RWE Deutschland AG – strong value driver and additional growth potential

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- 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

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We are a leading energy utility in the German market

<table>
<thead>
<tr>
<th>Market position</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity supply</td>
<td>No. 1</td>
</tr>
<tr>
<td>Gas supply</td>
<td>No. 3</td>
</tr>
</tbody>
</table>

### Key figures 2012 RWE Deutschland Group

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue (Euro billion)</td>
<td>23.7</td>
</tr>
<tr>
<td>Operating result/EBITDA (Euro billion)</td>
<td>1.6/2.3</td>
</tr>
<tr>
<td>Investments (Euro billion)</td>
<td>1.2</td>
</tr>
<tr>
<td>Employees (FTE)</td>
<td>19,500</td>
</tr>
<tr>
<td>End customers</td>
<td>8 million</td>
</tr>
<tr>
<td>Electricity distributed (TWh)</td>
<td>155</td>
</tr>
<tr>
<td>Gas distributed</td>
<td>80 TWh</td>
</tr>
<tr>
<td>Grid length electricity (km)</td>
<td>344,000</td>
</tr>
<tr>
<td>Grid length gas</td>
<td>37,000 km</td>
</tr>
</tbody>
</table>
We play an important role in the RWE Group: distribution and sales are essential value drivers

RWE Deutschland AG

Distribution

Sales

Value drivers

> Asset management of RAB\(^1\)
> O&M costs
> Regulatory management

> Sales margin
> Customer base
> Operative costs
> Selective growth investments

Earnings contribution to RWE Group 2012

EBITDA RWE Group: €9.3 bn
Operating result RWE Group: €6.4 bn

Share RWE Deutschland

EBITDA: 24%
OR: 25%

Strong and stable earnings contribution with additional growth potential

\(^1\) RAB = Regulated Asset Base
Overview

Continuous growth of operating result in past and future

Review operating result in € m¹

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>1,150</td>
</tr>
<tr>
<td>2004</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td></td>
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<tr>
<td>2006</td>
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<td>2009</td>
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<tr>
<td>2010</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>1,578</td>
</tr>
</tbody>
</table>

Average growth rate of about 4.6% from 2003 to 2012:

- Cost reduction through efficiency programmes
- Increase of margin in sales business
- Negative effect of regulation in grid business

Forecast 2013

Operating result in the order of last year’s level:

- Efficiency improvements
- Loss of earnings from the disposal of Berlin waterworks and KEVAG

Long-term

- Stable income situation due to stable regulatory situation for this and the next regulatory period (until 2018)
- Growth opportunities through efficiency improvements and smart energy systems provide growth potential in the order of 3% p.a.

¹ Pro forma figures for current organisational structure.
German “Energiewende” offers distinct growth opportunities with scalable investments

### Political targets / Market trends

- Ambitious political targets until 2020:
  - 25% of total electricity generation from CHP
  - 1.5% p.a decrease in total energy consumption between 2014 – 2020
  - 40% reduction of greenhouse gas emissions (compared to 1990)
  - 35% of electricity demand covered by renewables

- Financial support for decentralized energy system
- Growth in PV and wind capacity
- Electricity as efficient energy source

### Growth opportunities

- Sales (smart markets)
  - Investments in decentralised CHP/energy services
  - Energy efficiency products
  - Management of virtual power plants/decentralised energy systems

- Distribution (smart grids)
  - Smart regulated investments

Core business as a combination of technology and sales to provide robust value contribution
Successful products to be transferred to other RWE markets
Ongoing efficiency enhancement programme

Overview

RWE Deutschland supports group efficiency programme by approximately €300 million until the end of 2014.

Sales business

Structural improvement in sales and customer service functions, development of new products.

Grid business

Optimising grid operations, e.g. by IT-based workforce management, integrated supply chain management, internet based collaboration with contractors and municipalities.

Overall

Reduction of overhead functions in the grid and sales business.
Grid regions of RWE Deutschland Group

- RWE Deutschland group owns 344,000 km electricity and 37,000 km gas distribution grids.
- Operation of local distribution grid (low and medium voltage) via concessions from individual municipalities.
- Municipalities assign these concessions for electricity, gas, water and distant heating. In return they receive a regulated concession fee.
- We supply electricity, gas and/or water to almost every fourth German municipality.
- Supply is located in regions with high population density and industrial growth.
Germany’s regulatory framework of incentive-based regulation offers additional profit potential

**Cost-based regulation**
- A grid operator’s revenue cap is determined by its CAPEX and a specified rate of return: 
  \[ \text{Revenue} = \text{CAPEX} + \text{RoE} \]
- Efficiency gains resulting from cost reductions are passed through to the end consumer without delay.
- Problem: Since grid operators are always reimbursed for their costs, they do not have any incentive to reduce costs.

**Incentive-based regulation**
- **Principle**: Decoupling of revenue from costs
- **Incentive**: Grid operators may temporarily generate higher profits if they disclose efficiency reserves and reduce costs.
- Efficiency profits are transmitted to the customer with a time lag.

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### Graphical Representation

**Costs and Profits Over Time**

- **1st period**
  - **CAPEX**
  - **Regulated rate of return (always constant)**
  - **Grid revenue**

- **2nd period**
  - **New cost audit results in new starting point**

**Revenue and Costs Comparison**

- **Gas**: 2013 – 2017
- **Electricity**: 2014 – 2018
Financial performance of distribution grid business oriented to highest European benchmarks

RWE’s target setting on regulatory outperformance

- Strategic return on RAB\(^1\) goals for RWE distribution business based on ambitious outperformance target
- Outperformance target derived from European competitor analysis
- Country-specific regulatory WACC\(^2\) adjusted for different regulatory regimes
- Outperformance achieved by operative and regulatory management

Target achieved for current regulatory period until 2012/13

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1. RAB = Regulated Asset Base
2. WACC = Weighted Average Cost of Capital
3. Outperformance = Return on RAB minus WACC
Regulator confirms highest efficiency of RWE grid

EXAMPLE: Electricity distribution

Our investment strategy yields high performance grid

EXAMPLE: Typical grid area

<table>
<thead>
<tr>
<th>Before Investment</th>
<th>After Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grid length</td>
<td>220 km</td>
</tr>
<tr>
<td>No. of mid voltage fields</td>
<td>76</td>
</tr>
<tr>
<td>Degree of cabling</td>
<td>60%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Optimisation (investments, operation, O&amp;M costs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grid length</td>
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<tr>
<td>No. of mid voltage fields</td>
</tr>
<tr>
<td>Degree of cabling</td>
</tr>
</tbody>
</table>

Investment and maintenance strategy:
Specific investments reduce long term CAPEX of the grid and optimise O&M costs

Source: RWTH Aachen.
Smart Grids: „Smart“ solutions for profitable investments

Smart Country - Smart Grid solution for rural areas has successfully passed practice test

Energy users become prosumers - this implies ICT and new market models

RWE implements "more intelligence" in the low voltage grid with the project "smart operator"

Power-to-gas demonstration plant of RWE - A look into the future of storage
## Strong market position in German retail market: No. 1 in Electricity and No. 3 in Gas

<table>
<thead>
<tr>
<th>Market position</th>
<th>Strategic aspiration</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Household</strong></td>
<td></td>
</tr>
<tr>
<td>&gt; 16% market share in electricity</td>
<td></td>
</tr>
<tr>
<td>&gt; 9% market share in natural gas</td>
<td></td>
</tr>
<tr>
<td>RWE could retain customers more successfully than competitors</td>
<td></td>
</tr>
<tr>
<td><strong>Business</strong></td>
<td></td>
</tr>
<tr>
<td>&gt; 12% market share in electricity</td>
<td></td>
</tr>
<tr>
<td>&gt; 9% market share in natural gas</td>
<td></td>
</tr>
<tr>
<td><strong>Utilities/Reseller</strong></td>
<td></td>
</tr>
<tr>
<td>&gt; 18% market share in electricity</td>
<td></td>
</tr>
<tr>
<td>&gt; 5% market share in natural gas</td>
<td></td>
</tr>
<tr>
<td><strong>Strategic aspiration</strong></td>
<td></td>
</tr>
<tr>
<td>&gt; Increase of revenue and operating results per customer due to differentiated products/services and the continuous utilisation of cross-selling potentials</td>
<td></td>
</tr>
<tr>
<td>&gt; Value-oriented customer service, growth beyond pure commodity sales</td>
<td></td>
</tr>
<tr>
<td>&gt; &quot;Be excellent&quot; in customer care and market oriented products</td>
<td></td>
</tr>
</tbody>
</table>
German household segment in an excellent value driver position

Margin and cost analysis indicates our excellent performance compared to our competitors

**Sales margins**
- **EXAMPLE: Tariff customers electricity**
  - RWE margins for tariff customers (household and small commercial) for electricity and gas are among the highest in Germany
  - To maintain margin level and low churn rates, value-oriented retention schemes are set up

**Customer base**
- **EXAMPLE: Average customer electricity demand**
  - Average demand per household and small commercial customer in Germany is 3,500 kWh/a
  - RWE household and small commercial customers with 3,600 kWh/a above average
  - Together with high sales margins RWE Deutschland has most attractive customer base

**Operative costs**
- **EXAMPLE: Customer service costs**
  - Service costs benchmarked regularly
  - 22% of the German household customers are considered in the benchmark
  - RWE is at average cost level with further improvement potential
Smart Markets: we use the potential of energy services with distributed generation

- Energy Services: approx. €530 million revenue and €45 million operating result in 2012; expansion investment: €40 million in 2011 to over €60 million in 2012, further growth planned for the next years – expected IRR approx. 8%

RWE is the largest German energy service provider
Research & Development for markets of tomorrow

**Smart metering**
- Project ‘Mülheim Counts’: Provision of more than 100,000 smart electricity meters
- Investment volume: €30 m

**Electric cars**
- Development and operation of 1,300 charging points throughout Germany
- Provision of electricity from renewable sources
- Cooperation partners: Daimler, Renault, Siemens, ADAC and others

**Superconductor**
- Energy transmission without losses and saving space
- Planned construction of the world's longest superconductor test line in Essen (1.0 km)

**Smart home**
- ‘inHaus2’: Carbon-free housing project in Duisburg
- Provision of innovative energy applications
- Partnership with Fraunhofer Institute

**Smart grids**
- Development and expansion of smart electricity grids
- Investment: approx. €500 m until 2020
Based on changing energy markets we have three basic strategic pillars

**Distribute**
Outperform regulatory targets by optimised investment strategy and highest operating efficiency

**Sell**
Maintain position as top performer with high value customer base

**Develop**
Develop and successfully implement new business models for a smart energy world with value-enhancing growth potential

RWE Deutschland AG yields continuously high contribution to RWE Group’s value