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Chairman of the Executive Board
Statements on the occasion of
the Annual General Meeting of RWE AG
on 18 April 2013

Check against delivery.

Ladies, Gentlemen and Shareholders,

Welcome to our Annual General Meeting.

I am delighted that so many of you have come here today, and I am grateful for your many years of continued faith in RWE.

The transformation of the energy market is the subject on everyone's lips. It affects all of us. It affects you as RWE shareholders, as electricity customers and as citizens of this country. And it affects us as a company.

Out with fossil fuels and in with renewable energy sources. This is the stated goal of the energy market transformation. By 2050, the proportion of electricity generated by renewables is meant to reach 80 per cent.

RWE is helping to restructure the energy system. In Germany and in Europe. However, the success of the energy market transformation cannot be measured based solely on the number of solar and wind power systems that have been installed. It will also depend on whether energy supply remains both secure and

affordable. The bar has been set high: this transformation cannot be achieved without a cost.

Each and every energy source must make its contribution towards the transformation process. It is not acceptable to demonise certain energy sources such as coal. Fear-mongering will not help to take an objective approach.

RWE is playing its part in the transformation process. We will make our contribution towards achieving a sustainable, secure and affordable energy supply system.

By drawing on our expertise. And our financial strength.

In the past five years, we have invested a total of more than €28 billion in projects that serve the energy market transformation: in renewables, in grids and in highly efficient, flexible power stations.

We launched these projects in order to make our energy generation more climate-friendly and to ensure a more sparing use of resources, based on our confidence that the liberalised electricity markets would work. As a company, we should actually be well positioned. However, the reality is different, because our market environment has undergone a fundamental change.

Ladies and Gentlemen,

- **The challenges that RWE faces,**
- **how we will make RWE fit for the future,**
- **and how we will continue to contribute to the energy market transformation even in times of financial difficulty,**

this is what I would like to talk about today. Afterwards, my fellow members of the Executive Board and I will be happy to answer any questions that you may have.

But let me begin with a review of the last financial year.

Despite difficult framework conditions, 2012 went well overall. Our operating result increased by 10% to €6.4 billion.

The absence of exceptional financial burdens helped in this regard. The year 2011 was marked by Fukushima and the decisions taken in Germany regarding nuclear energy, which caused a gap of €1 billion in our operating result at the time. Such financial burdens had decreased markedly by 2012.

We also made good ground with our loss-making gas procurement contracts. We were able to reach agreement with almost all of our gas suppliers regarding

adjustments to contracts and compensatory payments.

It is only with Gazprom that we have not yet been able to reach agreement. We are expecting to find a solution by the middle of this year.

We also benefited again from a strong trading business in 2012.

Ladies and Gentlemen,

As usual, you will be able to share in our profit from the last financial year. You will be familiar with our dividend policy of paying out 50 to 60 per cent of our recurrent net income.

At €2.5 billion, recurrent net income was at a comparable level to the previous year, as expected. On this basis, we are again proposing a dividend of €2 per share. This is a figure that we can be justifiably proud of.

Based on the closing price at the end of December, this amounts to a dividend yield of 6.4% for ordinary shares and 7.0% for preferred shares. We therefore still rank among the top companies in the DAX in terms of dividend yield.

I would like to thank all of our employees for the part they played here. It is their dedication that has made this result possible.

We also successfully modernised our generation portfolio: in 2012 a further four power stations with a total capacity of six gigawatts began commercial operation.

The share of our electricity generation capacity represented by renewables increased to 8%. Renewables have thus overtaken nuclear energy, and our gas-fired power stations now represent the largest share of our generation capacity, at 30%.

However, our new build power plant programme has made its presence clearly felt on our balance sheet.

In the areas of security of supply and climate protection, we have shown initiative by using debt financing to make important investments in the future.

The net debt of the RWE Group has grown since 2008 from €18 billion to a total of €33 billion today. Cash flow has remained largely the same since 2009. One reason is that the power station investments in particular are not currently producing the expected yields.

Provisions for pensions were another driver of our debt situation last year. We had to increase these by €3 billion. This was necessary because low interest rates necessitated a reduction in discount rates.

RWE's net debt is therefore three-and-a-half times as high as our EBITDA. We are therefore failing to keep to our self-imposed target of a maximum leverage factor of 3, but we will continue to stick to this goal.

We believe that this is a good yardstick to maintain our excellent access to the capital market, even during turbulent times. This applies especially to the long-term borrowings that are so vital to RWE. Our investments are measured in decades, and we need to finance them for the full period.

Measures to bolster our financial strength by reducing debt include selling off assets. This has brought in some €2.1 billion to date. If we add the €1.6 billion that we negotiated for the sale of our long-distance gas network operator NET4GAS in March, we come to a total of €3.7 billion.

We had originally budgeted for up to €7 billion by the end of 2013. However, we no longer consider this realistic. In the process of implementing this programme it has

become clear that we cannot obtain an appropriate price for some of the activities that we are seeking to sell. Selling assets below value would even worsen the leverage factor that I mentioned just now. Although company divestments bring in cash, in most cases we lose earnings contributions in the process. The balance therefore has to be correct for this to work. Unfortunately, the operating improvement achieved in 2012 has not been reflected in the development of our share price since last autumn, as you will see from the chart.

The majority of financial analysts has downgraded RWE's shares since the start of the year.

Why? Because past successes have no relevance on the capital market. The medium and long-term earnings prospects are far more important. Unfortunately, this is where we see dark clouds on the horizon, particularly for conventional electricity generation.

Ladies and Gentlemen,

Fundamental changes are taking place in Europe's energy markets. The rapid and highly subsidised expansion of renewables in Germany is playing a major part in this development. Photovoltaic panels and wind

turbines currently offer capacity in the order of 63 gigawatts. This is more than a third of Germany's total generating capacity.

By way of comparison, maximum consumption in Germany during winter is slightly over 80 gigawatts. It is only about half of that during some weekends in the spring.

Last year, renewables were already meeting just under a quarter of Germany's electricity needs.

At first glance, that looks like a major success for the energy market transformation.

However, there are growing signs throughout Europe that this very success could sow the seeds of failure.

Renewables take priority for feed-in to the electricity network. All other types of plant have to be run down if solar power systems and wind turbines are generating electricity. Therefore, on days with plenty of sun, conventional power stations – gas-fired plants in particular – are forced out of the market on a massive scale.

At such times, the amount of electricity generated greatly exceeds demand, and the prices experience a huge drop.

This happened most recently on 24 March. In the afternoon, prices actually fell into the negative range and German electricity consumers had to pay up to €50 per megawatt hour to dispose of the surplus electricity. This is economic nonsense!

The relatively poor economic situation is causing a further decline in demand for electricity.

On the German futures market, the gauge for long-term developments on the electricity markets, electricity is currently cheaper than it has been at any time since 2005.

With annual power generation of over 200 billion kilowatt hours, a decrease in forward electricity prices of €1 per megawatt hour means a decline in earnings of over €200 million for us.

Prices for one megawatt hour of base load electricity for 2014 and 2015 delivery contracts are currently quoting at about €39. A year ago, the price was about €12 higher than this per megawatt hour.

As a consequence, significant parts of our conventional power plant fleet are losing money.

It is not only RWE that is affected by these market changes. It has an impact on everyone. The major suppliers as much as the municipal utilities. Anyone operating a conventional power station today faces revenue problems. And yet, we cannot manage without conventional power plants. They must be capable of stepping in when the wind is not blowing or the sun is not shining. And that will still be the case in 2050. A study by the German Energy Agency shows that gas and coal-fired power stations will still have to provide about two thirds of assured capacity 40 years from now. That means we will still require around 60 gigawatts of conventional power station capacity.

Our neighbours in Europe also have a problem. Specifically whenever subsidised German electricity from wind turbines and solar energy systems floods their grids. Gas-fired power plants in the Netherlands are among those that suffer when this happens. Their capacity utilisation is continuously falling. Poland and the Czech Republic are constructing shunt regulators at their borders to protect themselves. They have reached the limits of their technical options – and the limits of their patience.

The same is true of many electricity consumers in this country. The latest estimates suggest that over

€16 billion in subsidies for renewables are imposed on consumers every year, and this figure is still growing.

Do not misunderstand me: we support the energy market transformation and are working to ensure that it succeeds. At the moment, however, it is threatening to get out of hand, particularly where costs are concerned.

Until now, the goal of sustainability has been the sole focus of the energy market transformation. The two other key goals of the energy supply system – security of supply and affordability – have only slowly worked their way back into the focus of discussions in Berlin and Brussels.

We urgently need to have this debate!

To ensure a <u>secure</u>, <u>sustainable</u> and <u>affordable</u> electricity supply, we need binding conditions for all of these targets. One tool needs to be selected for each target. A mixture of targets and tools must be avoided at all costs. And, as far as possible, the tools must be appropriate for the market. Both of these principles have been neglected so far.

How can this be implemented?

1. **To guarantee security of supply, we need to think about what tools we can use to pay for keeping power station capacity available. This should not involve playing new and old power stations off against each other, and we must make sure that no technologies or market players are placed at a disadvantage. We need an economically viable and European solution rather than piecemeal solutions in individual countries.**

2. **We are convinced that trading CO_2 emission allowances is the right tool to effectively promote climate protection and sustainability. Short-term political interventions aimed solely at achieving higher prices for carbon dioxide are no solution. What we need are long-term, binding targets for reduction beyond the year 2020. That will enable us to plan reliably for the future.**

3. **Electricity must remain affordable. It made sense to provide a kick-start for renewables using subsidies. However, they should be sufficiently mature by now. With a 25% market share, they must be capable of surviving on their own and no longer need protection. Not at the expense of security of supply and especially not to the disadvantage of**

electricity consumers. This means that <u>the law giving priority to renewables urgently needs reform and further refinement</u>.

Ladies and Gentlemen,

As you can see, RWE faces major challenges.

The expansion of renewables in Germany and the resulting changes to the market are currently causing huge losses of earnings in conventional electricity generation. Political interventions in the energy sector place additional burdens on us:

- **starting this year we have to pay a levy on hard coal in the Netherlands**
- **as well as one on CO_2 emissions in the UK and**
- **one on our grids in Hungary.**

In addition, competition in electricity and gas sales is becoming tougher: consumers are free to change suppliers at any time. There are plenty of offers out there, although of course here too the quality varies.

All of this is affecting us at a time when our financial strength is significantly weakened because of our high level of investment.

For us it means rolling up our sleeves and working hard to remain successful in future.

How exactly do we want to approach this?

1. **We must reduce our costs still further.**

2. **We cannot spend more than we earn in the long term.**

3. **We need to develop our business further.**

Let me now deal more closely with these individual points.

To reduce our costs further and make RWE fit for the future, we began the “RWE 2015” programme last year.

There are many facets to this programme. One focus is on measures to reduce costs and increase revenues. This follows seamlessly on from the efficiency enhancement programme that was completed at the end of last year, which produced a recurrent earnings contribution of €1.5 billion compared to 2006.

With “RWE 2015” alone, we want to improve our annual earnings base by a further €1 billion by the end of next year. So far, we have progressed faster than planned, and achieved €200 million last year alone.

We will improve the operational processes throughout the Group and reduce the costs of administration, and will be leaner and stronger as a result.

Thus, at the beginning of this year we pooled our conventional power stations in Germany, the Netherlands and the UK within a new generation company, RWE Generation SE.

Group-wide Business Support Functions such as accounting, Group procurement and personnel management are gradually being combined within RWE Group Business Services GmbH, which was also founded at the beginning of 2013.

All divisions need to improve processes and save costs.

As a consequence, we will have a considerably smaller workforce in future. We must find socially acceptable solutions in this regard. Even during difficult times, RWE remains a reliable employer. We place great importance on social responsibility, which has been RWE's practice for over a century.

There is one thing that I would like to stress:

"RWE 2015" is not merely a cost-reduction exercise.

It is also about further refining our corporate culture. Although the programme is called “RWE 2015” because we have to make major improvements in the next two years, the process does not stop there. Our efforts to improve processes, structures and business models must become part of our normal day-to-day activities. Whether in the customer service centre, in the power station or in the system control centre, everyone within RWE can and must make a contribution in this regard.

Ladies and Gentlemen,

In the long run, we cannot spend more than we earn.

In view of our debt burden, we must significantly scale back our investments. After investing €16 billion in the past three years, our investment this year and in the next two years will total about €13 billion.

About €2 billion of this will be spent each year simply on maintaining our plants and expanding and modernising our grids.

In addition, we have already started many projects that tie up resources, including completing our new-build power plant programme for by the end of 2014, as well as our three major offshore wind farms off the coasts of Germany, Wales and Belgium.

From 2015, our investments will range between €3 and €4 billion a year. By that point at the latest, we will be earning at least as much from operating activities as we are spending on investments and dividends.

This will also increase RWE's financial leeway once again. It will be able to use its resources

- firstly to reduce its debt,
- secondly for capital expenditure and
- thirdly for dividend pay-outs to shareholders.

We currently do not have this financial leeway. Until our new build projects are completed, we will be forced to spend more than we earn.

Ladies and Gentlemen,

A good half of our operating result was derived from conventional electricity generation in 2012. Falling prices on the electricity exchanges and lower capacity utilisation of our power stations mean that this area will bring in much lower earnings in future.

While this is anything but gratifying, we must not lose sight of the fact that we earn the other half of our operating result in other areas.

After discussing

- firstly, cost reductions and

- **secondly, not spending more money than we earn in the long run**

let me now come to our third field of action:

- **We must further refine our business, precisely to take advantage of the opportunities offered by the energy market transformation.**

At the top of our agenda is the expansion of renewables. However, we also have far fewer resources available for renewables than originally planned.

This year, RWE Innogy will invest €1 billion, followed by a further €500 million in each of the next two years. The focus in this regard is on new wind farms, both on land and at sea. We are already the largest land-based wind farm operator in Germany.

Renewables represent only a small proportion of our overall electricity generation. But we are catching up. Overall, RWE Innogy should have a total capacity of 3.5 gigawatts by the end of next year.

Closely connected with the expansion of renewables is our goal of becoming more sustainable. By 2020 we would like to reduce our CO_2 emissions per unit of electricity generated by 20% compared to 2012. That is an ambitious goal, considering our overall power plant fleet. We will achieve this with our efficient state-of-the-

art gas and coal-fired power stations. And with more electricity generated using wind, water and biomass.

Our grids are a key element in the energy market transformation. RWE operates the largest electricity distribution system in Germany, with a length of over 340,000 km. This is a major responsibility, and also a huge opportunity. Because this is where the energy market transformation actually takes place. It is to this system that currently 90% of the wind, solar and biomass plants are connected.

Some 250,000 photovoltaic panels and wind turbines in Germany already feed into RWE's distribution system, and this figure is growing fast.

To ensure that the electricity supply functions securely and reliably, there must always be a balance between supply and demand. However, the rapid increase in the number of weather-dependent solar power systems and wind turbines that are far away from the point of consumption is making it increasingly difficult to maintain system stability.

With this in mind we are upgrading our grids using more intelligent control systems and new, state-of-the-art lines. We plan to invest about €1.9 billion in expansion,

maintenance and servicing between 2013 and 2015. This is how we will make energy transformation possible.

We are developing and testing new instrumentation and control systems to enable grids to be used more efficiently and flexibly. One example is our “Smart Country” project in the Bitburg-Prüm district.

This region is a model reflection of the challenges affecting the grid in rural areas: wind turbines and solar and biogas plants produce much more electricity than is required locally. This means that the distribution systems have to be structured to take the electricity away.

In the face of all of this technology, however, we must not lose sight of our customers. The energy market transformation does not stop at the domestic connection. The customers are also called upon to make a contribution. They are in a position to reduce their own energy consumption. After all, the cheapest and greenest electricity is the electricity that is not used in the first place.

RWE already has a range of products available for this purpose. Smart meters, for instance. Or “Smart Home” to automatically control consumption at home.

We are also developing new business models. We offer our residential and corporate customers systems that generate combined heat and power. We are also developing solar electricity storage systems. These enable residential customers to temporarily store the electricity from their photovoltaic panels.

Ladies and Gentlemen,

At a regional level, our focus is still on Europe. This is our home, and this is where the demands on us originate. This is where we want to make a contribution towards ensuring that reliable and affordable energy is available. This is where we want to maintain our position as a leading electricity and gas provider.

RWE Dea used to occupy a fixed place in our portfolio with its exploration and production of gas and oil. Access to our own gas sources was of strategic importance. With the development of liquid gas trading markets in Europe, however, this is no longer the case. This is why we no longer consider it necessary to have our own gas sources. In addition, there are only a small number of synergies between RWE Dea and our other core business.

RWE Dea also needs billions to continue its strong growth. <u>We</u> are no longer in a position to make such funds available.

We therefore asked ourselves whether we are still the right owner for RWE Dea, and the answer was "No".

We are therefore looking at the options for disposing of all of our shares in RWE Dea. While this will lead to shortfalls in our operating result, in the long term we will, however, save billions in the capital investment that would otherwise be needed to both run and further develop our core business.

Ladies and Gentlemen,

What is the current outlook for fiscal 2013?

Firstly, we are standing by our word.

I am happy to reconfirm what we promised you in March last year regarding 2013:

We expect our EBITDA to be in the order of €9 billion, which would fall slightly short of the figure for 2012. The difference is likely to be somewhat greater in the case of our operating result. On the other hand, recurrent net income will be largely unchanged. There are no changes

to our policy on dividends. We are still planning to pay out dividends representing 50 to 60 per cent of our recurrent net income.

However, it will be virtually impossible to maintain this earnings level after 2013. A principal reason is the difficult outlook for conventional electricity generation, which I have already mentioned. However, there are also some initial glimmers of hope: our extensive investments in renewables are increasingly paying off, even if it has taken longer than first planned. At the same time, our grid and sales activities will ensure the basis for a respectable level of earnings.

We are working together to deal with the challenges that face RWE. We have been collaborating with the management team as a whole to make RWE fit for the future. We are fortunate to have the support of committed and highly qualified employees who are doing an excellent job.

We are on a long and difficult course. Some painful cuts will be necessary, as well as the courage to make changes.

Our vision here is to be <u>the</u> most trusted and high-performing partner for the transformation of the European energy system. We are staking everything on

being better than the competition, on overcoming the challenges of the European energy industry more quickly than everyone else, and being the first in with the best offers for our customers.

That way, we will still be one of the five leading suppliers of electricity and gas in Europe five years from now.

These are ambitious, but also very motivating goals.

To all of our shareholders here today,

Thank you once again for your confidence. I would be delighted to see you stay with us as faithful shareholders on the road ahead.

Thank you for your attention!