

# Managing through the cycle



(as of July 2011)

# 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 amortisation 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 and to all additional information published on RWE’s Internet Web site.

# Q1 2011: Outlook confirmed – future of German nuclear unclear



Operating performance:

EBITDA -4%, operating result -5%, recurrent net income -7%



Net debt reduced to € 27.5 bn



German nuclear moratorium for safety review



Outlook for 2011 confirmed despite negative impact from 3-month nuclear moratorium

# Utilities are facing four major challenges

- Low electricity prices and pressure on generation spreads, inter alia due to unexpected strong growth of renewable energies
- German nuclear fuel tax 2011 – 2016
- Negative gas-to-oil-spread due to decoupling of oil and gas prices
- Tighter CO<sub>2</sub>-regime from 2013 onwards

# Our response to steady the course and safeguard future growth

## Continued strategic focus ...

- > Maintain strategic and regional focus
- > Continue to reduce RWE's CO<sub>2</sub> intensity to market average by 2020
- > Pursue organic growth, especially in renewables and upstream

## ... combined with operational measures ...

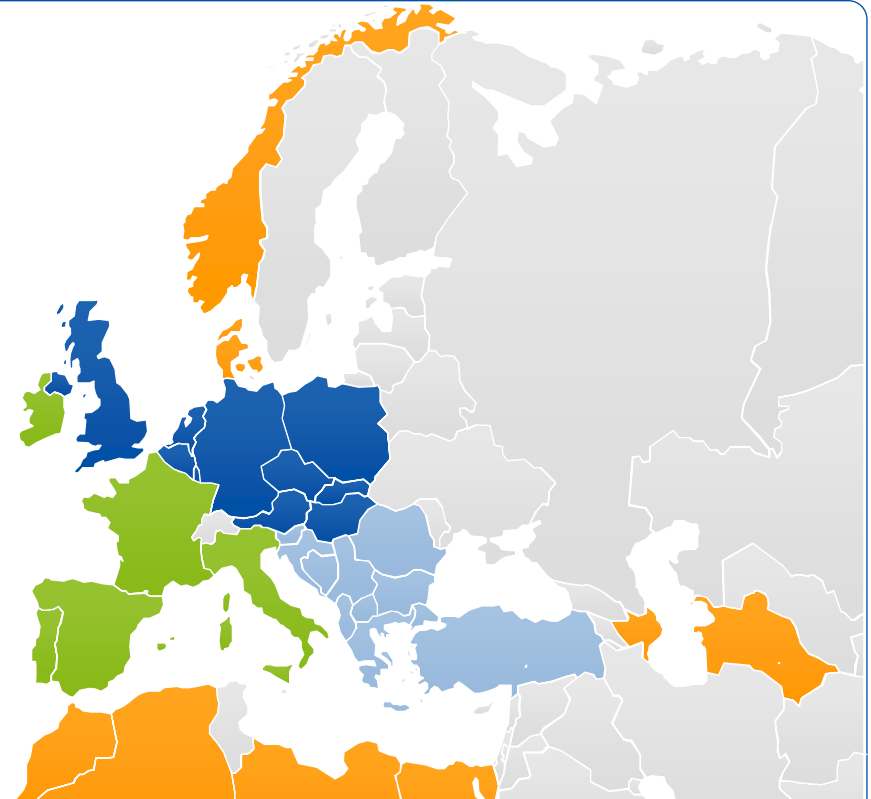
- > Reduce capex level 2011 – 2013 by ca. € 3 billion
- > Step up efficiency improvements by € 200 million by 2012
- > Adapt asset portfolio to new market environment (revisit generation fleet; renegotiate gas supply contracts)

## ... and balanced financial targets

- > Undertake asset disposals of up to € 8 billion by 2013
- > Align dividends by maintaining pay-out ratio of 50% to 60% of recurrent net income
- > Keep leverage factor below 3.0x mid-term to support solid "A" rating

# Europe remains our core market

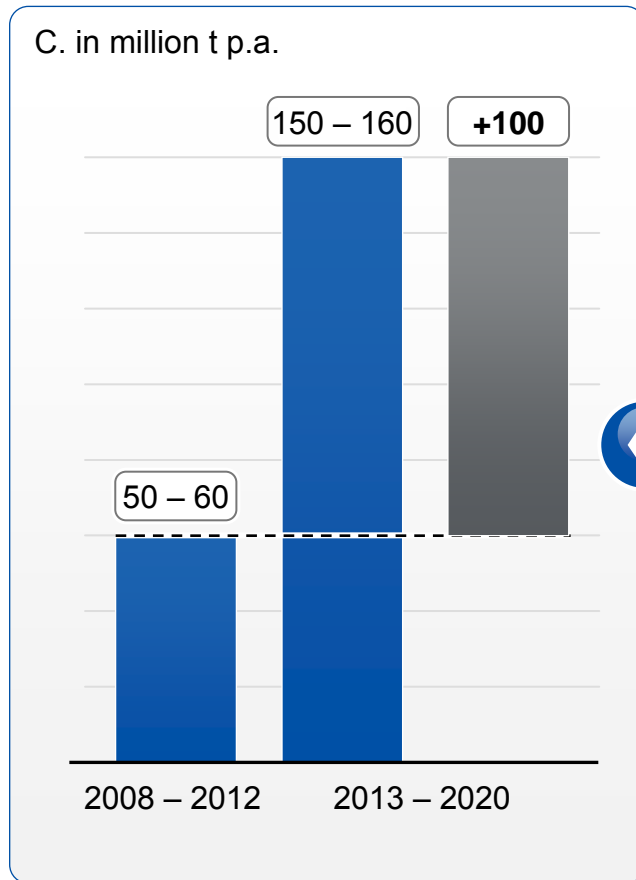
- RWE's core business remains electricity and gas along the entire value chain
- We build on our leading positions in our core markets to look for further growth
- Regional growth markets mainly CEE/SEE, especially Turkey
- Grow our renewables business in and around our traditional core markets
- Grow our upstream gas & oil position mainly in Europe, Caspian region, Africa and Trinidad & Tobago



- RWE core markets with established market positions
- Growth markets under observation
- Additional markets for upstream gas & oil
- Additional markets especially for renewables business

# Our strategy to reduce the financial impact of CO<sub>2</sub>

## Certificates to be purchased



## Mitigating factors

### Organic growth

- > Commissioning of new build projects (bulk before or in 2013)
- > Increase in profits from renewable energies
- > Increase in profits from upstream gas & oil
- > Stable contribution from retail and grid business
- > Lifetime extension of German nuclear<sup>1</sup>

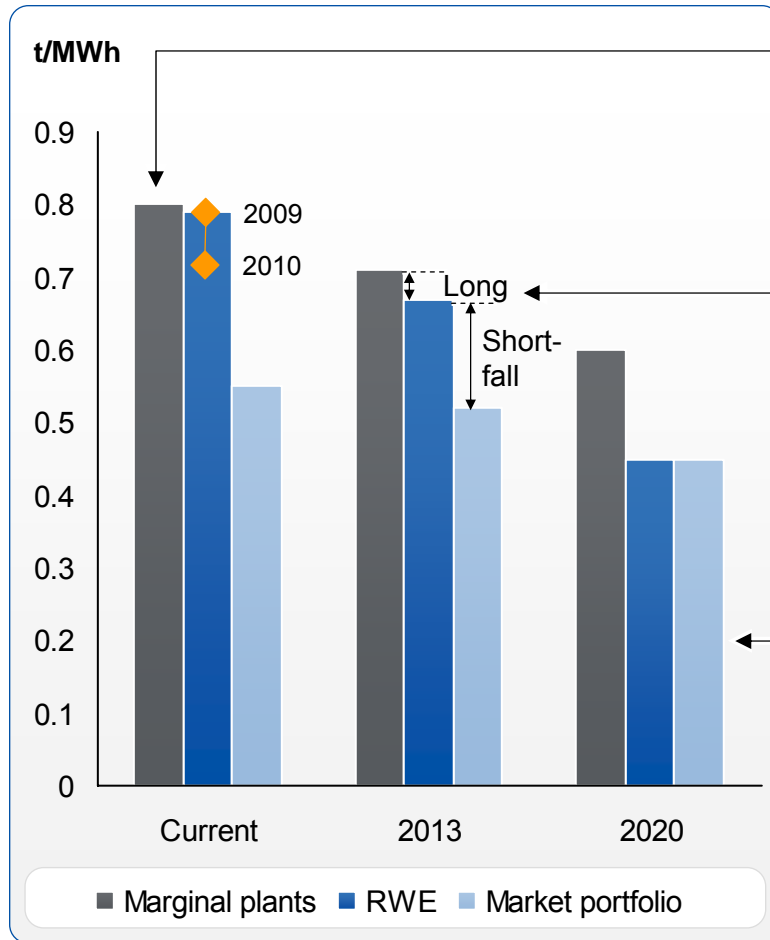
CO<sub>2</sub> reduction, CDM/JI

Portfolio measures like asset swaps or long-term electricity generation products

Increased efficiency programme 2012

<sup>1</sup>The future of nuclear in Germany has become uncertain with the three month moratorium following the Japanese disaster. The calculation is based on assumptions made prior to these events.

# Compared to the marginal plant RWE's portfolio is already today financially slightly long CO<sub>2</sub>



## Pass-through factor

- > Factor by which CO<sub>2</sub> price is reflected in power price
- > Set by marginal plants which on average have a higher emission factor than the market portfolio

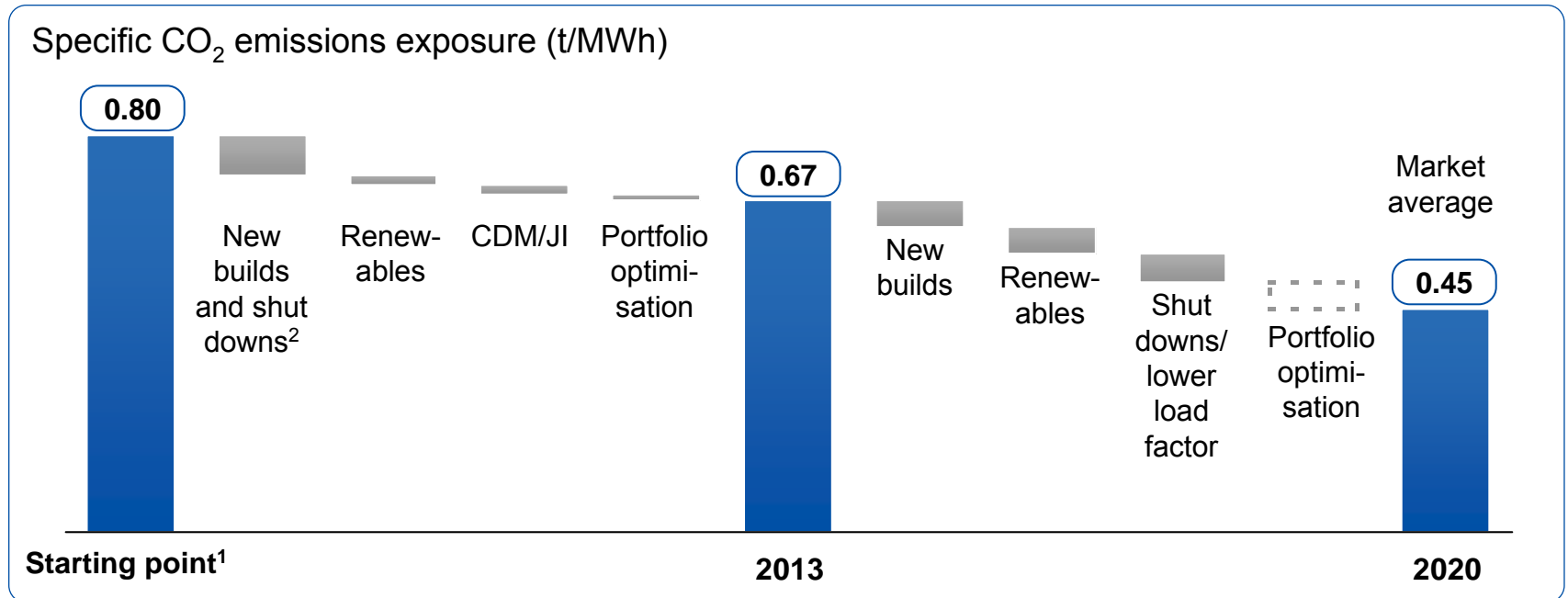
## RWE specific emission factor

- > RWE's portfolio is financially long CO<sub>2</sub>
- > Target to compensate shortfall to market portfolio via financial measures

## Market average emission factor

- > Emissions factor of total market portfolio

# Managing CO<sub>2</sub>: We complement physical measures by comprehensive financial optimisation



➤ Our large low carbon new-build programme as well as our investments in renewables will lead to substantial improvement of our CO<sub>2</sub> intensity until 2013

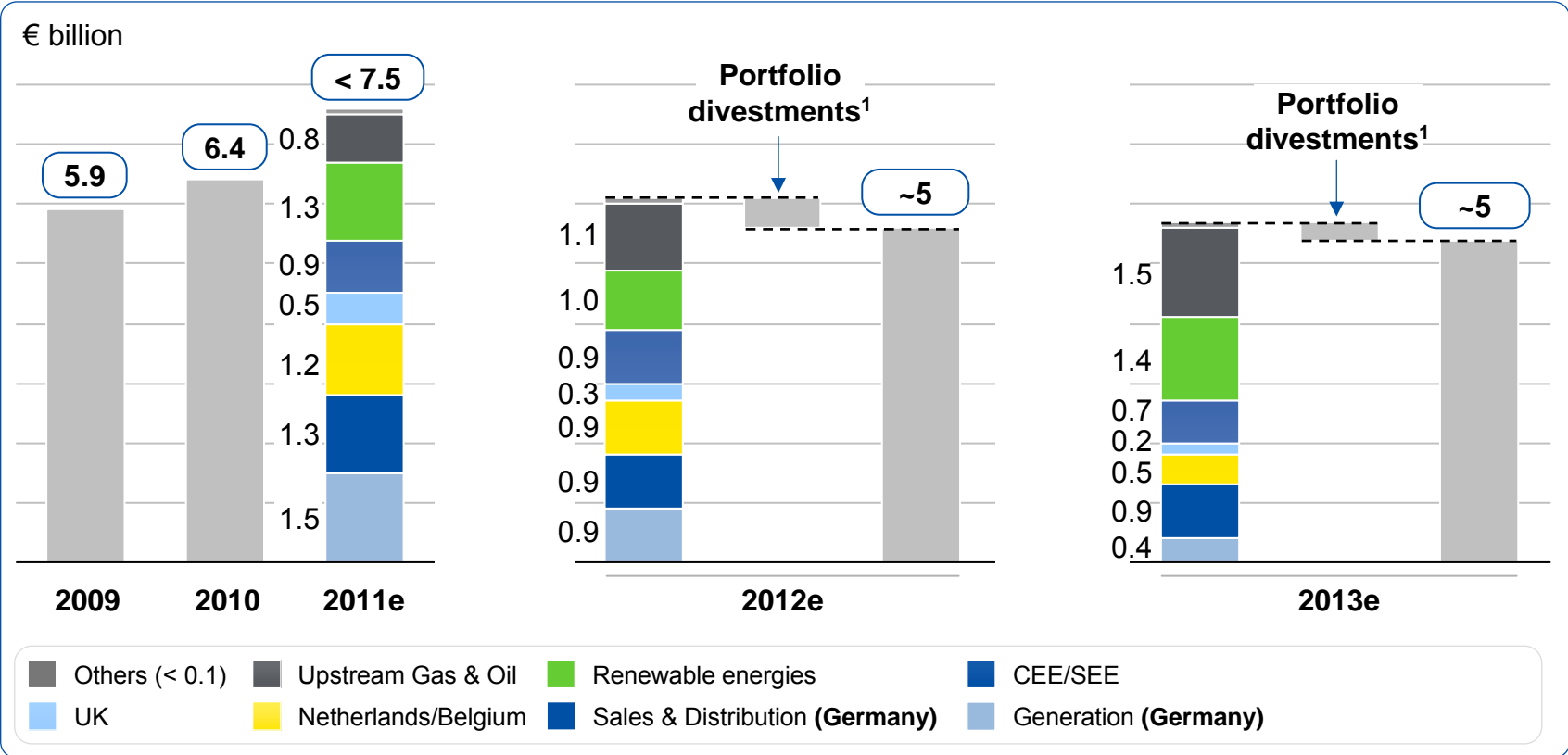
➤ For NAP 3 (2013 – 2020) we aim to reach a "market average" position in terms of our exposure to changes in CO<sub>2</sub> prices

<sup>1</sup> Assumes standardised load factors for RWE portfolio including Essent based on commodity price levels and power demand in 2007 – 2009

<sup>2</sup> Conventional new builds currently under construction and agreed plant shut down; assumes nuclear lifetime extension

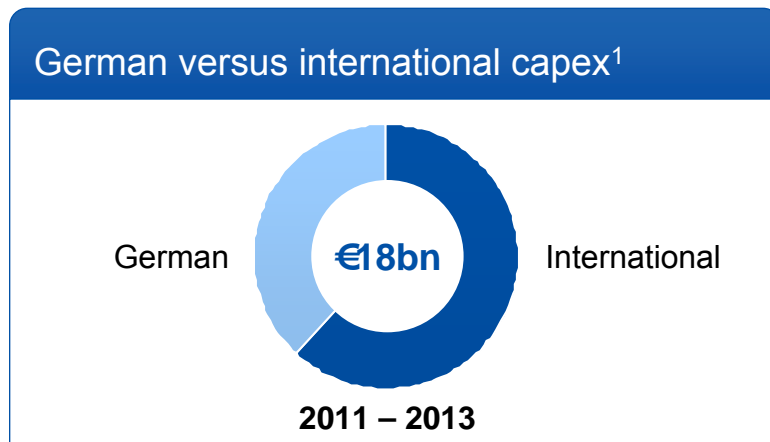
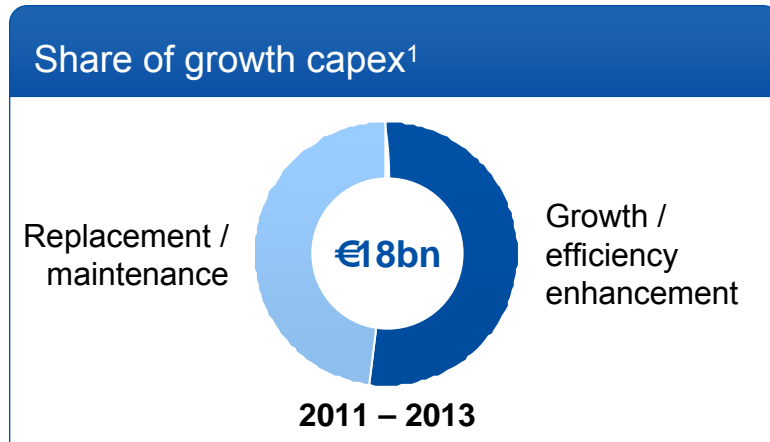
# Surpassing the peak of our investment cycle – RWE's capex programme 2011 to 2013

Capex programme 2011 – 2013 cut by approx. € 3 bn compared to previous programme



<sup>1</sup> Reduced capex as a result of portfolio divestments of up to € 8 bn

# Set the stage for international growth



> More than 50% of our capex will be spent on growing our business and improving efficiency

> More than 60% of our capex will be spent in our international business

> Committed capex:

	2011	2012	2013
ca.	90%	90%	70%

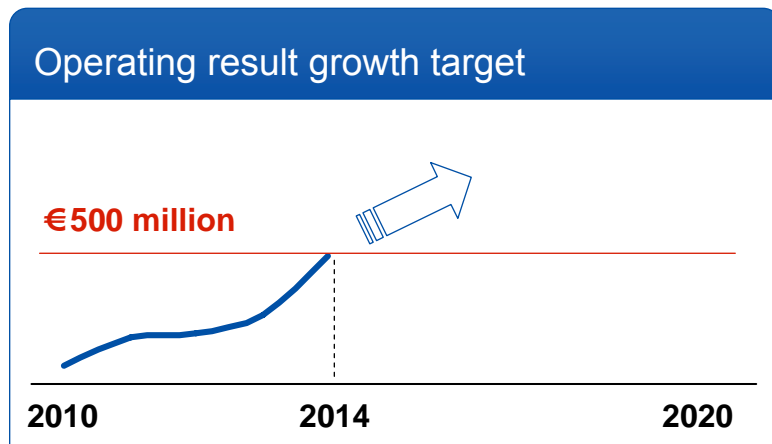
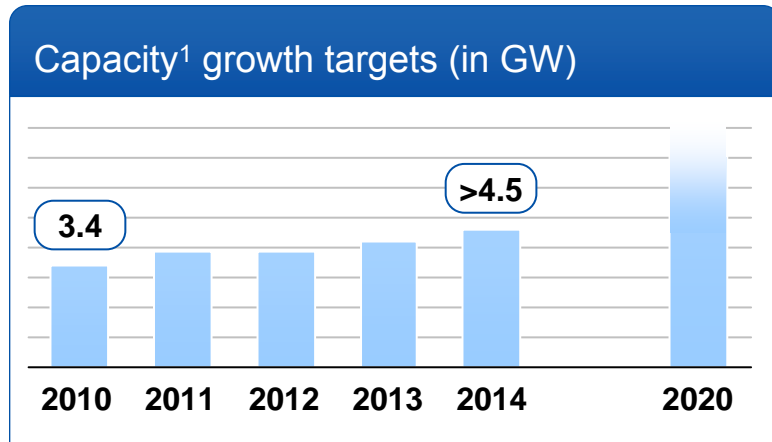
> Hurdle rates for new investment projects increased, despite lower WACC

> Growth and efficiency enhancements will result in additional € 1.2 billion in EBITDA and € 0.9 billion in operating result, once the projects are finished<sup>2</sup>

<sup>1</sup> After portfolio measures

<sup>2</sup> See back-up slide 27 for more details

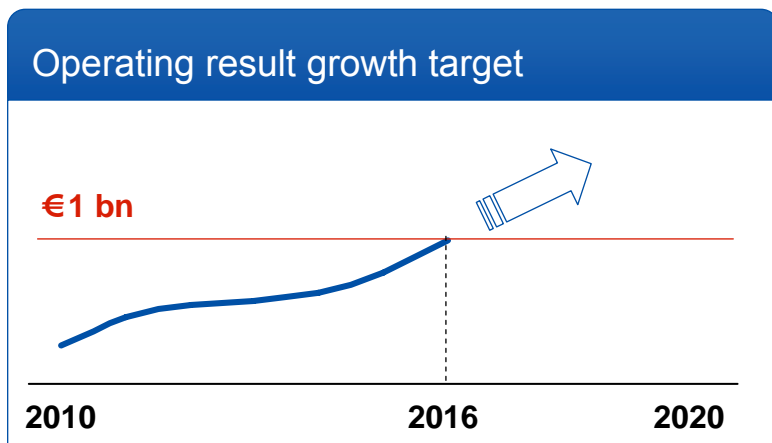
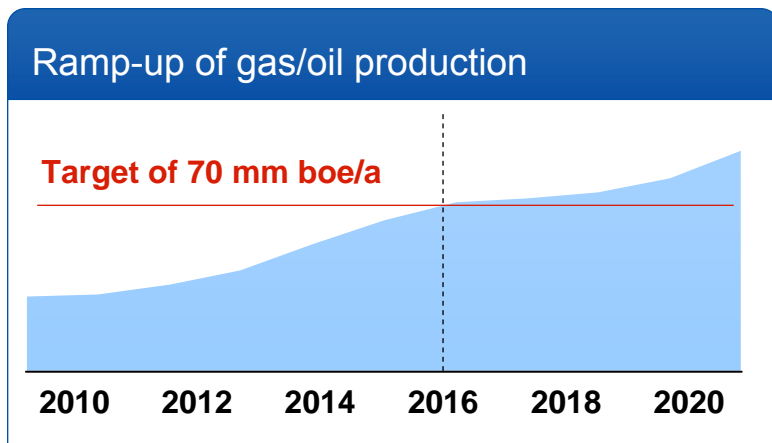
# Building up CO<sub>2</sub>-free generation – RWE Innogy continues with its ambitious investment programme



- > Clear commitment to grow our renewable business
- > Focused capex programme 2011 – 2013 leads to adjustment of targets. We expect to achieve our 4.5 GW target in 2014. This will be in line with an operational result of approx. € 500 million
- > Earnings development is back-end loaded due to concentration on large-scale offshore wind projects and upfront costs for project pipeline
- > Operating assets expected to cover their cost of capital already in 2011
- > Divisional ROCE/WACC break even (including work in progress) is expected for 2016

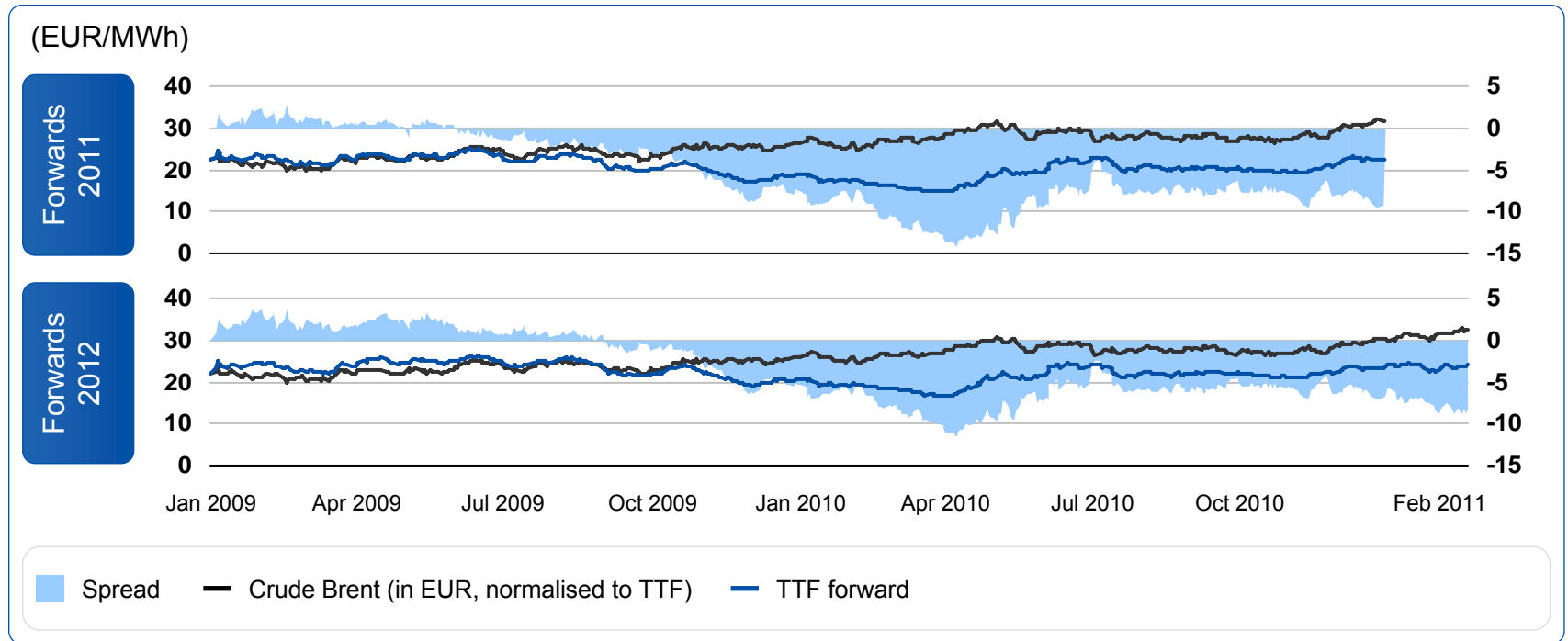
<sup>1</sup> Consolidated capacity in operation or under construction

# RWE Dea: Significant earnings growth based on own field developments



- > Clear commitment to grow upstream gas and oil position
- > Production development of RWE Dea until 2016 is mainly driven by seven major field developments
- > Shift in capex programme and project optimisation leads to slight postponement of production and earnings targets.
- > 70 mm boe/a will be achieved in 2016. Indication for further production growth to up to 90 mm boe/a (2020)
- > Operating result of € 1 billion expected for 2016 with further growth potential thereafter

# Development of TTF gas price and brent oil price since January 2009



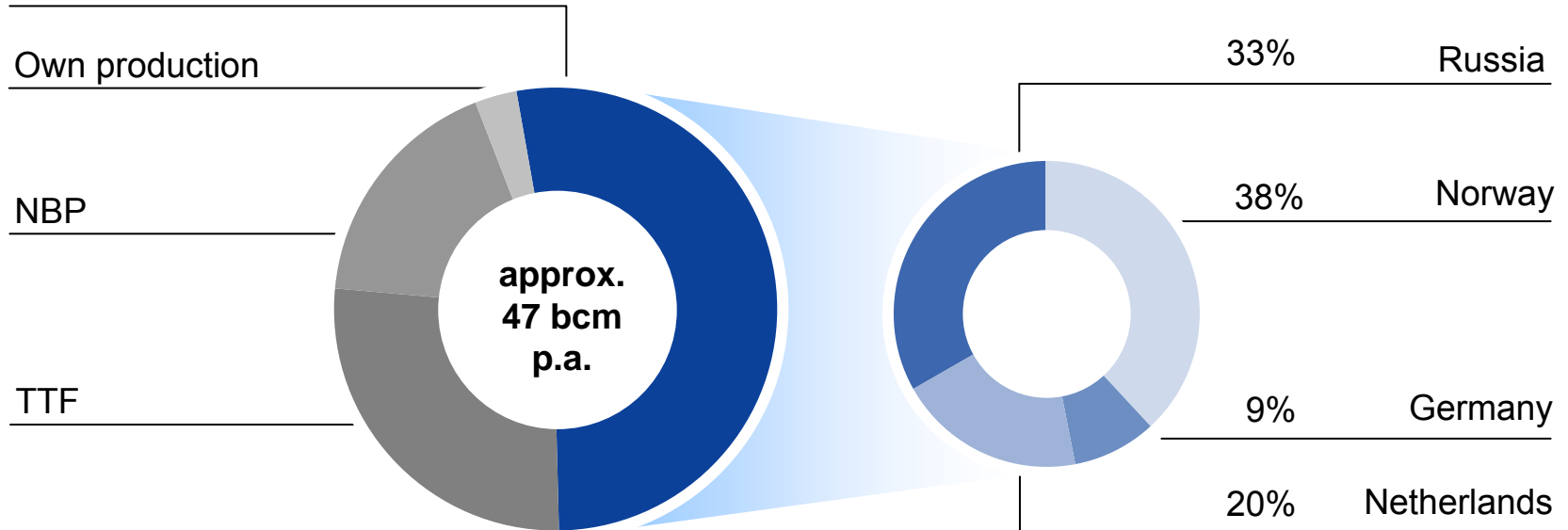
Relative development of the TTF and brent forwards for the years 2011 and 2012 since January 1, 2009. To compare both, the brent oil price is normalised to the TTF gas price as of January 1, 2009. The curves simply illustrate the development of the market prices which should give a rough indication about the gas-to-oil-spread situation. The real gas-to-oil-spread exposure depends on the individual contract details and will deviate from this slide.

Source: RWE Supply & Trading

# RWE's gas procurement portfolio

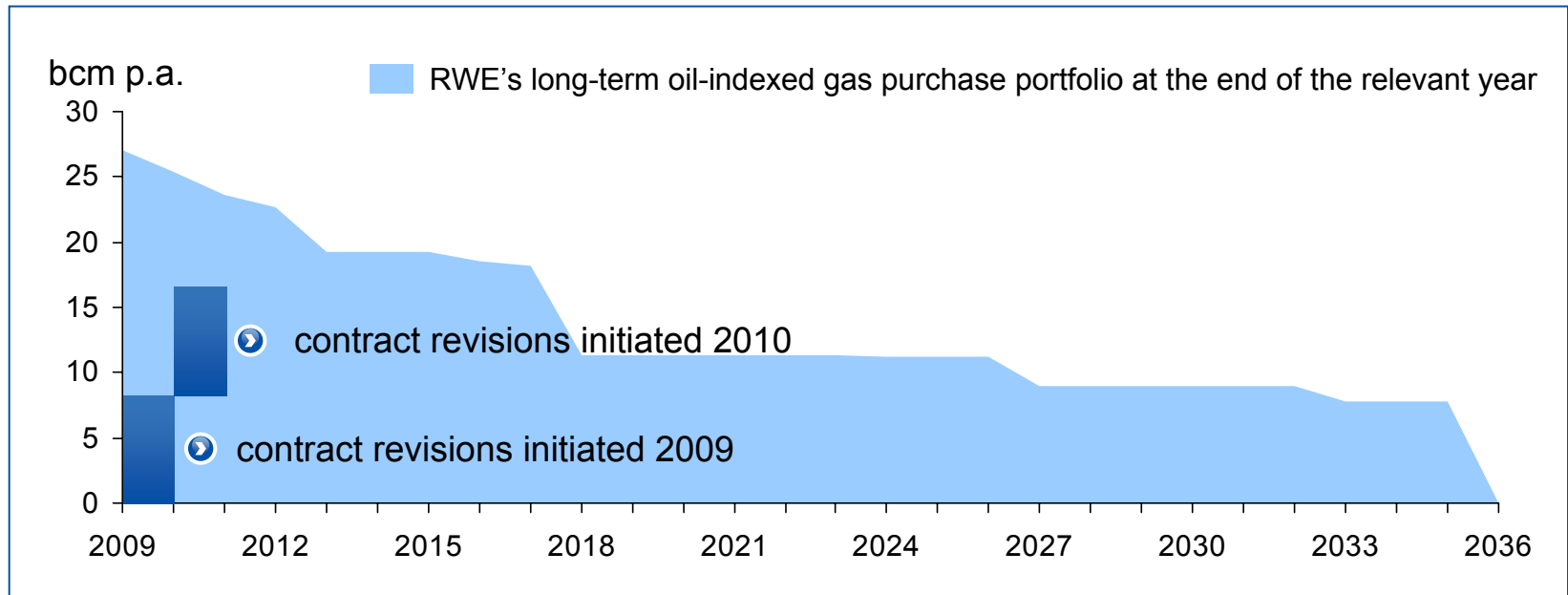
(As of 2011)

Long-term oil-indexed purchase contracts (take-or-pay)



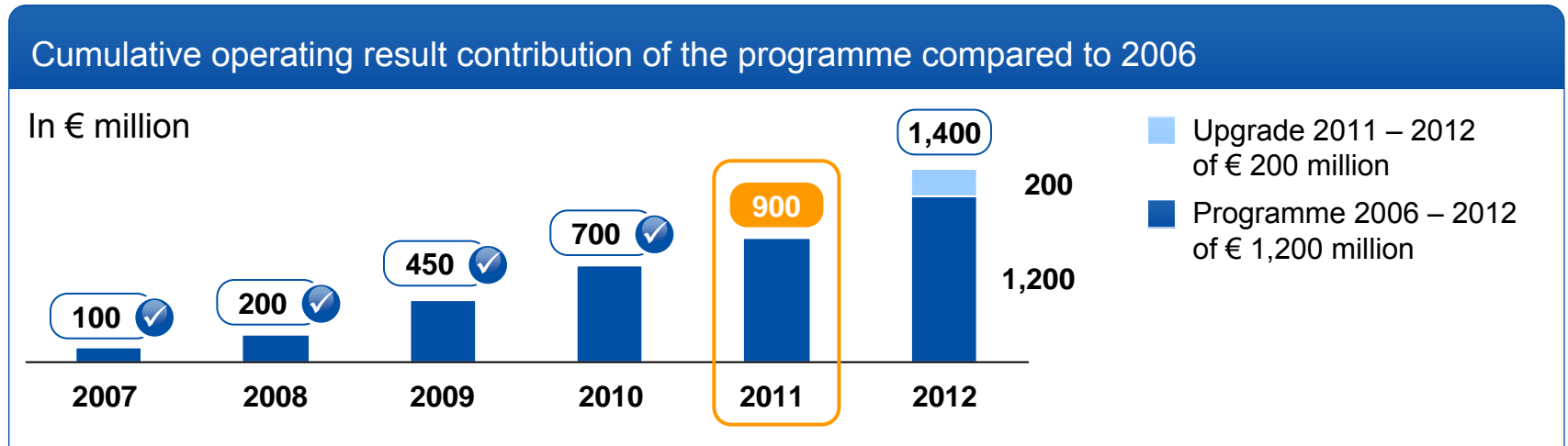
- > Our gas procurement portfolio is solely managed by RWE Supply & Trading
- > ~50% or 24 bcm p.a. of overall gas procurement based on long-term oil-indexed purchase contracts
  - of which ~20 bcm p.a. have a gas-to-oil spread exposure as of 2011

# RWE's long-term oil-indexed gas purchase portfolio



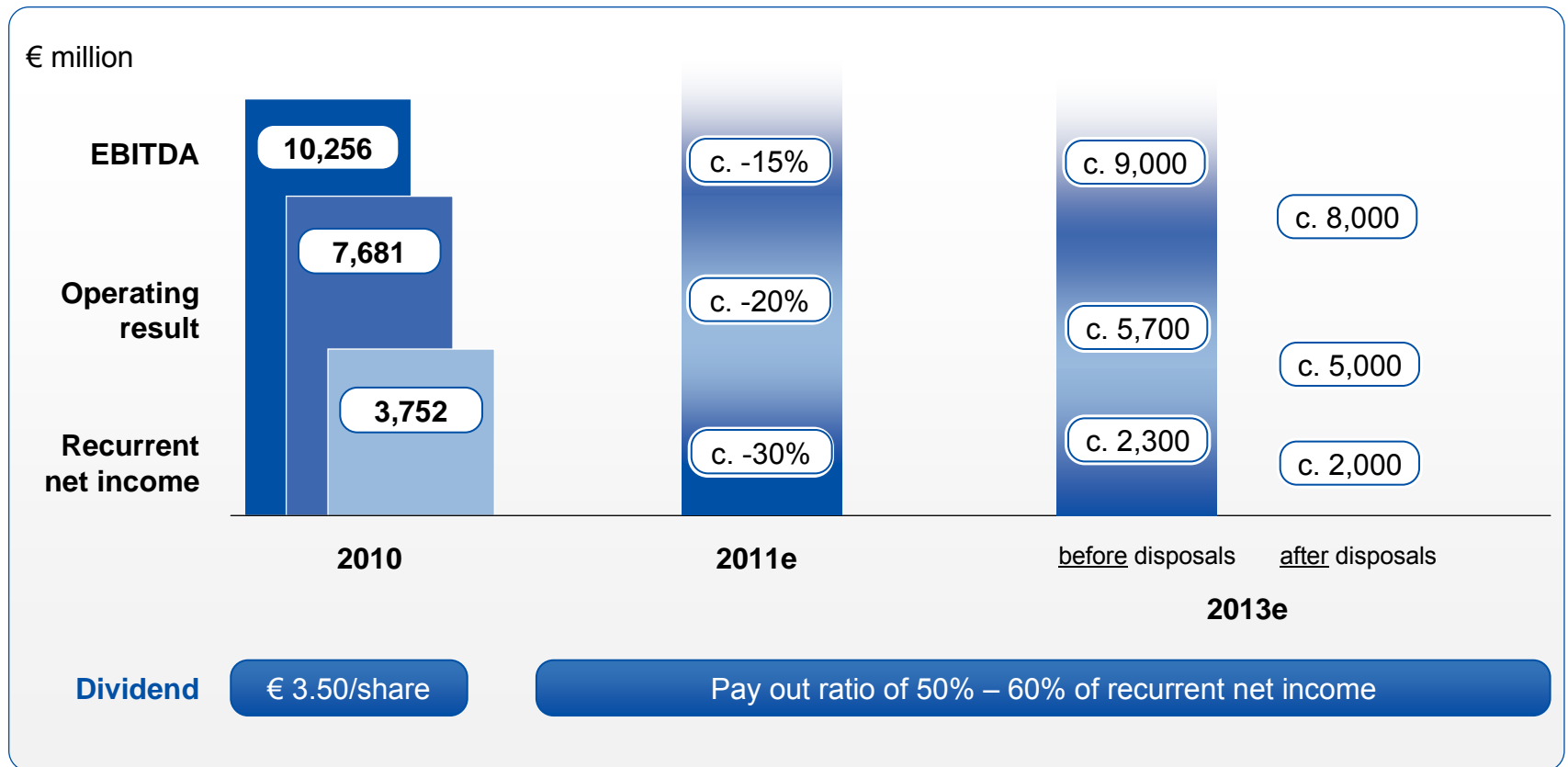
- > Some 50% of the volumes of our long-term oil-indexed gas purchase contracts will expire by 2017
- > RWE was one of the first in 2009 and 2010 who have initiated contract revisions - also by using so-called “joker” price revisions - for more than 2/3 of our current oil-indexed purchase portfolio volumes. This is referring to 13 individual contracts out of 19
- > As of February 2011 we are in the re-negotiation process for approx. 17 bcm p.a. of our contracts, many of which have meanwhile reached the official arbitration stage

# Efficiency programme well on track



- > Efficiency programme of € 1.2 billion 2006 to 2012 stepped up by another € 200 million to a total of € 1.4 billion
- > Additional efficiency measures by optimising cost for services and materials in our overhead functions and project costs. Introduction of new IT systems in UK
- > Fully accretive to operating result (i.e. post cost inflation and one-off cost of programme)

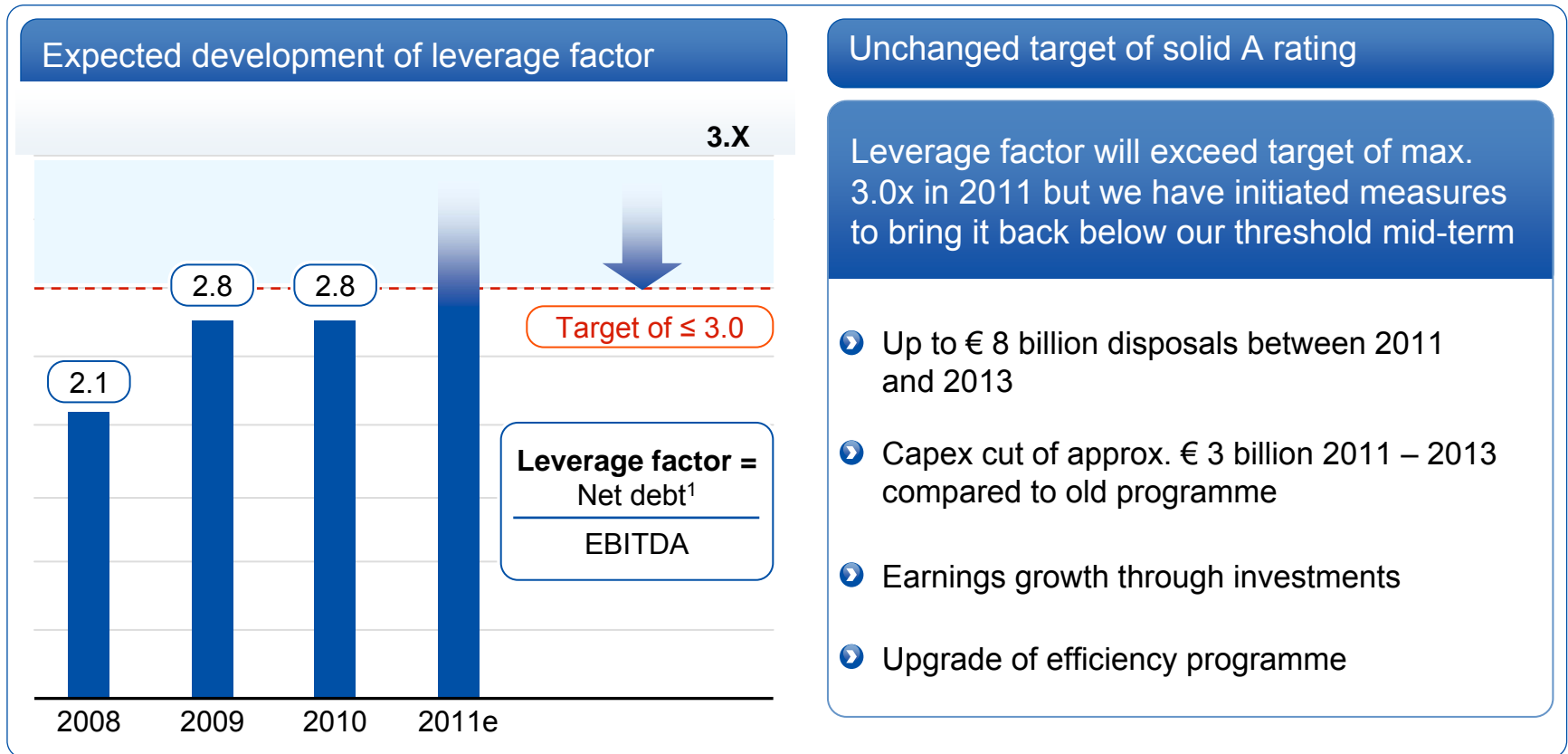
# Outlook for 2011 – 2013<sup>1</sup>



<sup>1</sup> Portfolio divestments between 2011 and 2013 of up to € 8 billion.

The Outlook is based on commodity prices on a marked-to-market base as of January 2011

# Financial flexibility is key to us



<sup>1</sup> Net debt = net financial debt + pension, mining and nuclear provisions + 50% of hybrid capital; (at year end)

# RWE's threefold financial targets

## Attractive dividends

Pay out ratio of 50% – 60%  
of recurrent net income

Balancing  
the stakeholders'  
interests

## Leverage

Keep leverage factor below  
 $\leq 3.0x$  mid-term to support  
solid "A" rating

## Ca. € 9 billion growth capex ...

... 2011 – 2013

Invest in mid-term growth,  
especially in renewables and  
upstream gas & oil

# Back-up

# New German energy policy – Major points

- The seven oldest nuclear power plants and Krümmel will be closed immediately  
One plant probably to be kept as “cold reserve” until 31 March 2013
- Transfer of capacities from older to younger plants as well as transfer of Mülheim-Kärlich and Krümmel volumes possible
- Closure of the remaining nuclear power plants by fixed dates  
(step-by-step between 2015 and 2022)
- Nuclear fuel tax stays in place until 2016 (€145/gU)
- No further contributions of the utilities to the renewables fund; will be financed by the auctioning of CO<sub>2</sub> certificates instead
- Government sees need for further approx. 10 GW of secure back-up generation capacity by 2020

# New German energy policy – Major points



Accelerated renewables growth: share should grow from 17% to 35% by 2020 (previously 30%)

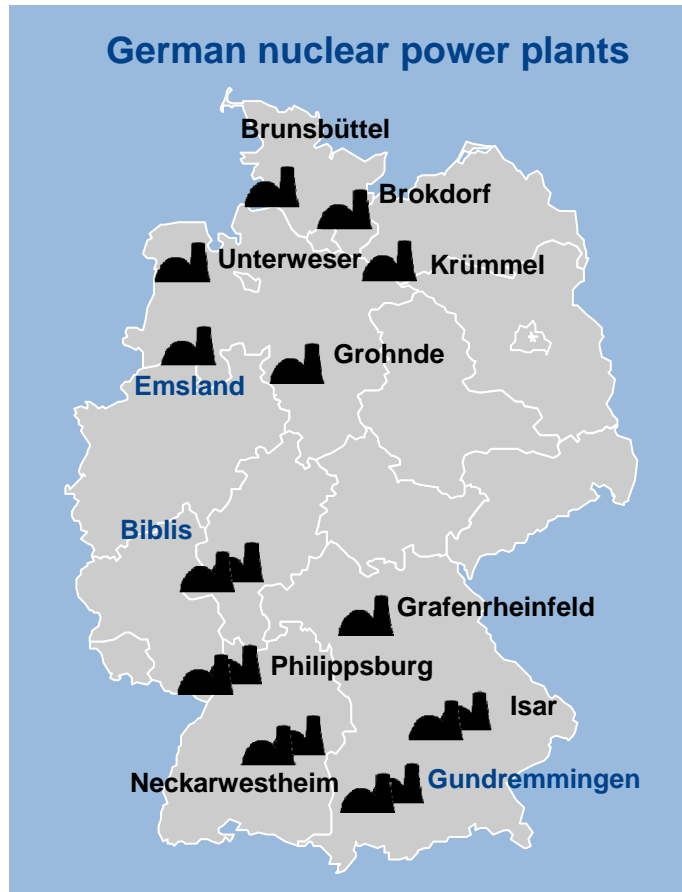


Accelerated high voltage grid new build through new law




Increase energy efficiency measures: annual state funding of € 1.5 bn from 2012 to improve building insulation

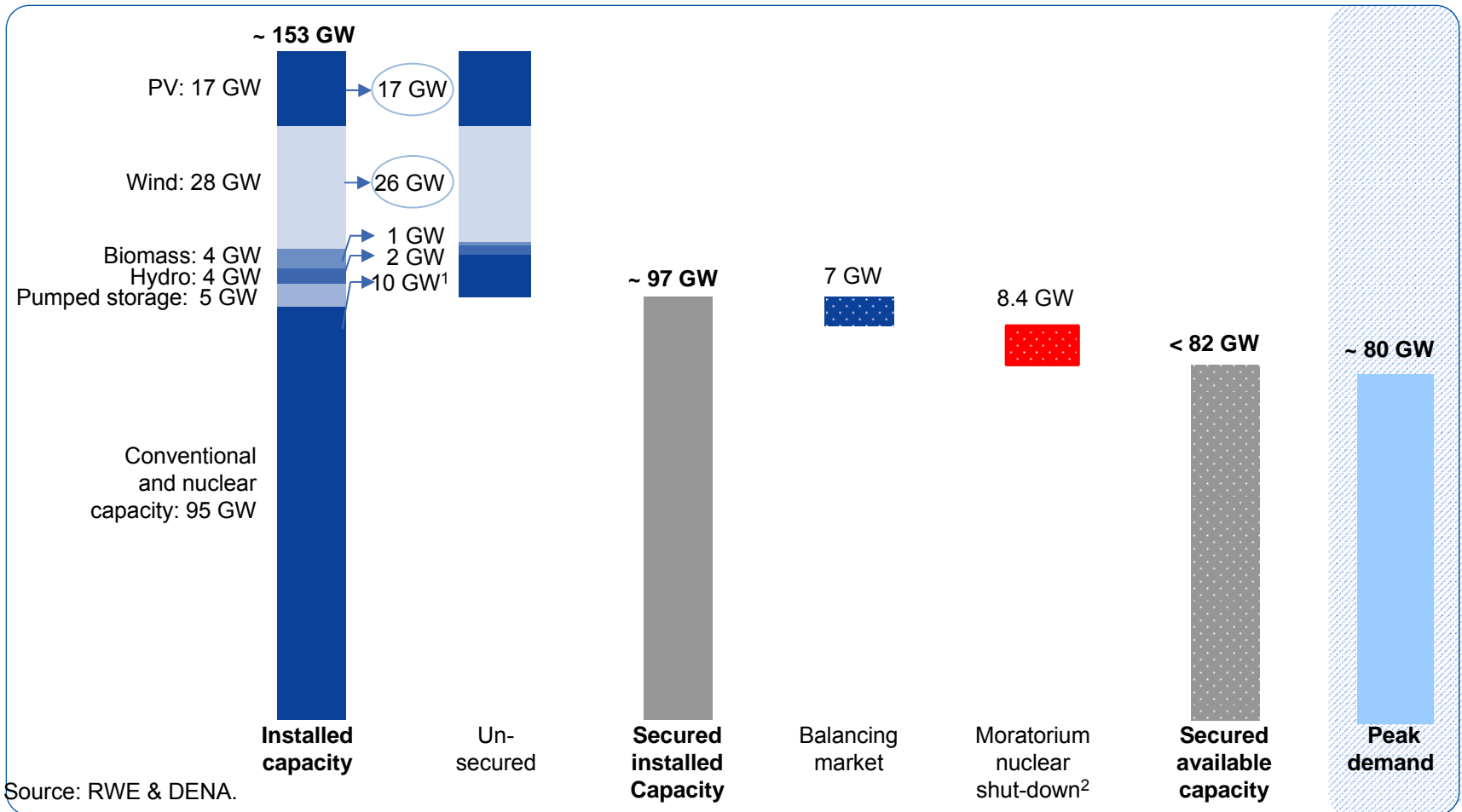
# Overview of German nuclear power plants



Power plant	Net capacity MW	Commercial commissioning	Closure
Biblis A	1,167	1975	Immediately 8,409 MW
Neckarwestheim I	785	1976	
Biblis B	1,227	1977	
Brunsbüttel	771	1977	
Isar 1	878	1979	
Unterweser	1,345	1979	
Philippsburg 1	890	1980	
Krümmel	1,346	1984	
Grafenrheinfeld	1,275	1982	31.12.2015
Gundremmingen B	1,284	1984	31.12.2017
Philippsburg 2	1,392	1985	31.12.2019
Grohnde	1,360	1985	31.12.2021 4,018 MW
Gundremmingen C	1,288	1985	
Brokdorf	1,370	1986	
Isar 2	1,400	1988	31.12.2022 4,039 MW
Emsland	1,329	1988	
Neckarwestheim II	1,310	1989	
<b>20,430</b>			

 RWE power plants.

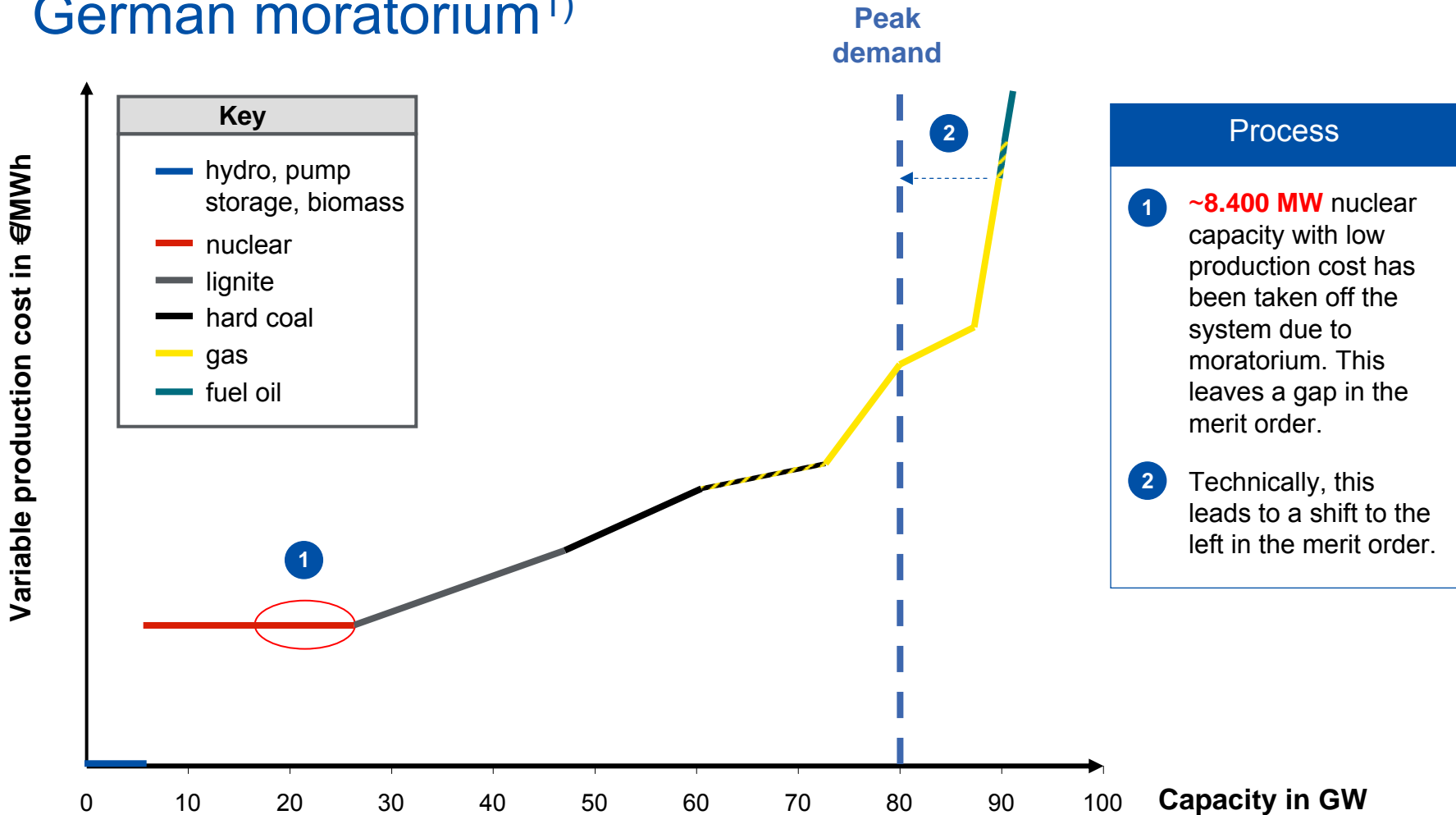
# Nuclear moratorium to cut secured available capacity down to peak-demand level (March 2011)



<sup>1</sup> Scheduled or unscheduled outages due to e.g. maintenance or disruption of operation.

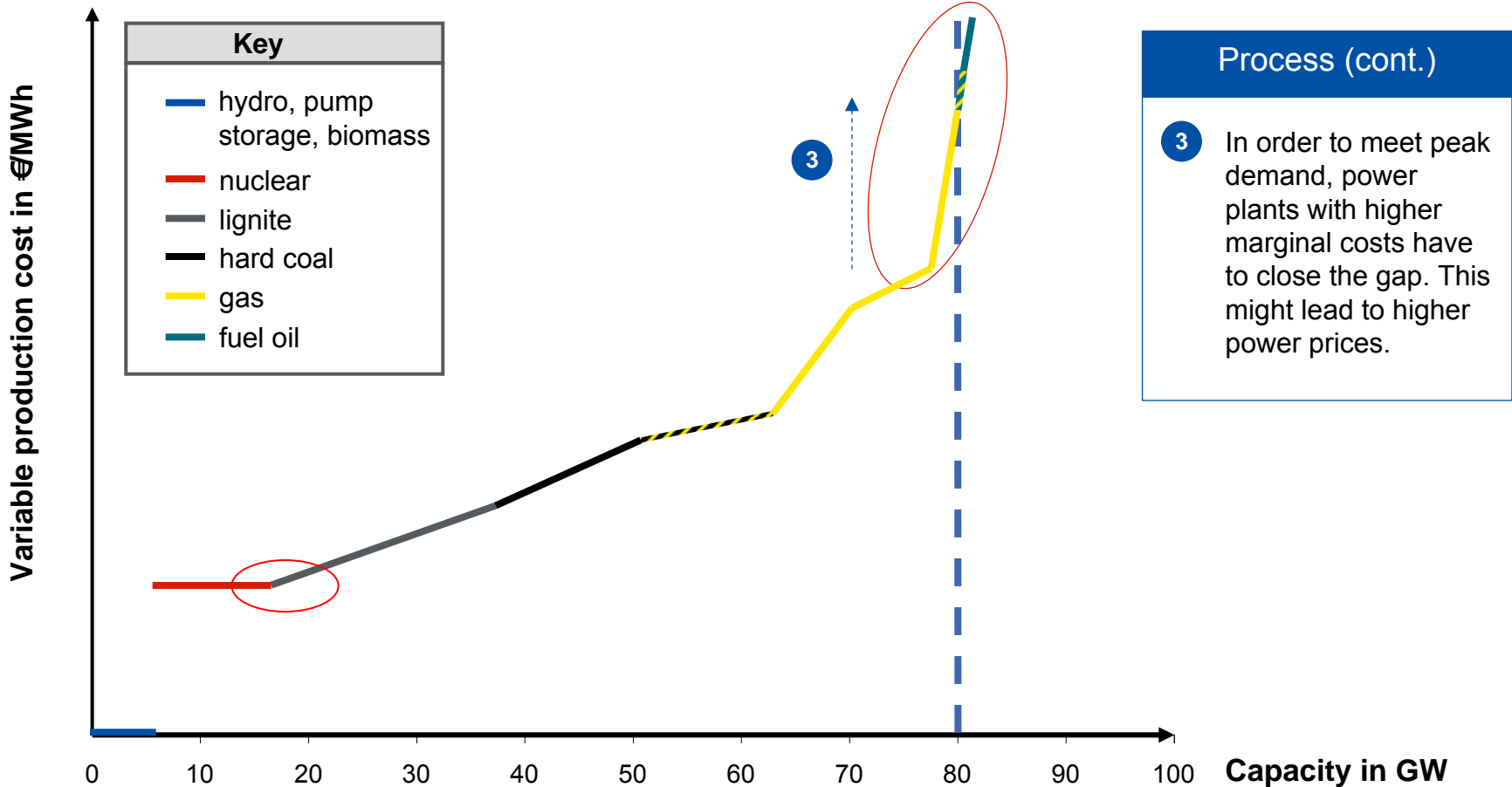
<sup>2</sup> Reduction in generation capacity of 8.4 GW, assuming that the seven nuclear power plants commissioned before 1980 and the Krümmel power plant stay offline.

# Shift of German merit order as an effect of the interim decommissioning of 8 nuclear power plants under the German moratorium<sup>1)</sup>



1) Schematic approach does not include import demand or fluctuating feed-ins of electricity produced by wind turbines and solar panels (according to the German Renewable Energy Act—"EEG").

# Shift of German merit order as an effect of the interim decommissioning of 8 nuclear power plants under the German moratorium<sup>1)</sup>



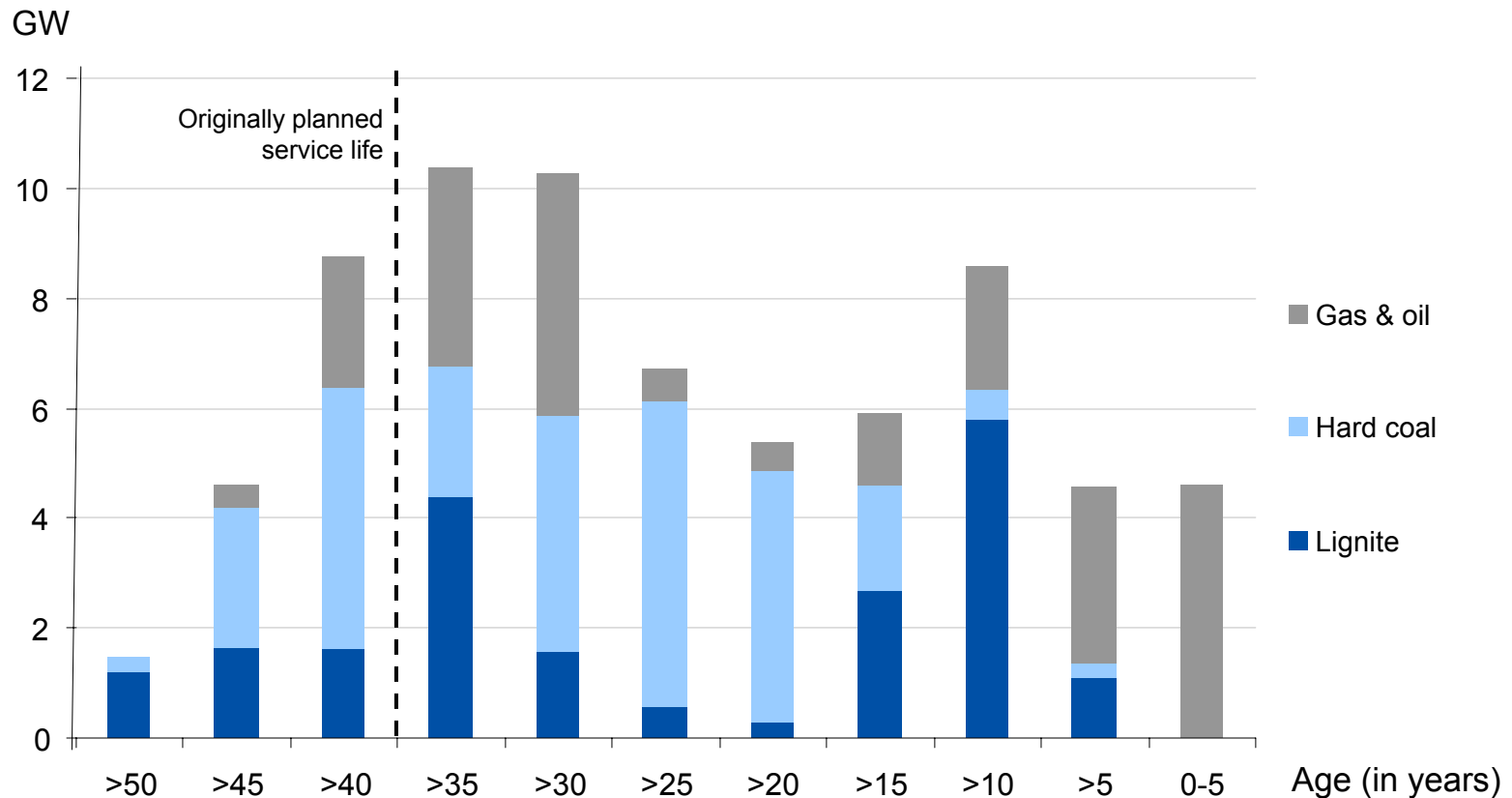
**Process (cont.)**

3 In order to meet peak demand, power plants with higher marginal costs have to close the gap. This might lead to higher power prices.

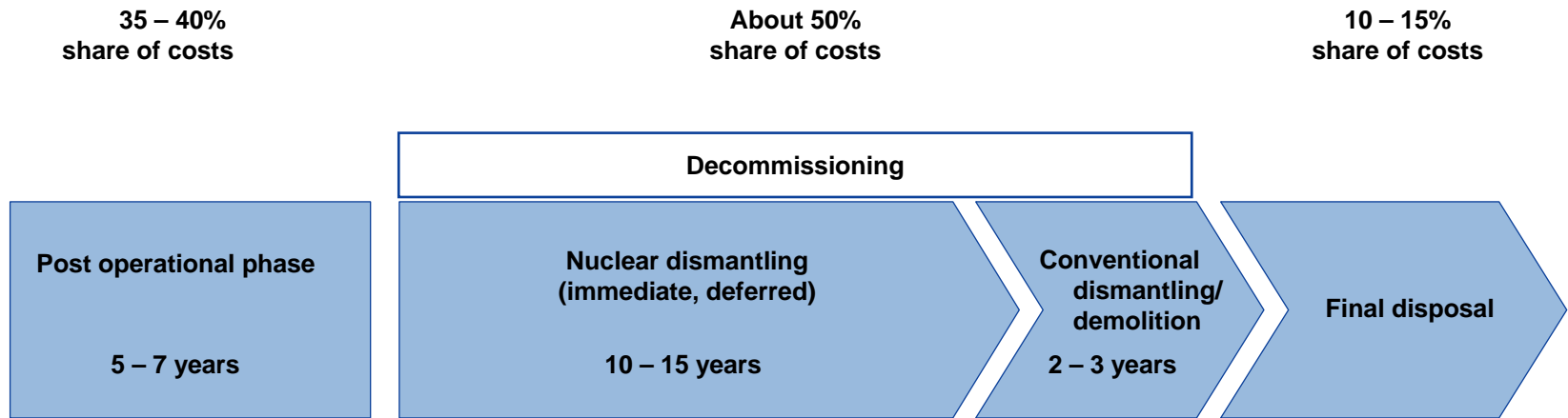
1) Schematic approach does not include import demand or fluctuating feed-ins of electricity produced by wind turbines and solar panels (according to the German Renewable Energy Act—"EEG").

# Germany's generation portfolio is overaged: >15 GW already online longer than originally scheduled

Age structure of Germany's fossil-fuelled power plants



# RWE Power's Nuclear Power Plant Decommissioning Concept



- Power production has ceased
- In some cases, technical infrastructure needs to be operated for an additional period
- For the time being, fuel elements are being cooled in pond storage facilities until they are suitable for dry-cask (CASTOR) storage on site
- Shut down of systems which are no longer needed
- Treatment of operating materials and waste
- Dismantling of contaminated and activated systems, structures and components
- Materials and waste management (treatment, conditioning, packaging)
- Conventional demolishing of buildings/components which fall no longer under the German Nuclear Energy Act (AtG).
- Final disposal of decommissioning waste

# Nuclear Provisions

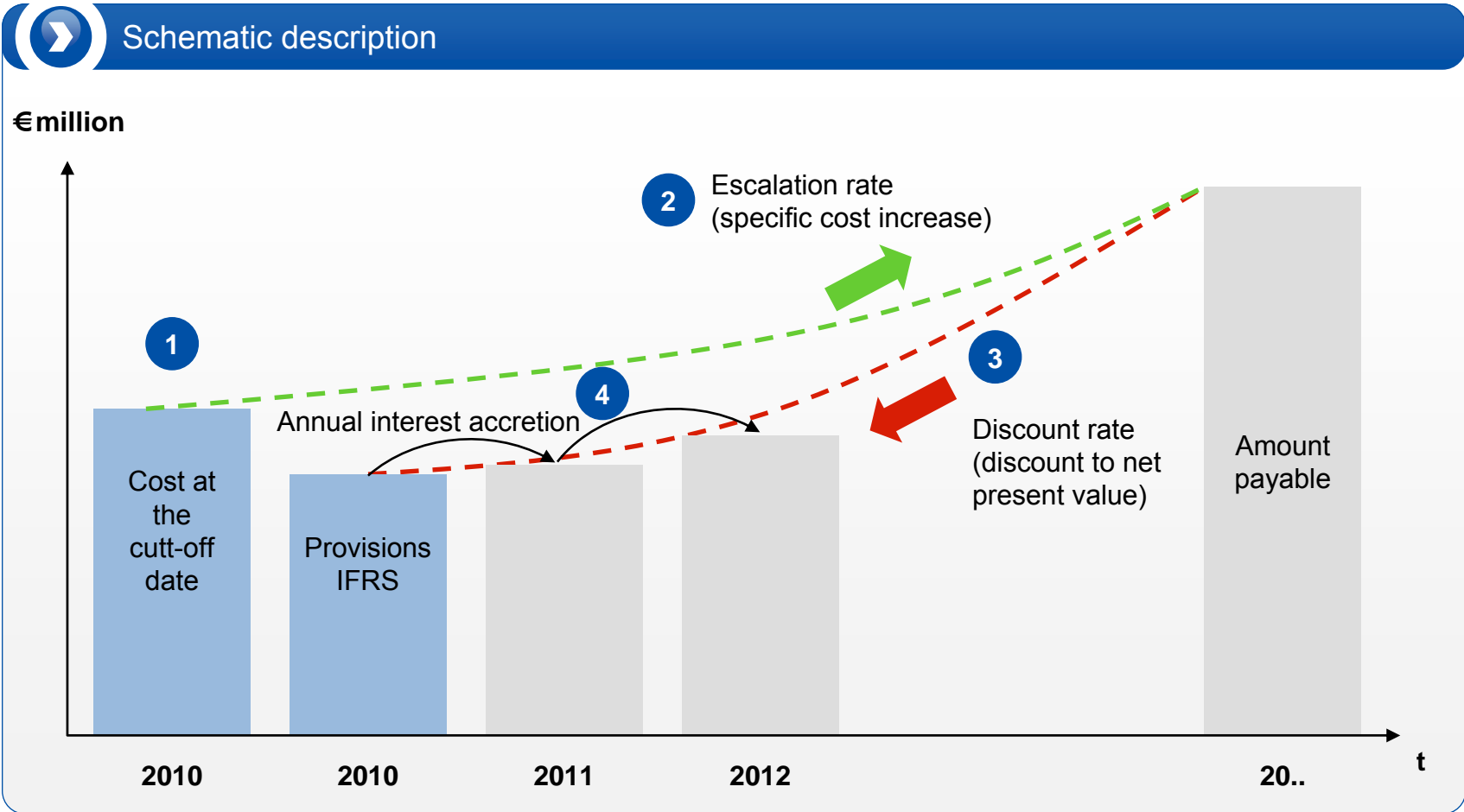
**1 Provisions for uncertain liabilities as per IAS 37**

**2 Public-law liabilities under Sec. 9a of the Germany Nuclear Energy Act**

<b>3</b>	<b>Provisions are made for</b>	RWE fiscal year 2010: €10,010 million
	> <b>Disposal of spent nuclear fuel assemblies</b> Flasks, transport, conditioning, intermediate and final storage	€4,831 million
	> <b>Decommissioning of nuclear power plants</b> Post-operation phase, dismantling, removal, final storage	€4,490 million
	> <b>Disposal of radioactive operating waste (e.g. cleaning cloths, oils, resins)</b> Conditioning, flasks, intermediate and final storage	€689 million

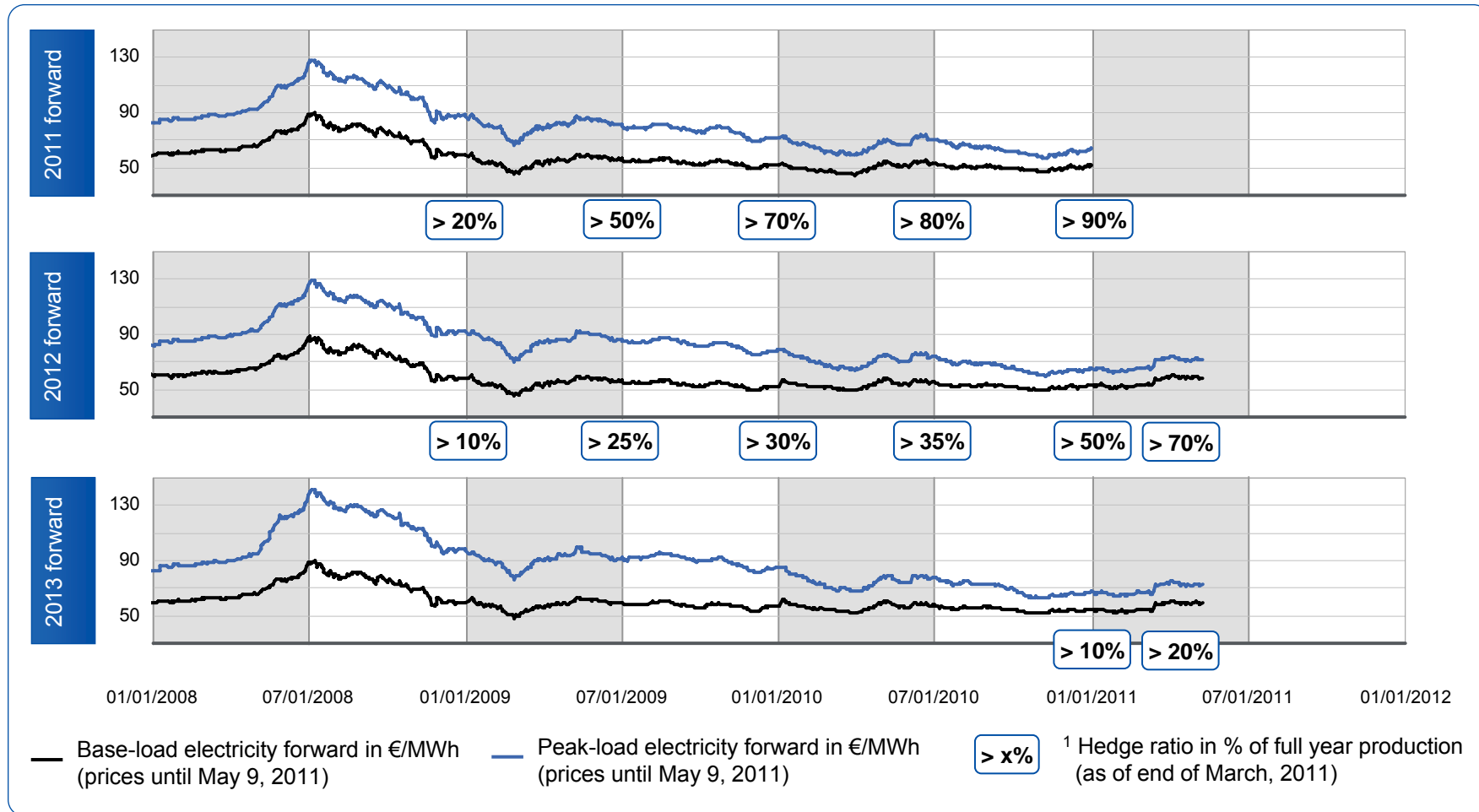
**4 Inflation of current cost to the assumed disposal date by a set inflation rate; then discounting of the result back to today (discount rate 5.0%)**

# How the Size of the Provision is Determined



# Forward selling<sup>1</sup> by RWE Power in the German market

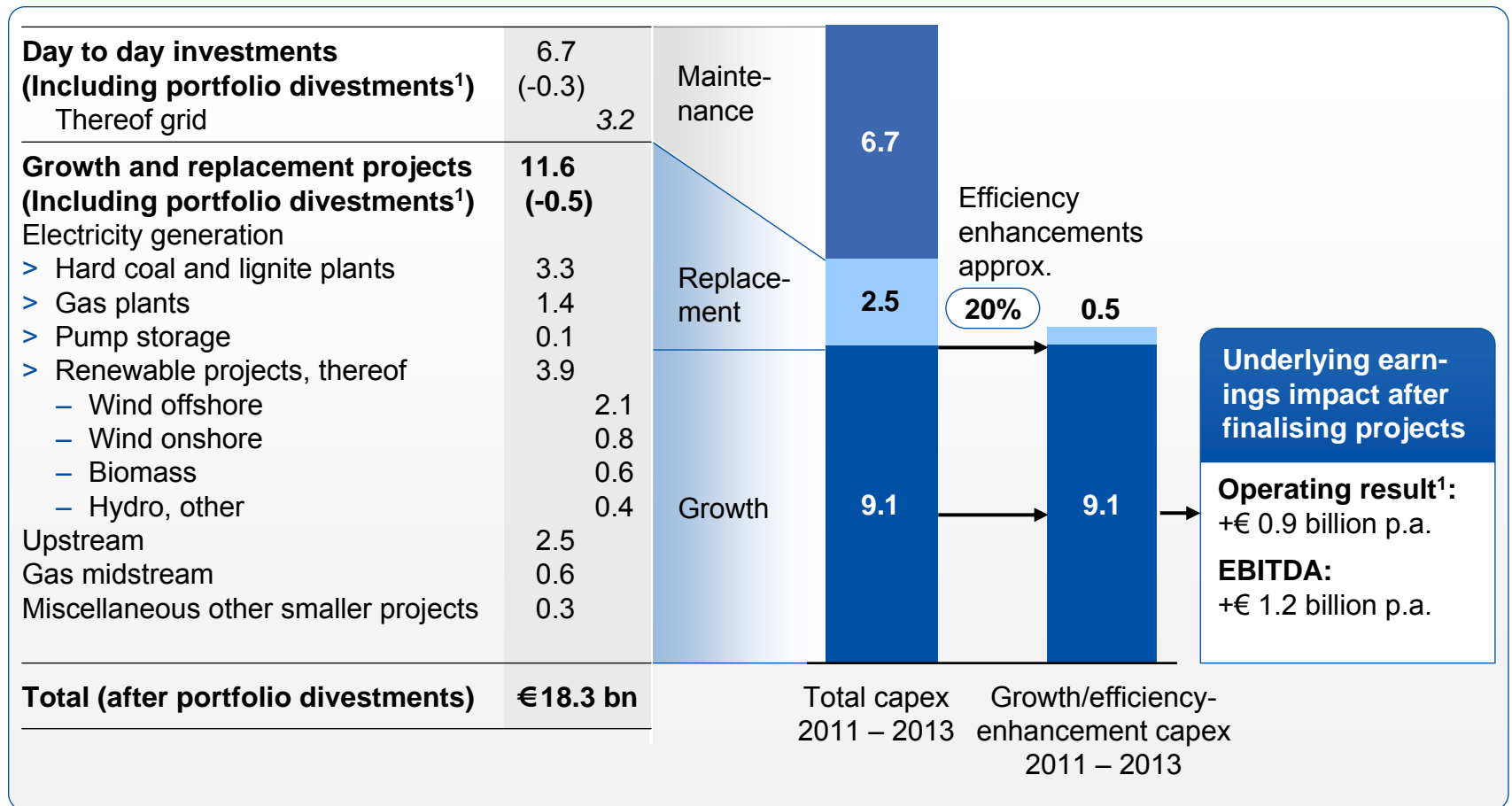
(Base-load & peak-load forwards in €/MWh)



Average realised price for 2010 forward: €67/MWh.

# RWE's capex programme 2011 to 2013

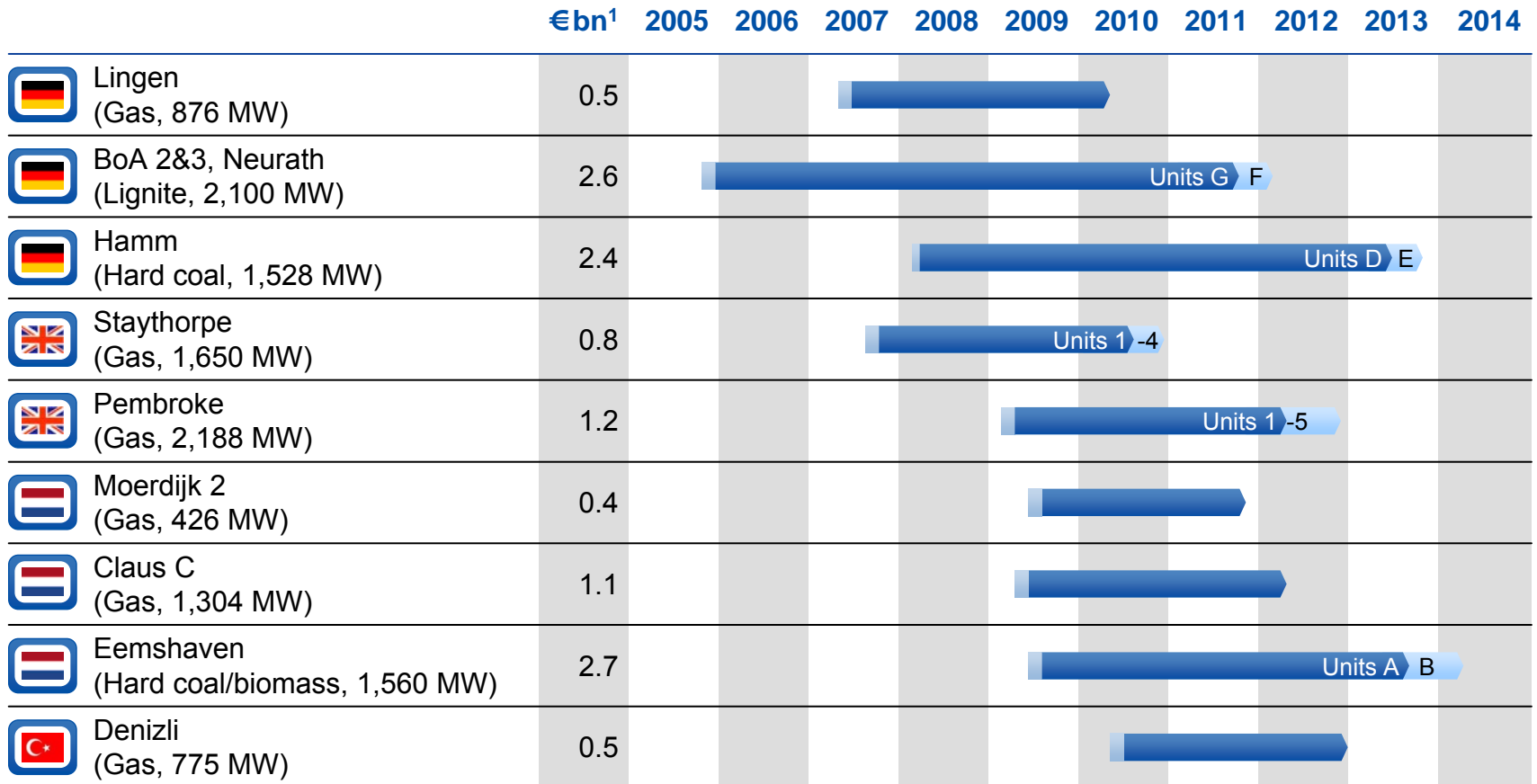
## How capex leads to earnings growth



<sup>1</sup> Reduced capex as a result of portfolio divestments of up to € 8 bn

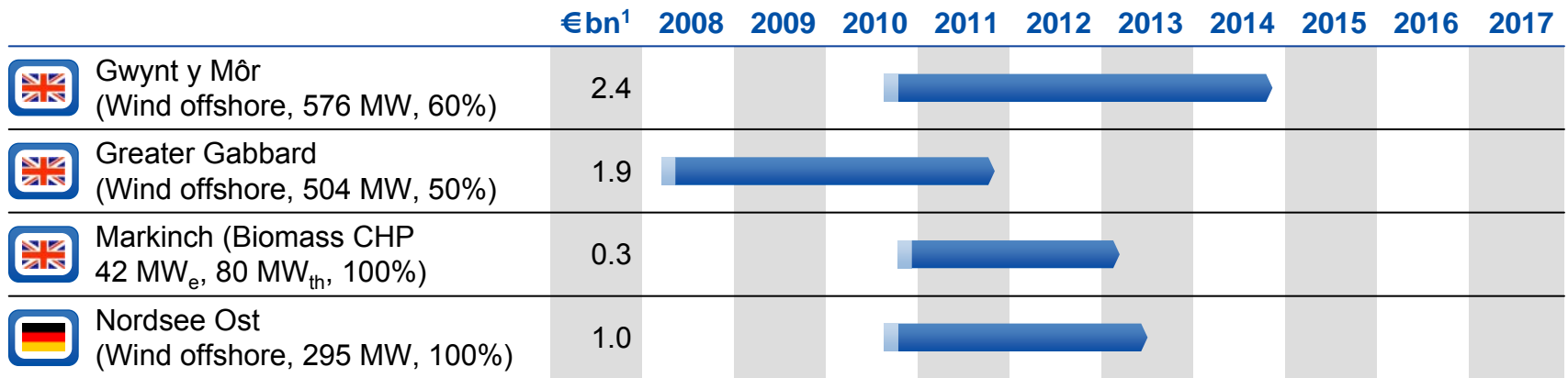
<sup>2</sup> Average impact. Depending on depreciation period, operating result lower in early years and higher in later years

# Conventional power plant new build programme



<sup>1</sup> Capex at 100% share








# RWE Innogy major project portfolio



- Capacity and earnings target for RWE Innogy until 2014 is mainly driven by 4 major projects
- Large scale projects, especially in offshore wind, play a vital role to achieve European renewable targets as growth potentials in other areas are limited
- Utilities like RWE have a competitive advantage in these large-scale projects as we can build on expert knowledge gained in our other large projects

<sup>1</sup> Capex at 100% share

# RWE Dea's largest field developments

Production start	RWE share	Capex <sup>1</sup> (€bn)	2011	2012	2013	2014	2015	2016
 West Nile Delta (Egypt)	40%	2.6						
 Breagh (UK)	70%	0.5						
 Reggane (Algeria)	19.5%	0.5						
 Luno (Norway)	20%	0.5						
 Jordbær (Norway)	10%	0.2						
 NC193 (Libya)	100%	0.4						
 NC195 (Libya)	100%	0.3						

<sup>1</sup> RWE's share in capex

# Always be informed about RWE...

To always be up-to-date, please have a look at our website.

[www.rwe.com](http://www.rwe.com)

## ■ Calendar

<http://www.rwe.com/web/cms/en/110614/rwe/investor-relations/calendar/>

## ■ Annual and Interim Reports

<http://www.rwe.com/web/cms/en/110822/rwe/investor-relations/financial-reports/>

## ■ Facts & Figures - The Guide to RWE and the Utility Sector

<http://www.rwe.com/web/cms/en/114404/rwe/investor-relations/events-presentations/factbook/>

In addition you can find the following Fact Book specials at the above link:

- Prospective Impact of economic downturn on electricity demand in Europe
- Incentive Regulation
- CO<sub>2</sub> Emissions Trading in Europe
- Power Generation in Europe
- Renewable Energy
- RWE npower
- SRI Company Presentation
- The New German Energy Industry Act
- Factbook RWE Dea

## ■ RWE as seen by analysts (overview of latest analyst earnings estimates and ratings)

<http://www.rwe.com/web/cms/en/109506/rwe/investor-relations/shares/rwe-as-seen-by-analysts/>

## ■ RWE bonds as seen by analysts (overview of latest analyst ratings)

<http://www.rwe.com/web/cms/en/113984/rwe/investor-relations/bonds/credit-analysts-who-follow-rwe/>