

# Maintaining robustness and growth in a challenging environment

Spring 2010



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- > Statements of plans or objectives for future operations or of future competitive position;
- > Expectations of future economic performance; and
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# A good start to 2010

- Strong operating performance: EBITDA +16%, operating result +14%, recurrent net income +15%
- Successful integration of Essent – strong earnings contribution in Q1 2010
- With the commissioning of the Lingen CCGT in April the first of our major power plant projects has been finished
- “Green GECCO” cooperation between RWE Innogy and 26 municipal utilities and regional electricity companies
- Purchase of 4.8 TWh generation rights from decommissioned Stade nuclear power station for our Biblis A nuclear plant
- Outlook for 2010 confirmed – good prospects for an attractive dividend

# The environment has become more challenging

## Challenging demand outlook

- > Unprecedented demand reduction in 2009 versus 2008
- > Subdued economic recovery

## Ambitious but unclear regulatory boundary conditions

- > Strong political commitment to reduce CO<sub>2</sub> emissions but failure in Copenhagen
- > No clarity on nuclear in Germany

## Increasing volatility of markets

- > Larger price swings in electricity markets due to higher share of renewables
- > Gas wholesale price decoupling from oil-indexed long-term import contracts
- > Impediments for executing new builds (public resistance, quality deficiencies, lack of incentives for conventional generation)

# Strong political commitment to achieve ambitious climate targets

## Climate commitments and renewable energy

- > EU target of 20% CO<sub>2</sub> emissions reduction by 2020 strongly supported by all member states
- > Pioneering role by Germany and UK with national renewable energy targets exceeding EU commitment
- > Economic and financial considerations are increasingly taken into consideration when setting regulatory framework conditions
- > Copenhagen climate summit without any result

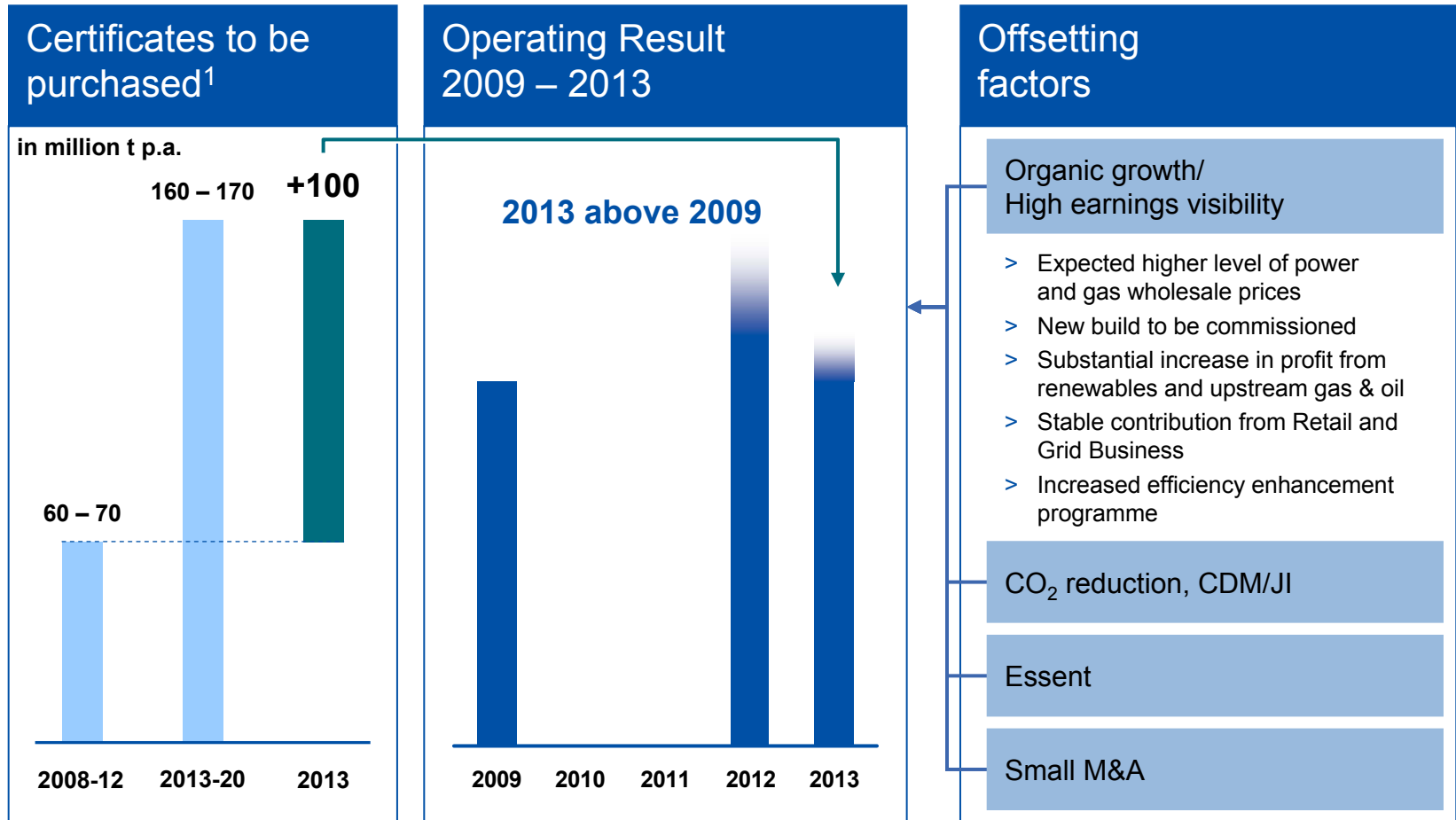
## EU Emission Trading Scheme

- > NAP 3 framework set for power sector
- > Banking opportunity between phase 2 and 3 of EU Emission Trading Scheme (EU ETS)

## German nuclear legislation

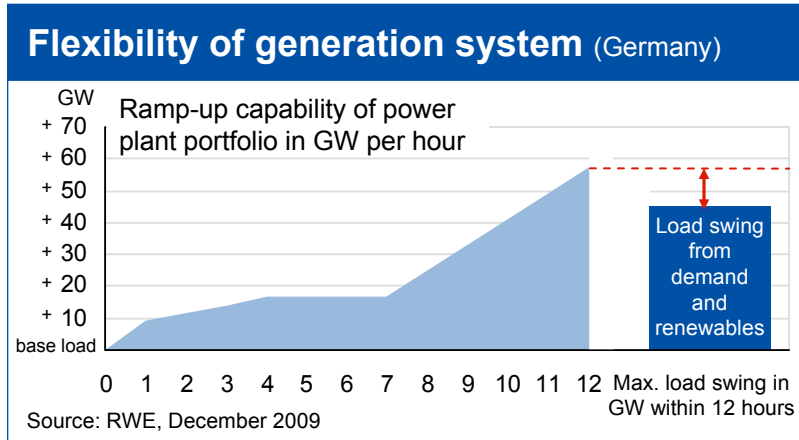
- > Thorough analysis of nuclear energy as part of the overall national energy plan which is expected for October 2010
- > Nuclear energy considered a bridge technology
- > Lifetime extension is expected

# Our strategy to reduce the impact of CO<sub>2</sub> on our P&L in 2013

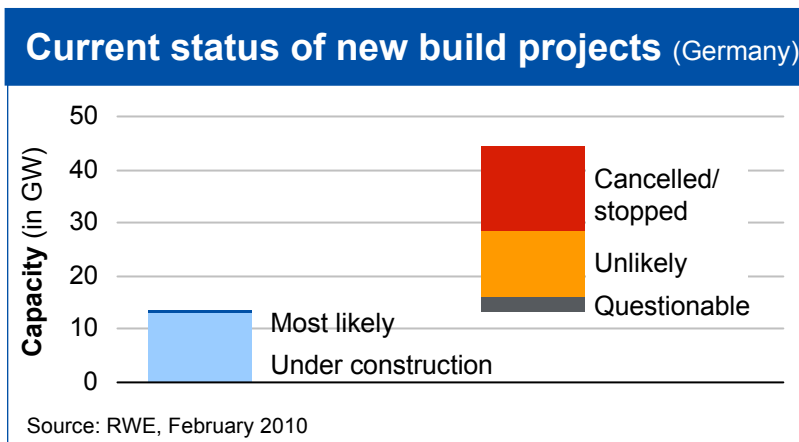


<sup>1</sup> Excluding Essent; Essent has CO<sub>2</sub> emissions of approx. 8 to 10 million tons p.a.

# Growing number of cancellations increases efficiency gap and value of our new-build projects

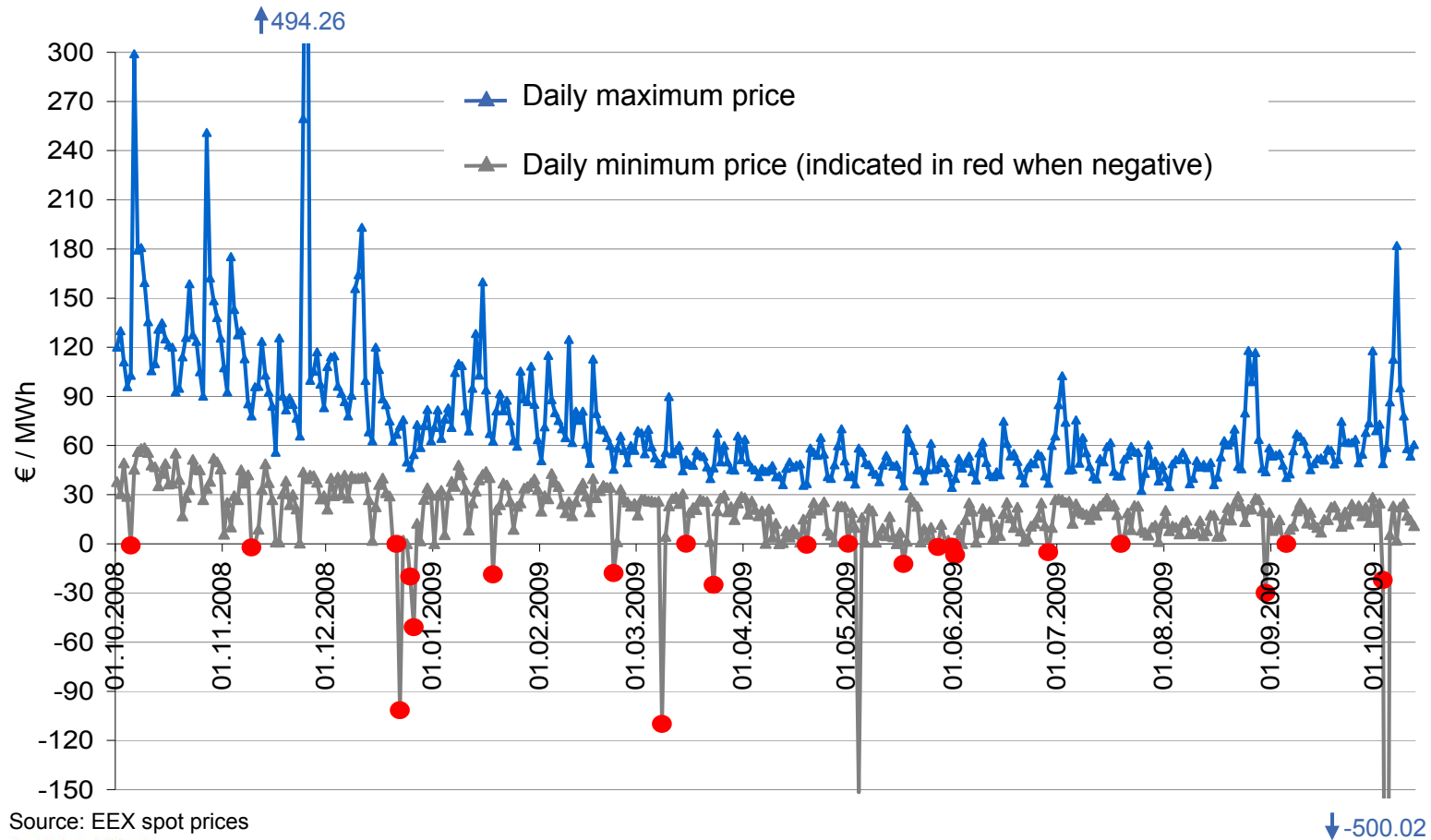


- > Rising share of renewables generation will lead to:
  - Increase of load swings in the system
  - Price spikes and negative prices due to lack of flexibility in current power plant portfolio
  - Shut downs of old inefficient and inflexible power plants
- > The efficiency gap is amplified by increasing number of cancellations and delays of new-build projects
  - Eight large power plant projects with a combined capacity of 8.6 GW cancelled in the last 12 months
  - Local public opposition and quality problems cause delays in projects under construction



# Price volatility keeps increasing in Germany – opportunities for a flexible portfolio like RWE's

Growing proportion of renewables leads to higher price volatility. October 2008 to October 2009: 60 hours with negative prices; highest price reached + € 500/MWh, lowest - € 500/MWh



Source: EEX spot prices

# Dramatic changes in the gas market create risks but provide opportunities for a well-managed portfolio

## The old days

- > Distributors closed long term contracts:
  - Producers aim to cover investment cost
  - Linkage to substitute fuels to ensure competitiveness of gas
- > Distributors have secured supply and retained flexibility (weather dependency)
- > “Take-or-Pay” of typically 90%
- > Customer contracts priced at cost plus

## The new market

- > Hybrid situation:
  - long-term oil-indexed gas contracts, and
  - liquid markets with fixed price gas trading
- > Decoupling of supply and demand:
  - managing the gas-to-oil spread
  - potential to procure back-to-back from wholesale market
- > Customer contracts increasingly priced at gas wholesale price level



- > **Potential of price differentials between long-term procurement contracts and wholesale market prices, with risk of negative gas-to-oil spreads**
- > **Opportunity to manage flexibilities provided in long-term procurement contracts**

# Essent further increases robustness of our portfolio – integration is well underway

## Generation

- > Increased exposure to flexible mid-merit portfolio
- > Transfer of Eemshaven project to Essent
- > Application of biomass co-firing expertise to RWE power plants

**Essent's stand-alone  
EBIT and EBITDA CAGR  
2008 – 2012 of  
approximately 10%**

**ROCE  $\geq$  9.5%  
from 2012 onwards**

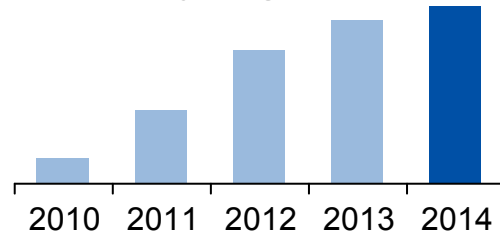
## Retail

- > Integration of RWE's Dutch customer portfolio into Essent
- > Elimination of parallel client service systems
- > Cost savings from combined marketing and branding efforts

## Renewables

- > Joint operation of wind assets by RWE Innogy
- > Streamlining of combined development pipeline
- > Leveraging of RWE Innogy's component framework agreements for Essent projects

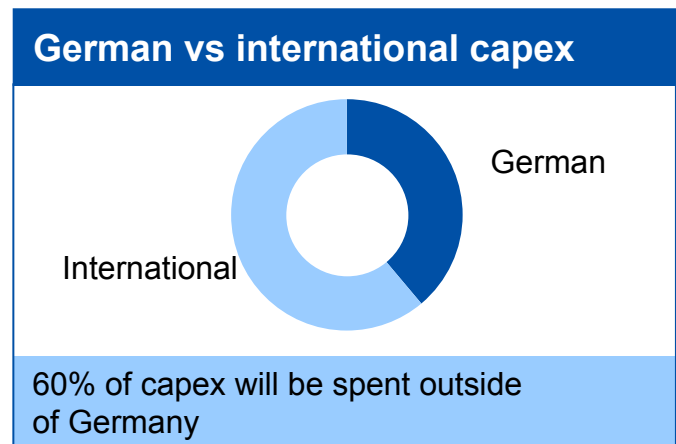
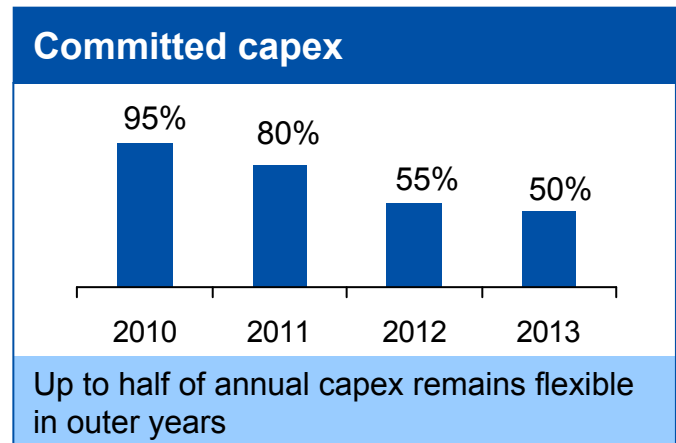
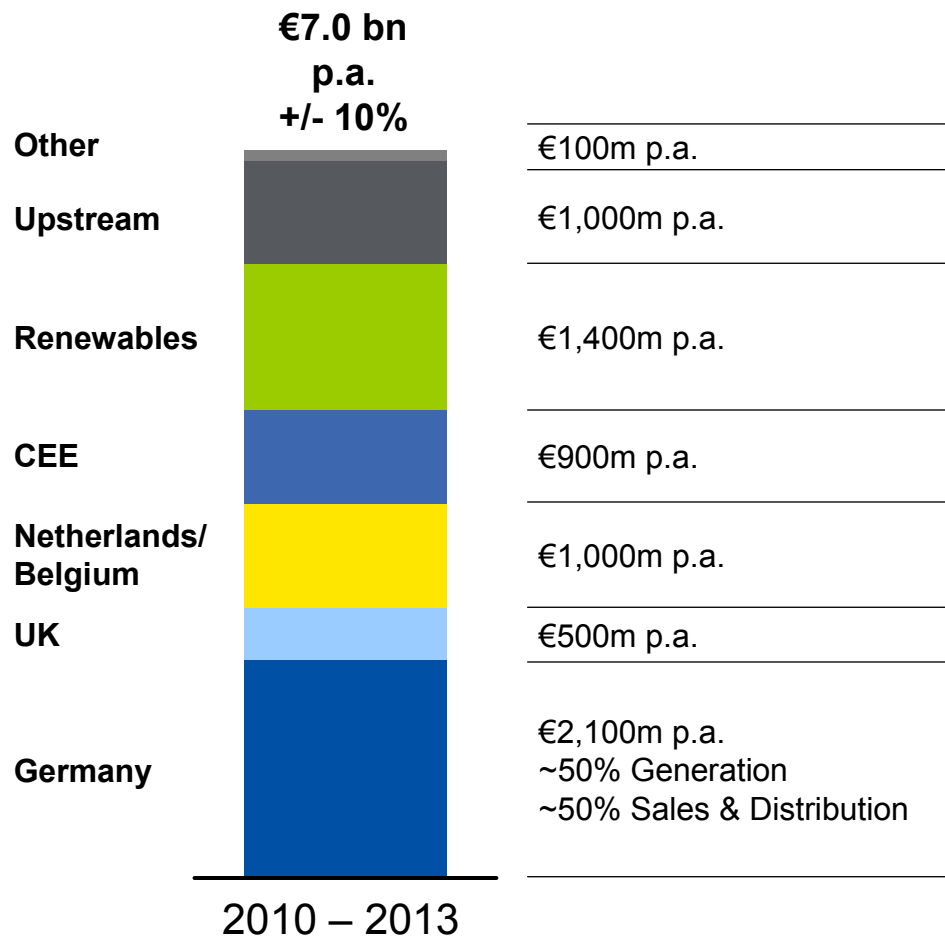
## Gross synergies >€100m



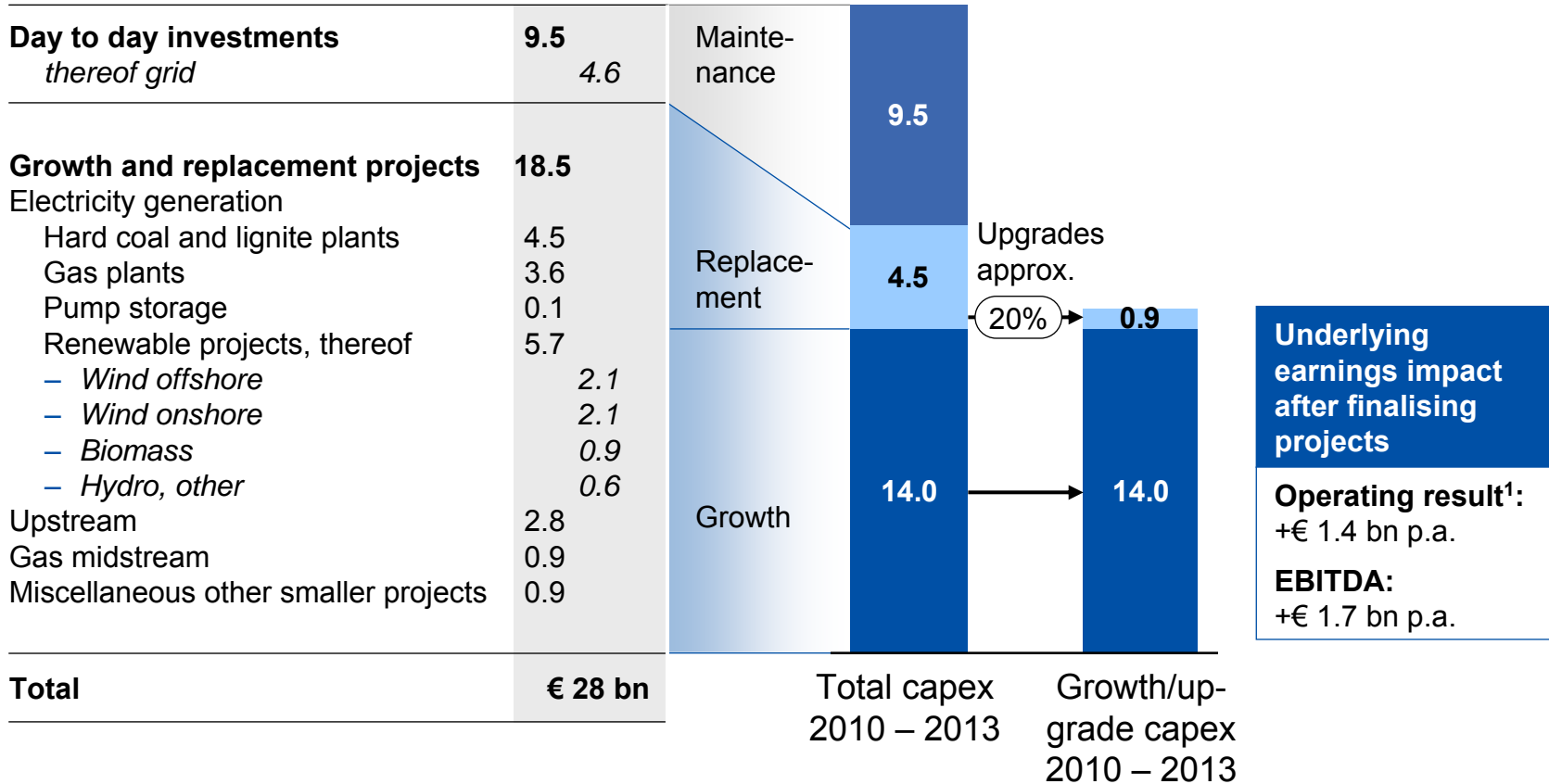
## Supply & Trading

- > Standardisation of trading and risk management systems
- > Central management of gas procurement portfolios and storage flexibility

# Continuous investment commitment: €28 bn capex programme 2010 – 2013



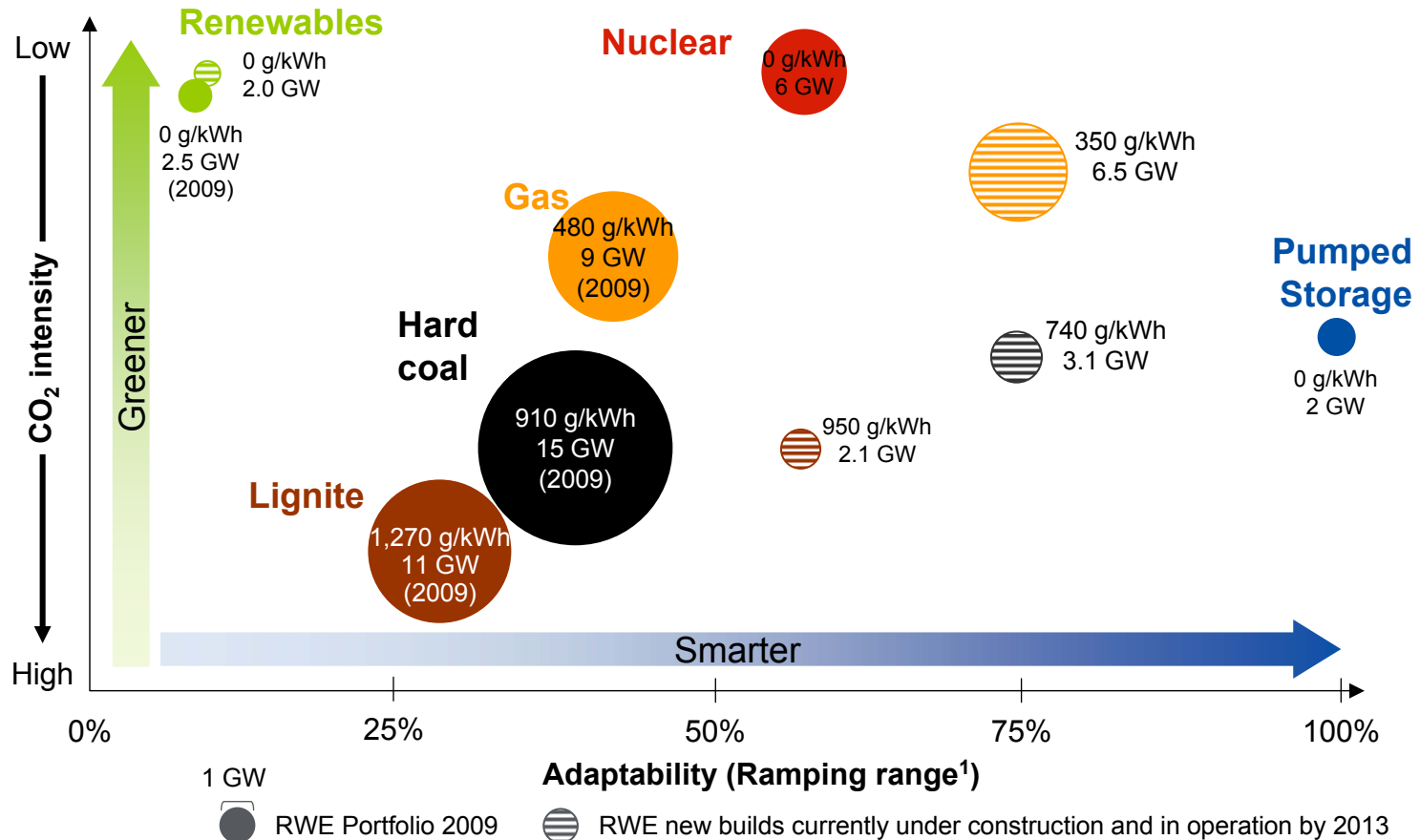
# Focus on low carbon organic growth and efficiency enhancement



<sup>1</sup> Average impact. Depending on depreciation period, operating result lower in early years and higher in later years

# Diverse new-build programme will enhance flexibility and reduce specific CO<sub>2</sub> exposure

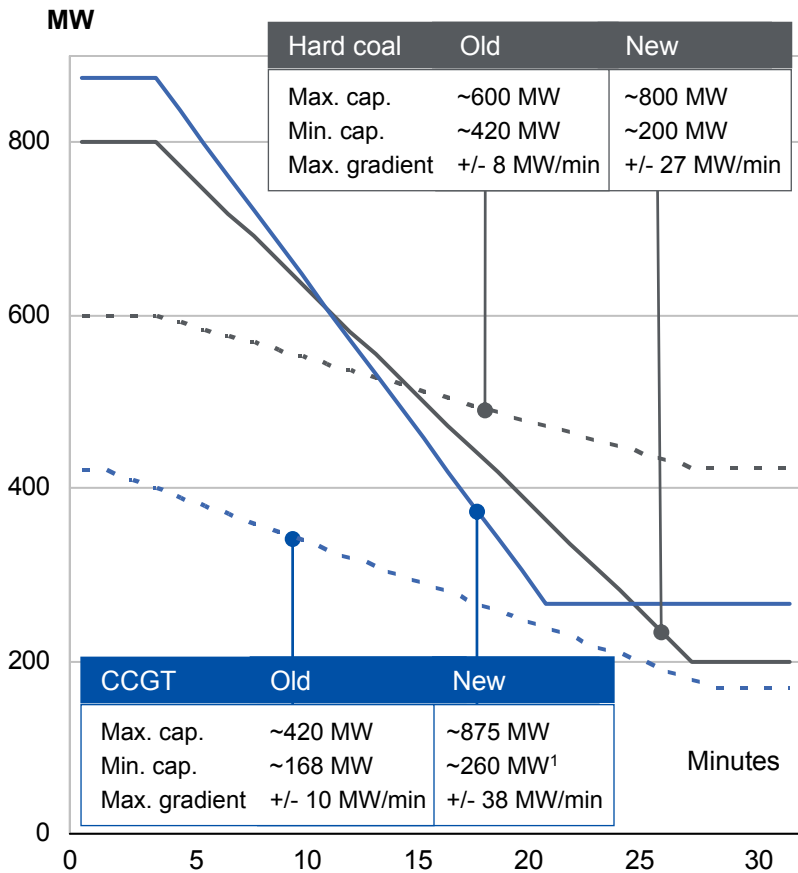
## Generation portfolio 2009 vs. power plants under construction



<sup>1</sup> Δ between min and max load

# Strategy for fossil fired generation: growth, higher flexibility, less CO<sub>2</sub> emissions

Comparison of ramp capacities  
(old and new hard coal / CCGT)



New hard coal-fired 1,600 MW plant –  
2 flexible 800 MW units for mid-merit regime



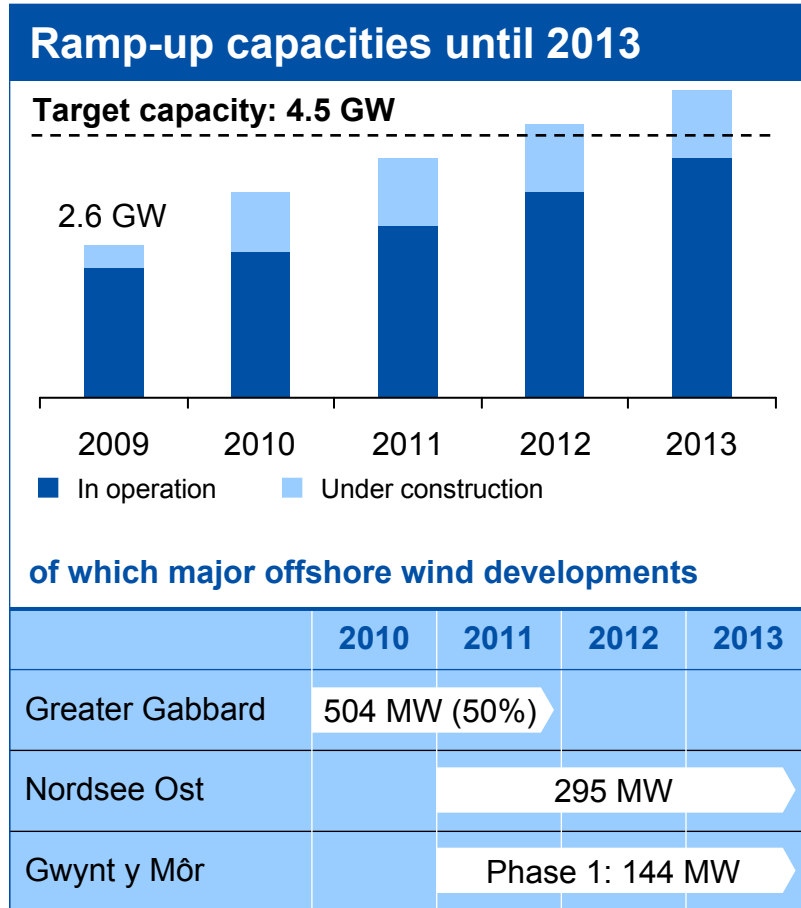
New gas-fired 875 MW plant,  
> 58% efficiency for peak times



Source: RWE.

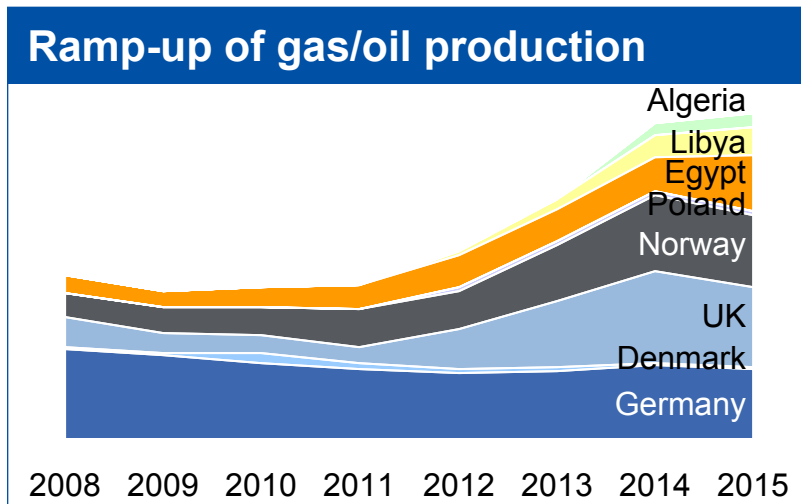
1 One turbine gets turned off.

# Renewables: RWE Innogy on the way to significant carbon-free profits



- > Capacity of 4.5 GW in operation or under construction by 2012
- > Targeted operating result of €500 million p.a. by 2013
- > Risk diversification across geographies, technologies and incentive mechanisms
- > Value enhancement by addressing bottlenecks (e.g. installation vessels, pellet sourcing)

# RWE Dea: Defined development projects secure future earnings growth



- > Doubling of gas and oil production by 2015 at the latest
- > Organic growth through designated development projects
- > Increasing production volumes leading to economies of scale
- > Targeted operating result of €900 million p.a. in 2013 despite delays in individual projects

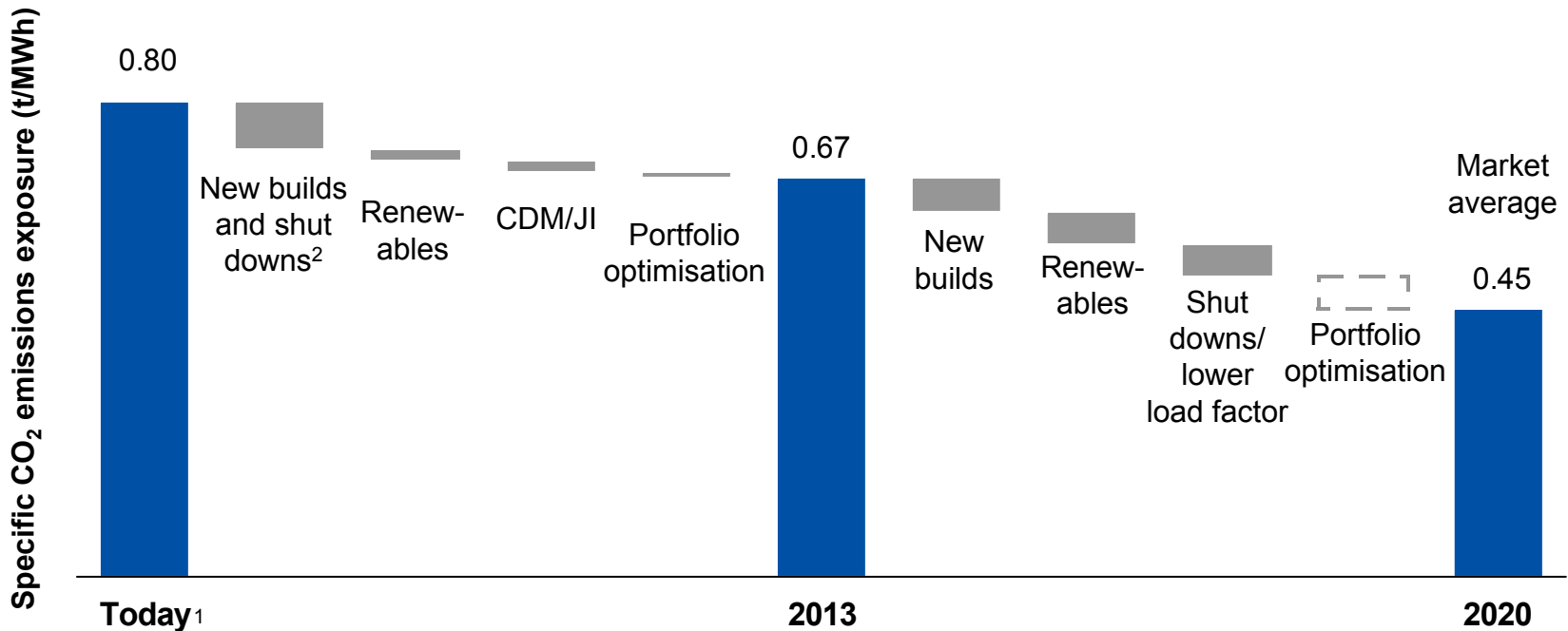
### Largest field developments

Production start	2010	2011	2012	2013	2014	2015	2016	2016 Target production
(Status as of December 31, 2009)								
West Nile Delta (Egypt)								n/a <sup>1</sup>
Breagh (UK)								7.0 mmboe
Reggane (Algeria)								n/a <sup>2</sup>
Luno (Norway)								5.3 mmboe
Gjøa (Norway)								2.2 mmboe

<sup>1</sup> Under negotiation    <sup>2</sup> Confidential

# 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 phase 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

# Physical measures: New-build projects can reduce our CO<sub>2</sub> exposure by some 14 % by 2013

New-build projects			Shutdowns / load factor reductions			CO <sub>2</sub> reduction by 2013	
						Relative	Absolute
Lingen	887 MW	0.34t/MWh	Fossil mix	4 TWh	0.75t/MWh	-0.41 t/MWh	-2 m t p.a.
BoA Neurath	2,100 MW	0.95t/MWh	Lignite	2,160 MW	1.35t/MWh	-0.40 t/MWh	-6 m t p.a.
Hamm	1,528 MW	0.74t/MWh	Fossil mix	10 TWh	0.75t/MWh	>0 t/MWh	>0 m t p.a.
Staythorpe	1,650 MW	0.35t/MWh	Fossil mix	8 TWh	0.75t/MWh	-0.40 t/MWh	-3 m t p.a.
Pembroke	2,188 MW	0.34t/MWh	Fossil mix	10 TWh	0.75t/MWh	-0.41 t/MWh	-4 m t p.a.
Moerdijk	426 MW	0.35t/MWh	Fossil mix	2 TWh	0.75t/MWh	-0.40 t/MWh	-1 m t p.a.
Claus C	1,304 MW	0.35t/MWh	Fossil mix	6 TWh	0.75t/MWh	-0.40 t/MWh	-2 m t p.a.
Eemshaven	1,560 MW	0.59t/MWh <sup>1</sup>	Fossil mix	11 TWh	0.75t/MWh	-0.16 t/MWh	-2 m t p.a.
Renewables	2,000 MW	0.00t/MWh	Fossil mix	7 TWh	0.75t/MWh	-0.75 t/MWh	-5 m t p.a.
<b>Total CO<sub>2</sub> emissions reduction</b>							<b>-25 m t p.a.</b>
<b>Reduction compared to current average yearly emissions of 180 m t p.a.</b>							<b>&gt;14%<sup>2</sup></b>

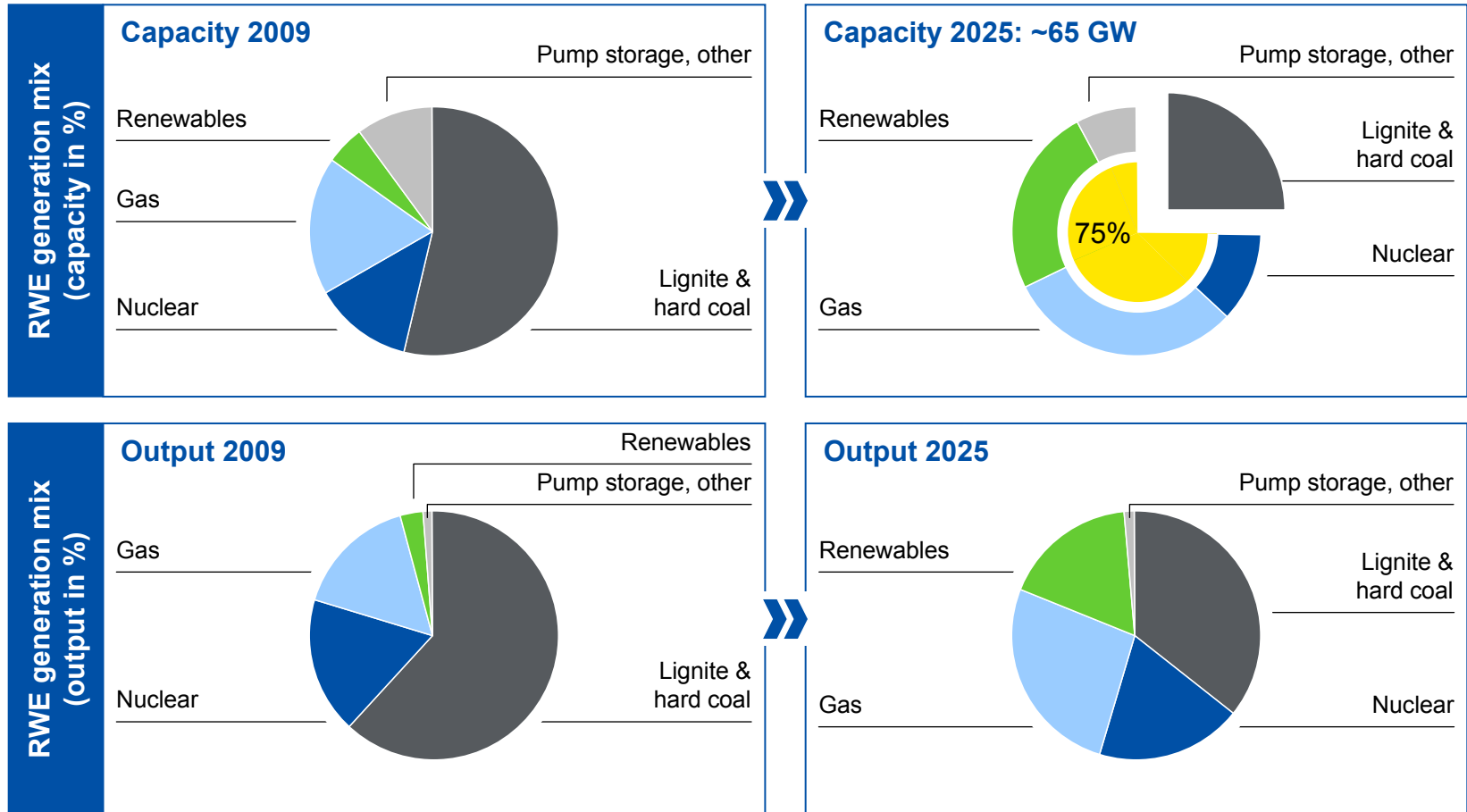
<sup>1</sup> Assumes 20% biomass co-firing

<sup>2</sup> Assumes constant electricity generation output of 220 TWh per annum

# Non-physical measures: Balancing CO<sub>2</sub> risks

<b>CDM/JI</b>	<ul style="list-style-type: none"> <li>&gt; Allowance to cover up to 100 million tons via CDM/JI projects</li> <li>&gt; Secured projects to procure 75 million tons of CO<sub>2</sub> (44 million tons of CO<sub>2</sub> adjusted for project risks)</li> <li>&gt; Average achieved project price below current market price for Certified Emission Reductions (CERs)</li> </ul>	
<b>Portfolio optimisation</b>	<b>Asset swaps</b>	<ul style="list-style-type: none"> <li>&gt; Swap of generation assets to improve fuel and load mix:               <ul style="list-style-type: none"> <li>– e.g. swap of lignite/hard coal capacity against hydro capacity</li> </ul> </li> </ul>
	<b>Long term supply contracts</b>	<ul style="list-style-type: none"> <li>&gt; Long-term supply contracts with full transfer of CO<sub>2</sub> position:               <ul style="list-style-type: none"> <li>– 2013 – 2020 lignite based supply contract (264 MW)</li> <li>– 2013 – 2037 lignite based supply contract (110 MW)</li> </ul> </li> </ul>
	<b>Procurement of CO<sub>2</sub> certificates</b>	<ul style="list-style-type: none"> <li>&gt; Building of position in CO<sub>2</sub> certificates (EUAs) to support our move towards market average CO<sub>2</sub> exposure in next compliance period (2013 – 2020)</li> </ul>

# Prepared for post-Kyoto: Our generation portfolio is set to be 75 % “zero or low carbon” by 2025



# Maximising commercial value through asset optimisation of generation capabilities



## RWE AG

- > Overall hedge strategy and policy

## Asset companies

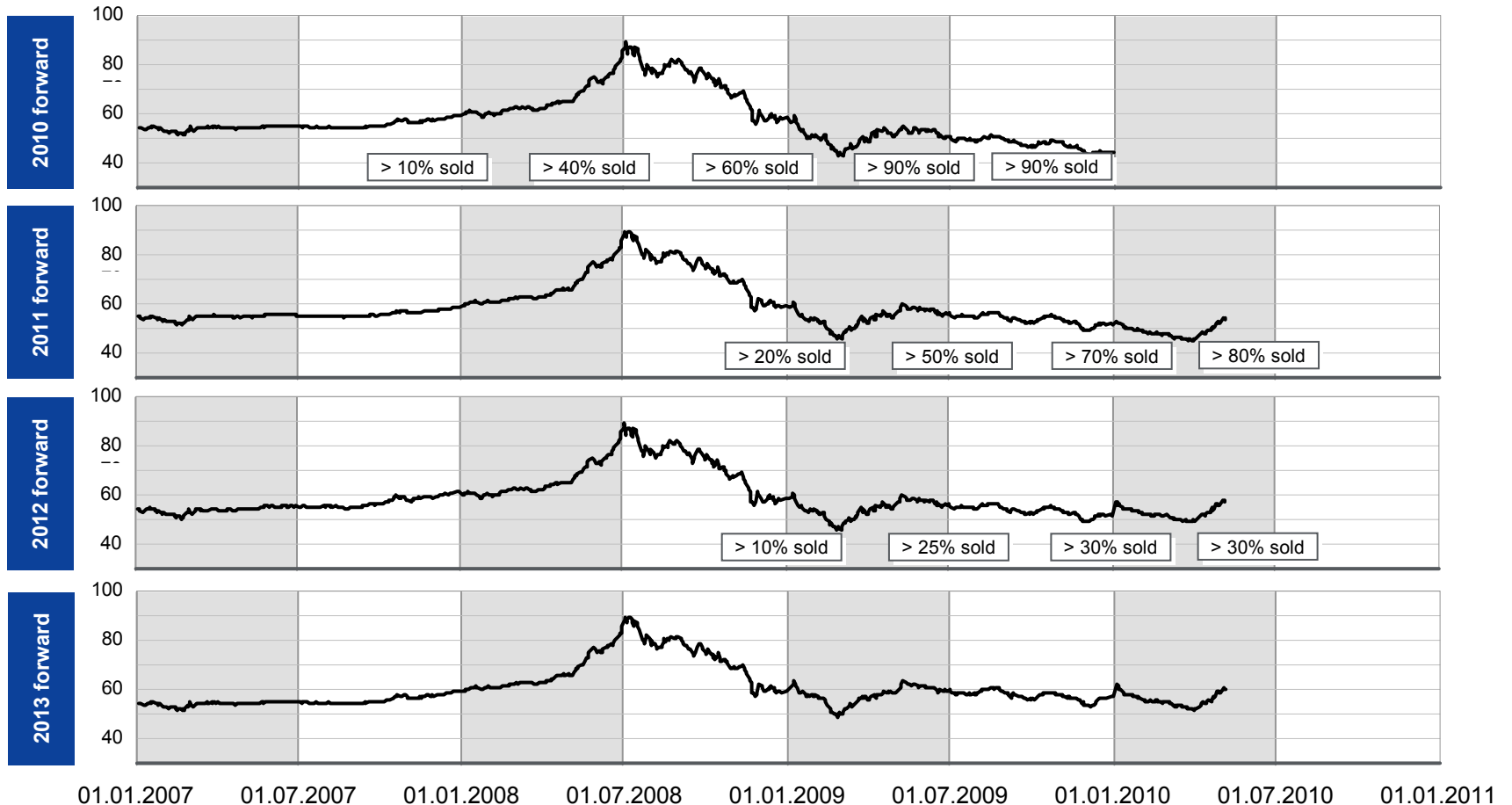
- > Optimise commercial availability of plants
- > Maximise efficiencies and minimise cost
- > Position gradually transferred to RWE Supply & Trading

## RWE Supply & Trading

- > Integrated optimisation of power plant flexibility
- > Asset-backed trading team working alongside proprietary desks
- > Daily "make or buy" decision depending on spot prices and spreads

# Forward selling: Prudent hedging secures predictable returns of our generation fleet

(Base load forwards in €/MWh)



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

<sup>1</sup> Forward selling as of 01.05.2010; price data as of 07.05.2010

# Asset optimisation: Realising a premium to the forward price

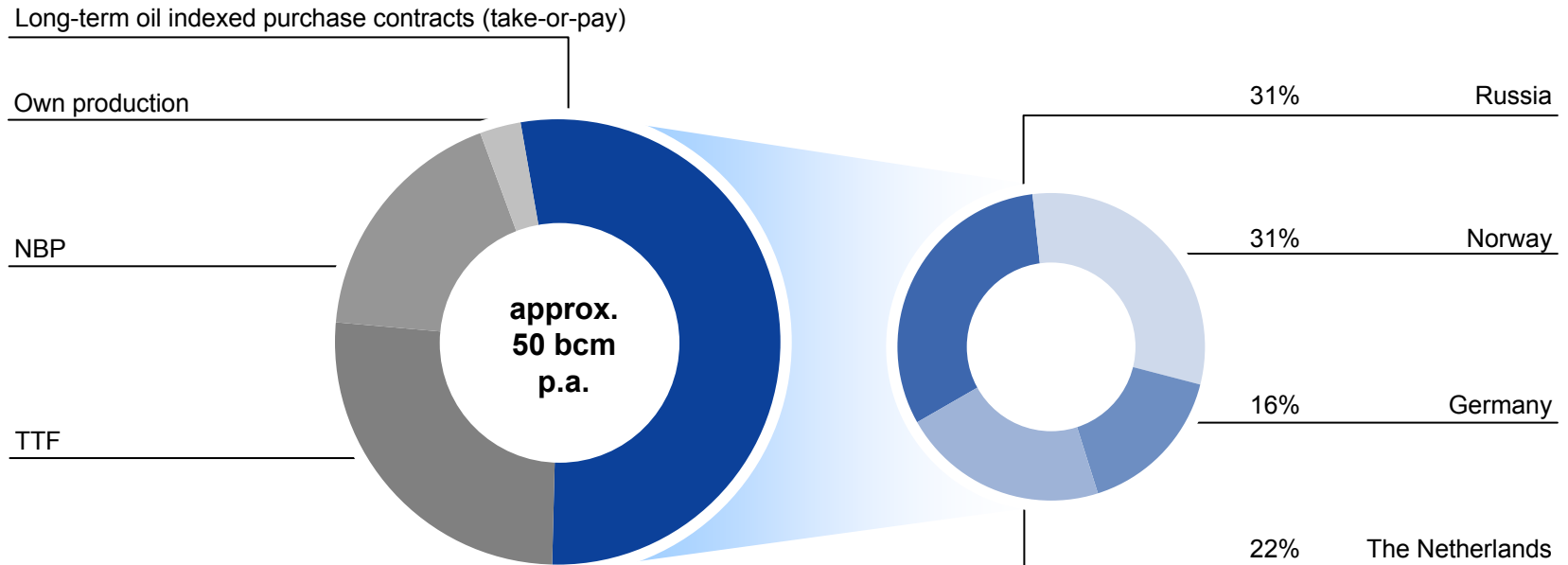
As the generation fleet margin has already been secured via forward selling, we can decide every day if we produce the contracted power at the locked-in spread or buy the power in the market instead

## An illustrative example

RWE sold forward Q1 2010 power generation from hard coal units in Q2 2008		Now, in Q1 2010 the prices of power and fuels have changed	
Power sold forward at	70€/MWh	Power price	40€/MWh
Hard coal costs locked in at	40€/MWh	Hard coal costs	30€/MWh
CO <sub>2</sub> costs locked in at	20€/MWh	CO <sub>2</sub> costs	15€/MWh
<b>Locked-in Clean Dark Spread</b>	<b>+10€/MWh</b>	<b>Spot Clean Dark Spread</b> (power plant is out of the money)	<b>-5€/MWh</b>

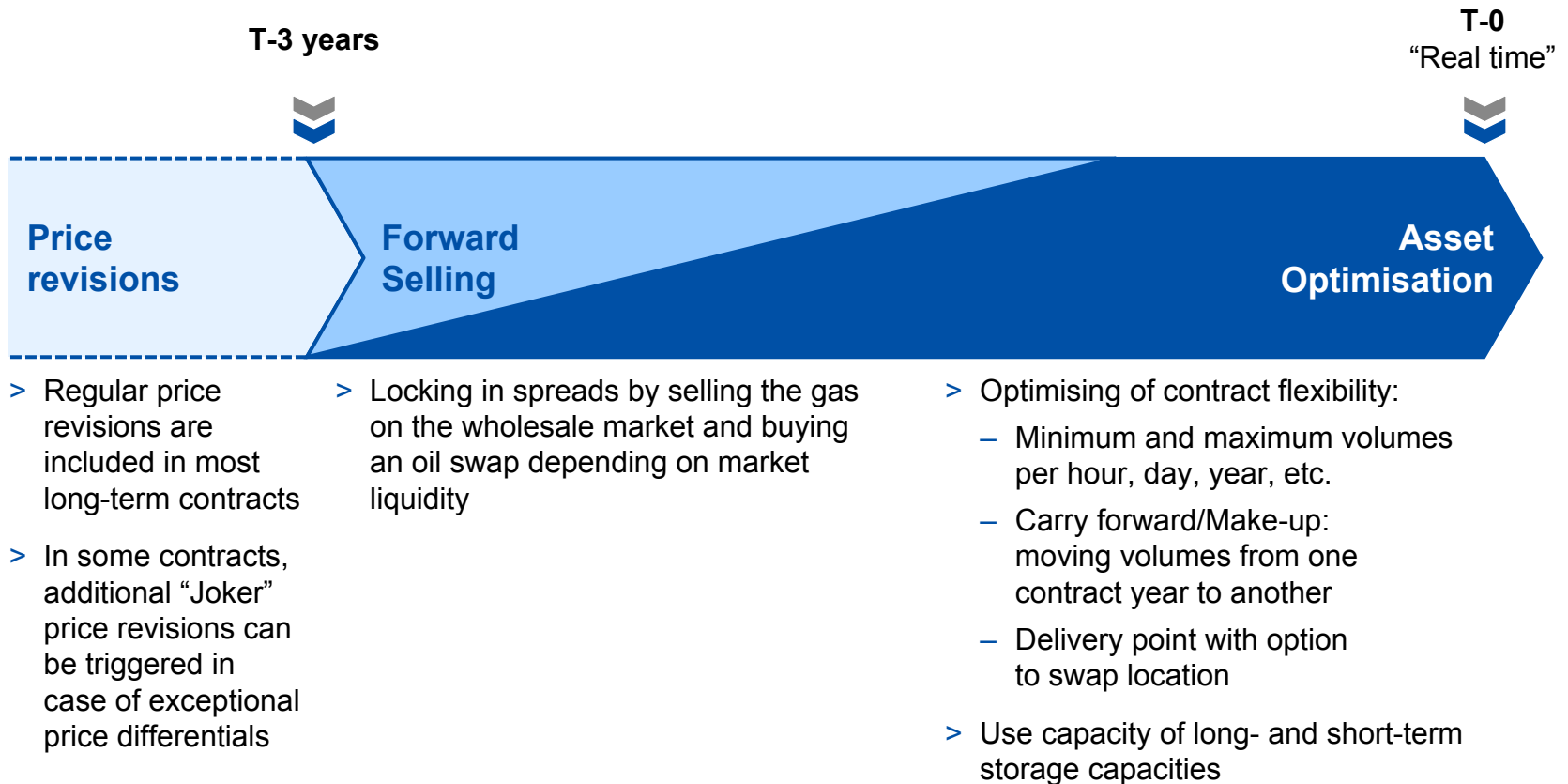
In this example RWE would opt for “buying instead of making”	
Power sold forward at 70€/MWh is covered by power bought today at 40€/MWh	+30€/MWh profit
Hard coal bought at 40€/MWh is sold at 30€/MWh	-10€/MWh loss
CO <sub>2</sub> bought at 20€/MWh is sold at 15€/MWh	-5€/MWh loss
<b>Realised Clean Dark Spread</b>	<b>+15€/MWh</b>

# RWE's gas procurement portfolio is only partly exposed to the gas-to-oil spread



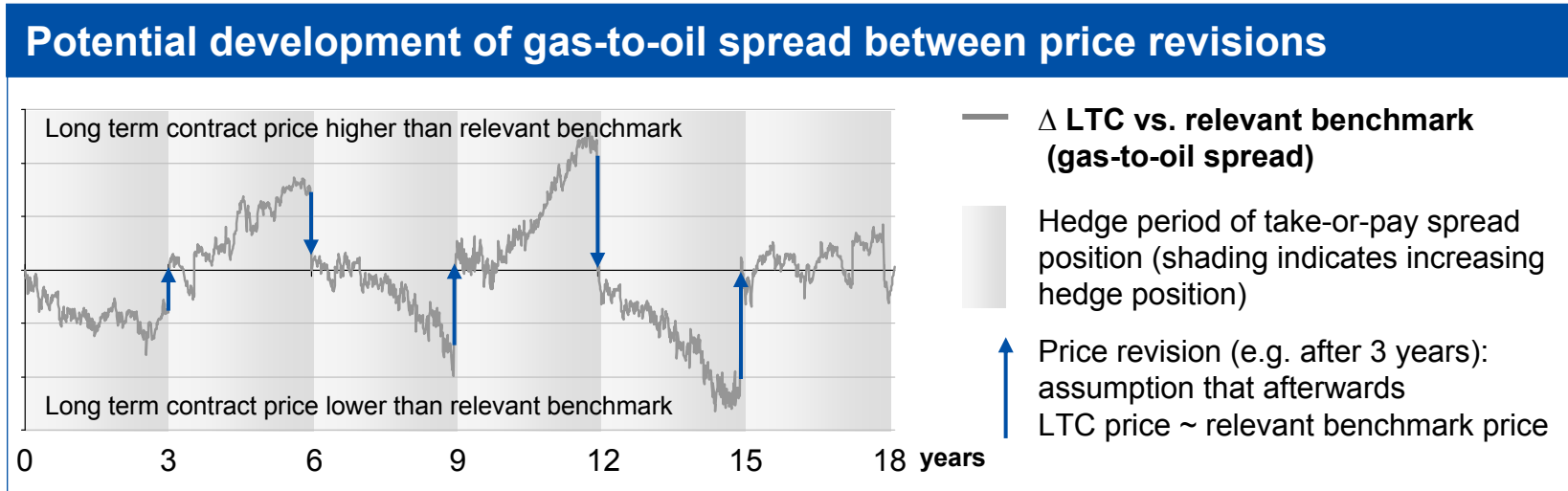
- > Our gas procurement portfolio is solely managed by RWE Supply & Trading
- > ~54% or 27 bcm of overall gas procurement based on long-term oil-indexed purchase contracts
  - thereof ~16 bcm carry a gas-to-oil spread exposure which is actively managed

# We optimise our gas portfolio in a similar way to power generation



# Price revisions and market liquidity determine forward-selling strategy

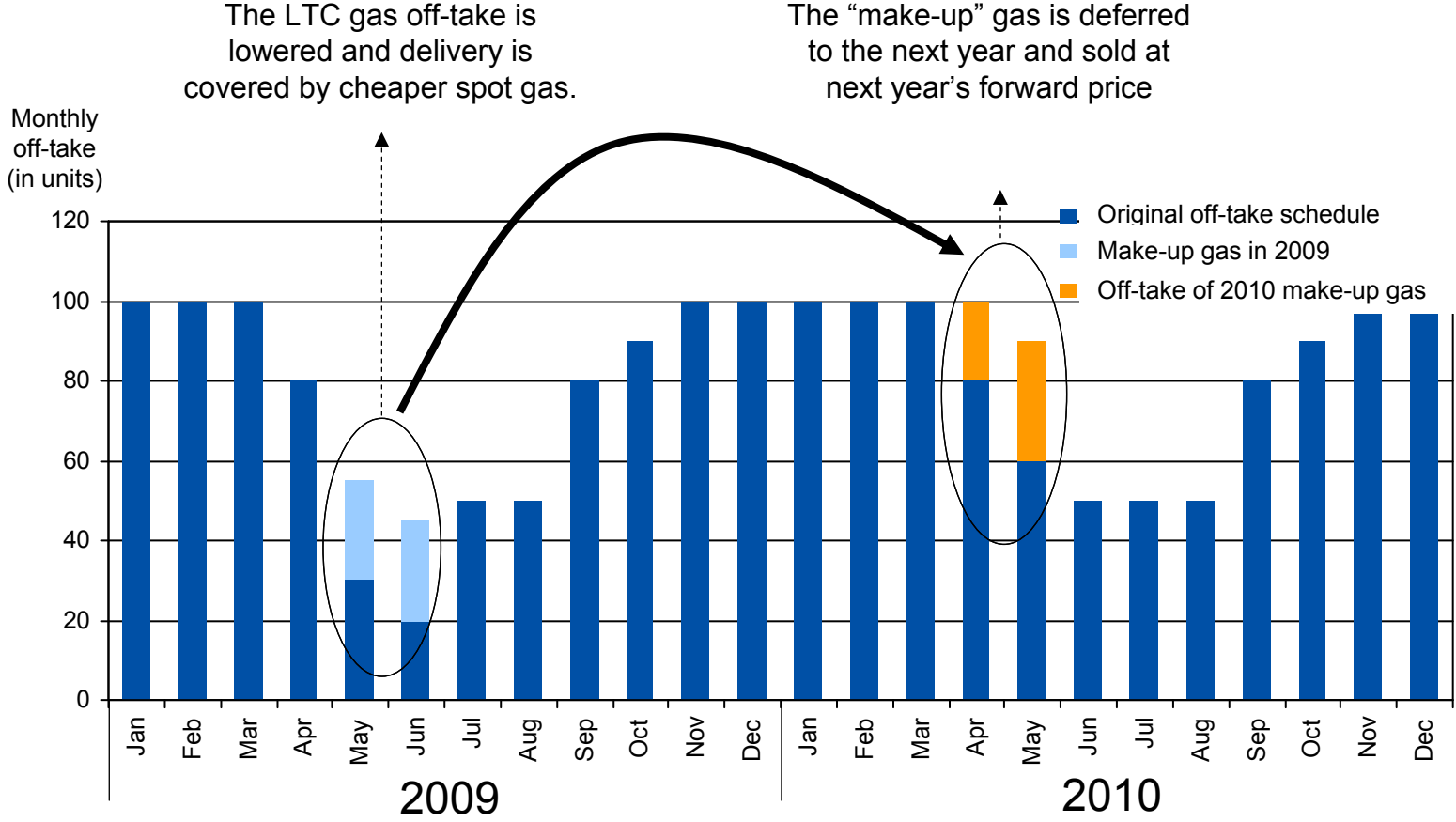
Illustrative



- > A certain amount (~90%) of the long-term contracts is take-or-pay, which represents a gas-to-oil spread position (comparable to a coal plant which represents a power to coal spread position)
- > Depending on market liquidity, we can hedge the spread position over a certain time period until the next price revision date (blue arrow) by selling forward the gas and buying an oil swap
- > Once fully hedged we are not exposed to further changes in the gas-to-oil spread anymore, but continue to optimise our position

# Asset optimisation: We can defer volumes to later years via “make-up” gas

Illustrative



LTC = long-term contract

# Outlook for 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 50% – 60% <sup>1</sup>
Capex on fixed assets	€bn	5.9	ca. 7.0

<sup>1</sup> Based on recurrent net income

# Mid-term outlook: Major assumptions

The mid-term guidance for 2012 and for 2013 is based on the following assumptions as well as the nuclear phase out according to current legislation.

	2012	2013
Average realised German electricity price (€/MWh)	≥60	≥60
Carbon costs (€/t CO <sub>2</sub> )	<20	20 – 30
Oil price (\$/bbl)	≥80	≥80
Gas prices (NBP and TTF) (€/MWh)	≥25	≥25
f/x rate €//\$	1.40	1.40
f/x rate €/GBP	0.85	0.85

# Mid-term outlook: Update on last year's guidance for 2012 versus 2008

	2008 reported € million	February 2009 forecast 2012 versus 2008 <sup>1</sup>	February 2010 forecast 2012 versus 2008 <sup>1</sup>
Operating result	6,826	CAGR + 5 - 10%	CAGR + ca. 5%
Recurrent net income	3,367	CAGR in the order of + 10%	CAGR + ca. 5%

## Reasons for lower earnings expectations

- > Project delays:
  - Power plant projects (e.g. BoA 2/3 Neurath, Hamm)
  - Development of gas/oil fields at RWE Dea
- > Commodity price assumptions
  - Lower gas and electricity margins
  - Tighter generation spreads

<sup>1</sup> Excluding Essent

# Mid-term outlook: Outlook for 2013 and dividend target

	2009 reported € million	2013 forecast versus 2009
EBITDA	9,165	above 2009
Operating result	7,090	above 2009
Recurrent net income	3,532	above 2009

## Dividend target 2010 – 2013

Dividend	€	3.50	Payout ratio 50% – 60% <sup>1</sup> with goal to at least match the previous year's dividend for each fiscal year from 2010 to 2013
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<sup>1</sup> Based on recurrent net income.

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  - > Power Generation in Europe
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