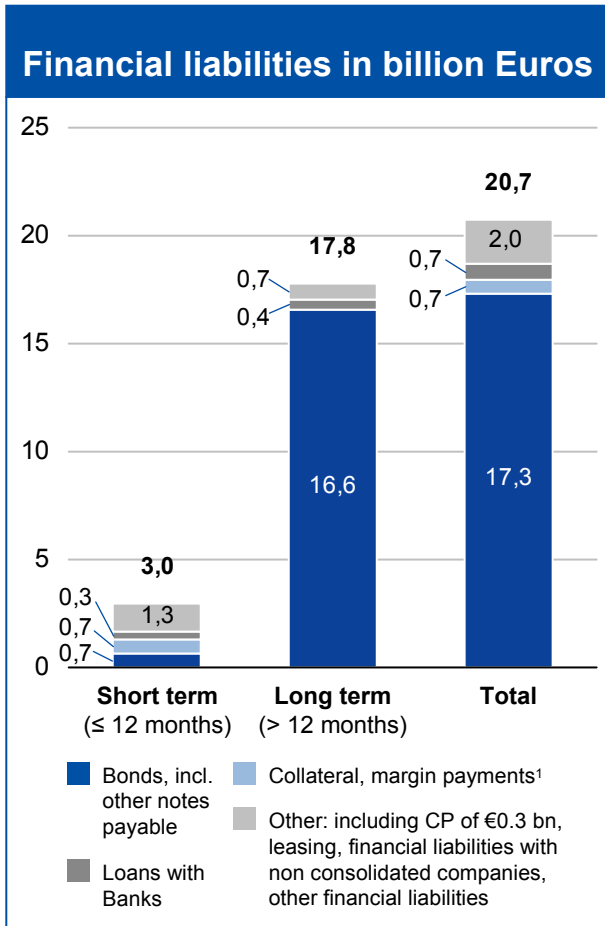


# Development of net debt



# Financial liabilities and assets

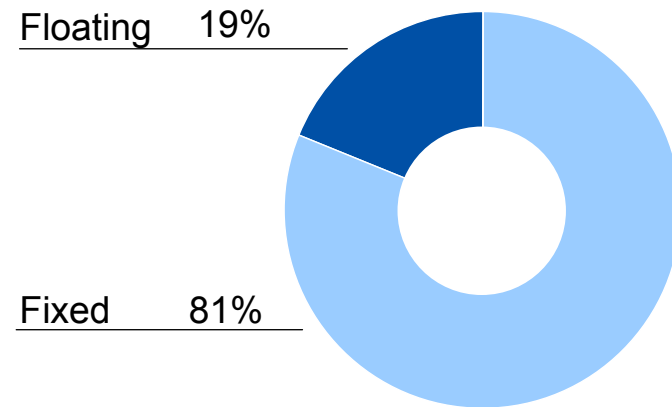
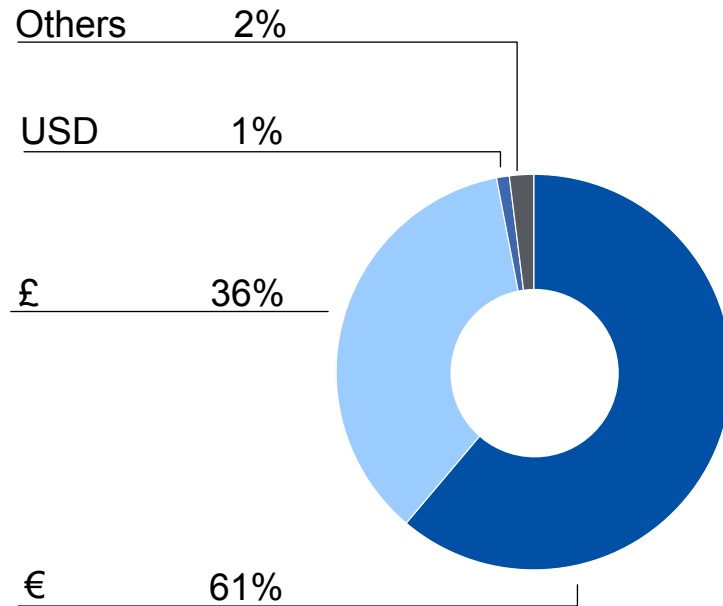
(as of 30.06.2010)



<sup>1</sup> Excluding variation margins under EEX based commodity contracts which are accounted for in the cash flow statement under 'change in working capital' and which are netted against the fair values of the respective derivatives at any point in time.

# Gross financial debt currency and interest exposure<sup>1</sup>

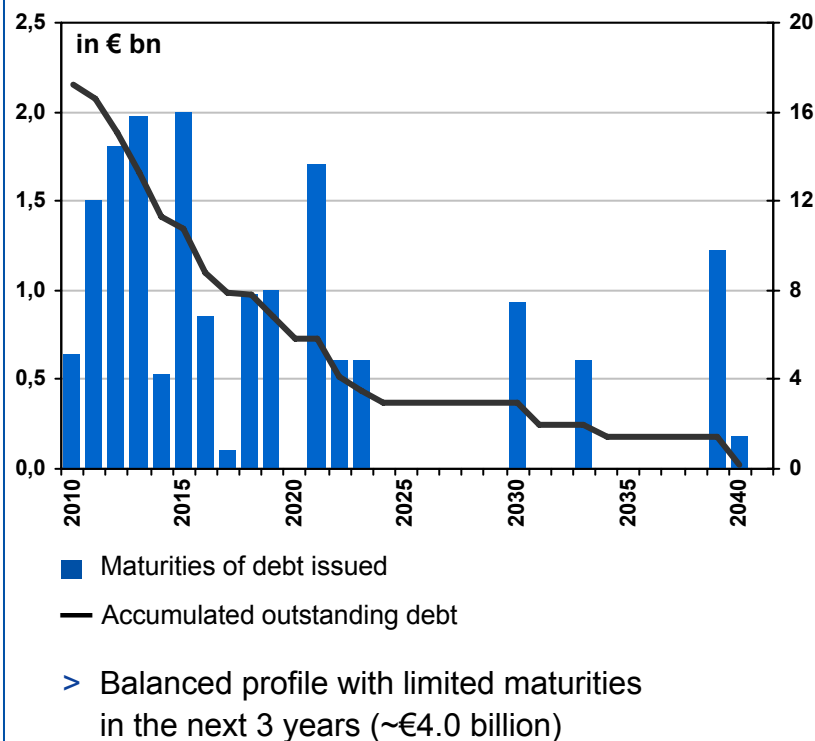
(as of 30.06.2010)



<sup>1</sup> Including cross-currency swaps.

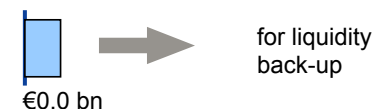
# Capital market debt maturities and sources of financing

## Capital market debt maturities<sup>1</sup>



## Strong sources of financing

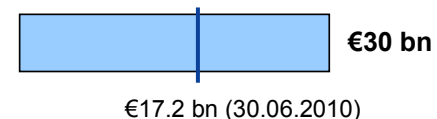
**Fully committed syndicated loan**  
(€4.0bn up to Oct. 2011)



**Commercial paper**  
(up to 1 year)



**MTN programme**  
(up to 30 years)



<sup>1</sup> RWE AG and RWE Finance b.v., as of 30.06.2010