



Speech: Balance-Sheet Press Conference of RWE AG
on Fiscal 2016

CEO Dr. Rolf Martin Schmitz/CFO Dr. Markus Krebber

Essen, 14 March 2017

Check against delivery.

RWE

Powering. Reliable. Future.

RWE stands for a secure supply of energy.

Rolf Martin Schmitz

I'd like to start by welcoming everybody here today, on behalf of my colleagues Markus Krebber and Uwe Tigges as well.

For RWE, this is the first time that the Executive Board will be holding the balance-sheet press conference with this set of members, and it is also the last time, since Uwe Tigges will be leaving the Board at the end of April.

Uwe, during your last four years as part of the Executive Board of RWE you have contributed greatly to finding good solutions for our company, working in co-operation with the employee representatives. This was not an easy job, given the difficult economic conditions and the significant organisational changes. We have you to thank that the separation during the IPO of innogy went smoothly and successfully in terms of human resources.

From 1 May of this year, you will now be focusing completely on your responsibilities at innogy. We wish you all the best in this new undertaking.

And we'd like to express our gratitude to you for your tireless work and in particular for your selfless dedication to all of the employees.



In the future, the Executive Board will consist of only two members. The holding company is also streamlined, with less than 200 employees.

2016 was a special year in the more than one-hundred-year history of our company:

We achieved three important goals, amidst very adverse conditions:

First: We successfully implemented our strategy

With our new organisation, we intend to regain our ability to act, reinforce our financial flexibility and expand our leeway for entrepreneurial action. The decision to bundle renewables, grids and retail in innogy SE and to list this company on the stock market has made this possible. It was the largest IPO in Germany since 2000. The offer was oversubscribed several times and the placement price was at the upper end of the price range.

The organisational separation of RWE and innogy also went smoothly. This allows both companies to now focus on their respective strengths.

And as you heard yesterday, innogy is doing just fine. And that's good for us, too. Because RWE AG stands to profit from innogy's success.

Second: We are on track in operational terms

Our objectives for operating earnings in 2016 were achieved at the upper end of the expectations. This was by no means a given. Because market conditions were and continue to be extremely difficult, especially in conventional power generation. The price of EUR 20 per megawatt hour seen at the beginning of 2016 would have been unbearably low for all producers over the long run. On average, the price ended up at EUR 27 per megawatt hour. But this modest recovery should not obscure the fact that this was the lowest price in more than ten years. Hence, there's no reason to think we're over the worst. On the contrary:

Altered expectations about the future development of wholesale prices for electricity forced us to recognise impairments on our power plants. We already announced this three weeks ago.

Nevertheless, thanks to our efficiency-enhancing measures in conventional power generation, we have withstood the adverse conditions. These measures have proceeded faster and more extensively than planned. As a result, we have been able to compensate for some of the declines in electricity prices.



I would like to thank everyone who has been willing to bear the painful cuts and thus help improve the outlook for RWE.

Third: The reorganisation of responsibility in the nuclear industry has created clarity.

In December, a law was passed which restructured the responsibilities for nuclear waste disposal in Germany. We welcomed this development, as it brings us to an important crossroads. Thanks to the law, we are no longer exposed to certain risks, over which we had almost no control over the long term. This gives us planning security and reliability. As a result, in the best sense of the word, RWE is now a slightly more “normal” company.

An agreement has just been reached with the government on a supplementary public-law contract. It is to be signed once the law comes into force upon receiving EU subsidy law clearance.

In this regard, one must recall that the financial burdens are significant. In particular, this applies to the high risk surcharge of 35%.

The high one-off payment to the nuclear fund and the aforementioned impairments on the power plants are the reason that, as reported, we will propose to suspend the dividend for common shares for 2016 and pay a dividend of 13 cents per preferred share at the Annual General Meeting.

In all regards, 2016 was a decisive year.

In operational terms, the RWE Group now stands firmly on two firm pillars:

Our generation division, with the largest flexible fleet of power plants in Germany, and highly efficient power plants in the United Kingdom and the Netherlands.

And RWE Supply & Trading, one of the leading energy traders in Europe.

Our strength in generation comes from a widely diversified portfolio of power plants using gas, hard coal, lignite, nuclear energy, hydro and biomass, allowing us to deliver electricity reliably and flexibly. Affordably and securely. In the past fiscal year, our production amounted to around 130 billion kilowatt hours in Germany alone. Figuratively speaking, we supplied every 4th socket in the country.

Conventional electricity generation is and will remain a necessity.

In 2016, about 70% of Germany's electricity was produced using conventional plants, and even in 2030 this figure is still expected to be around 50%. These changes in the energy mix will lead to changes in our role. Instead of producing as many kilowatt hours as possible, ensuring the availability of secured capacity will become increasingly important. We are well prepared for this role. Because we have the right plants to do the job. We invested heavily to boost the flexibility of our power station portfolio in recent years and significantly reduced the minimum load, so that we can balance out the rising volatility in the electricity grid.

This makes our conventional generation capacity a reliable partner in transforming the energy sector.

RWE Supply & Trading functions as the interface between the RWE Group and the global trading markets for energy and energy-related commodities. It acts as an exchange for all traded commodities on Europe's largest trading floor. And it is precisely these liquid trading markets for energy and energy-related commodities such as gas, coal and oil, which ensure security of supply in the global context.

RWE Supply & Trading also develops tailor-made energy supply solutions for its customers – industrial enterprises, trading partners and municipal utilities.

Examples of such solutions include:

- the joint expansion of infrastructure for liquid natural gas together with the Duisburg harbour,
- the development of 'Easy Commodity Trader', a flexible online trading platform, which allows customers to easily conduct their own energy management, and
- the conclusion of a flexible gas delivery contract with Qatargas, which expands the basis of RWE's European gas procurement.



Despite the difficult environment and a year marked by losses, we can confidently state:

RWE has a solid foundation for the future. This is also reflected in our dividend outlook for the years to come.

RWE is back on track.

And now, let me hand the floor to Markus Krebber, who will discuss the business results for 2016.

Markus Krebber

Thank you very much, Rolf.

You are probably wondering how we arrive at these positive statements, considering the loss that was announced for the previous business year.

In 2016, amidst extremely difficult conditions, we successfully reorganised the Group and prepared ourselves for the future.

There are several factors which allow us to look forward with optimism.

- Thanks to the successful IPO of innogy, we have put RWE back on a solid financial footing.
- Our objectives for operating earnings in 2016 were achieved at the upper end of the expectations.
- Our equity ratio remained almost completely stable, despite the massive impairments and burdens stemming from the changes in the nuclear power industry.
- We accumulated enough liquidity to fully pay our contribution to the nuclear energy fund on 1 July 2017.
- We significantly reduced our net debts.
- We expect to see an improvement in operating income in 2017.
- And we intend to start paying dividends again.

Of course, I don't want to simply ignore the fact that we reported very negative net income, which was mainly due to two factors.

- The extraordinary impairments on our power stations and,
- the burdens from the redistribution of responsibility in nuclear energy, in particular the risk surcharge of 35%.

In the following, I would like to discuss the key points and main factors that came to bear in fiscal 2016. All of the details on the development of earnings and our financial position can be found in the Annual Report.

In the previous business year, the biggest challenge we faced was the strategic re-orientation of RWE.

We successfully mastered this challenge, and we're not the only ones who have drawn this conclusion.

The IPO of innogy resulted in proceeds of EUR 4.6 billion, of which EUR 2.6 billion went directly to RWE.

Thanks to our investment in innogy, we now have renewed financial flexibility to tackle the future.

Consequently, RWE has regained a solid footing.

This is why we were able to handle the massive impact of endowing the nuclear energy fund, including the risk surcharge of 35%. All in all, this totalled EUR 6.8 billion. We will transfer this sum in full on 1 July 2017, in order to avoid the high interest rate of 4.58% that we would face if we paid in instalments. This also releases us from any further payment obligations.

The persistently difficult conditions in electricity generation prompted us to recognise impairments of EUR 4.3 billion. The reason for this was that we adjusted our long-term assumptions about the future development of electricity prices.

The lion's share of these impairments related to our power stations in Germany; to a smaller extent we also revalued plants in Turkey, the United Kingdom and the Netherlands.

These two special items and other non-operating effects from the fair valuation of derivatives amounting to EUR –0.8 billion resulted in the net income figure of EUR –5.7 billion for 2016.

In light of these extraordinary items, the Executive Board once again proposed suspending the payment of a dividend for common shares. This was not an easy decision for us. However, in view of the large net loss and the upcoming payment to the nuclear energy fund, we had no choice.

The Supervisory Board agreed unanimously with our proposal, and thus the Executive Board and Supervisory Board will submit an identical proposal to the Annual General Meeting.

Ladies and gentlemen, so much for these special items.

Looking at the development of our operating business, one can see that we held our course.

Our results for operating earnings were near the upper end of the forecast.

We recorded adjusted EBITDA of EUR 5.4 billion, compared to our target of between EUR 5.2 billion and 5.5 billion.

Our adjusted EBIT came in at EUR 3.1 billion, also at the upper end of our forecast range, which we had projected at EUR 2.8 to 3.1 billion.

Adjusted net income, which filters out non-operating and extraordinary effects and the related taxes and non-controlling interests, reached EUR 0.8 billion, exceeding our forecast range of EUR 0.5 to 0.7 billion.

Varying performance was seen in the business areas in 2016:

In the segment Conventional Power Generation, our adjusted EBIT improved by 5 percent to EUR 627 million, exceeding our target. The main factor behind this was that our efficiency-enhancement measures proceeded more quickly than scheduled.

We also booked one-off revenues: these included the settlement for damages in early July in relation to the hard coal-fired power station at Hamm and proceeds from the sales of property in the United Kingdom.

However, electricity margins declined compared to 2015, which had a negative impact.

The Trading /Gas Midstream segment closed with a loss of EUR 145 million, after posting a profit of EUR 156 million in the previous year.



Due to high price volatility, the second quarter of 2016 was particularly weak. However, one positive factor was the out-of-court settlement with Gazprom regarding our gas procurement contract. This ensures that the contract will not expose us to earnings risks in the coming years.

The result posted by our subsidiary innogy was in line with expectations, as our colleagues discussed in detail yesterday.

RWE's financial situation is stable.

At the end of 2016, our equity capital amounted to EUR 8 billion, down from EUR 8.9 billion in the previous year. This means that we have been able to keep the equity ratio almost completely stable, despite the massive burdens. This was mainly possible due to the proceeds from the innogy IPO.

Our liquidity at year-end is also adequate, even after the transfer to the nuclear energy fund. At that point we will still have enough liquidity for our operating businesses.

Another positive point was the decline of EUR 2.8 billion in net debt, which now amounts to EUR 22.7 billion.

This item contains a large part of the RWE Group's non-current provisions and the capital market debt, the bulk of which has been transferred to innogy.

Looking at RWE as a 'stand-alone', i.e. without innogy, the net debt would total EUR 6.9 billion.

This is contrasted against significant assets, most importantly our innogy shares which currently have a market value of around EUR 14 billion.

I'd also like to briefly talk about the rating: all of the rating agencies currently rate us in the 'investment grade' category, even after we announced that we would be paying back hybrid capital as early as possible.

Our optimism is reflected in the outlook for the current fiscal year:

We expect mild improvements in EBITDA and adjusted net income, even though the result in the Conventional Power Generation segment is projected to be significantly lower than in the previous year, due to further declines in margins.



We hope to do better in our other two segments: we anticipate a substantial improvement in the segment Trading /Gas Midstream, which we believe has sustained earnings potential in the order of EUR 200 million. As for innogy, we expect the result to be slightly better than the previous year.

For the RWE Group as a whole, this means:

- We forecast adjusted EBITDA in the range of EUR 5.4 to 5.7 billion, up from EUR 5.4 billion in 2016, and
- adjusted net income of EUR 1.0 to 1.3 billion, up from EUR 0.8 billion in 2016.
- For fiscal 2017, we intend to once again pay a dividend on common and preferred shares, setting a target of 50 cents per share.

Our goal is to maintain the dividend level from 2017 in the years thereafter as well. In paying dividends, we will take into account the operating cash flows, which RWE has at its disposal over the long term.

Now, following this outlook, I'll hand the floor back to Rolf Martin Schmitz.

Rolf Martin Schmitz

There are good prospects for our shareholders. But there are also good prospects for us.

Financial stability is a necessity, in order to be able to further develop our business. And we can do that now. Because, as Markus Krebber just noted, we've done our homework.

Working from this basis, we want to shape RWE's future as a partner and backbone in transforming the energy sector.

Because electricity is the future and the future is electric. And strong partners like RWE are necessary to make this happen.

We stand for a secure, reliable supply of energy, in a system that is constantly changing. That's our main job. And it's also the core of our strategy.



Why are we so confident that RWE will continue to play an elementary role in the future?

Our modern industrial and service society has many crucial arteries:

- data networks,
- mobility,
- competitive industries,
- building infrastructure.

All of these have one thing in common: they all need electricity.

For some, electricity is already the main fuel. For others, it will become much more important in the future, especially in relation to coupling sectors.

Demand for electricity will rise as a result of this. In particular, electricity from renewables can be used in an increasing number of applications. At the same time, this means that having the necessary back-up capacities also becomes more important. Experts project that back-up capacity of at least 60 gigawatts will still be needed in Germany in the decades to come.

More than ever before, electricity is a product with fantastic potential.

Especially for RWE.

In order to reliably supply these arteries of our modern society over the long run we need power plants that can always deliver electricity when it is needed. So, our business is no longer all about just delivering electricity 24 hours a day, 365 days a year. We have to ensure that a secure supply of power is available both on windy, sunny days as well as on dark, still days. This is one of the biggest challenges for the energy system of tomorrow.

There are convincing reasons and current examples for us to make the provision of secured capacity our business model.

One need only take a look at the Federal Network Agency's recently updated plant decommissioning list: it has 75 notifications with a capacity of 19 gigawatts, compared to a power plant fleet with total generation capacity of 107 gigawatts.

Since November 2016, the decommissioning of another 900 megawatts has been notified. This does not include shutdowns which have been announced, but not yet notified, such as our Gerstein power plant. Nor does it include the lignite-fired units, which will be placed on stand-by, or the nuclear power plants which are to be shut down by 2022 in Germany.

A 'fresh' study by the European Network of Transmission System Operators projects that covering demand in the coming decade is no longer a given under any circumstances.

This development highlights how important it is to have secured capacity. Especially in light of the assumption that imports from France would be available in the case of supply gaps, an assumption which proved to be merely wishful thinking in January.

Take 24 January, for example. At around noon on that day, more than 77 gigawatts of electricity was needed in Germany. But there was no sign of the sun, and the wind was hardly blowing that day. We were in the dark doldrums. Renewables were only able to contribute 9 gigawatts to covering the peak load, despite there being almost 90 gigawatts of wind and photovoltaic generation capacity. Or look at last Tuesday, when demand at midday was nearly 71 gigawatts and only 17 gigawatts came from renewables. The phenomenon, known as the "dark doldrums" occurred more frequently this winter, and it's something we'll have to face in the future as well. So, power plants and large-scale storage are absolutely necessary as back-ups. And I can say, quite confidently, that this makes us indispensable.

If the basic idea is correct – namely, that in addition to production, capacity will be an increasingly important factor for the energy world of tomorrow – then this capacity will have to have a price. It follows from this, that it is not the size of the portfolio that is crucial. What is important is for it to be the right portfolio. The right portfolio to ensure supply whenever it is needed.

This is the basis we are taking for developing RWE in the future. We have defined three goals in this regard:

First: We will continue to optimise our power generation operations.

We will remain "best in class" with our power stations. To ensure this, we will make our assets flexible, consistently fine tune them to generate cash flows and place them on the market accordingly.

First, let's discuss gas, hard coal, hydro and biomass. These are businesses in which we have a broad base.

Gas-fired power plants are particularly important in this regard. With 15 gigawatts of installed generation capacity, we are in the vanguard of Europe and the market leader in Germany. It is clear that if increased flexibility is the goal, gas-fired plants will play a key role from a long-term perspective.

As for lignite:

it is and remains an important factor for an affordable, secure supply of energy. It currently accounts for around 25% of electricity production in Germany. We are well aware that this share will decline. However, this is not a threat to us, and we will adjust. Indeed, we are playing an active role in guiding this process. Because it is clear that lignite has to make a contribution to climate protection. And that's what it does.

First, thanks to the flexibility, such as shorter ramp-up times and the reduction of the minimum load, which helps to balance out high volatility in the network.

Second, by contributing to a steady reduction of carbon dioxide emissions, according to RWE's clearly defined schedule.

- 15% less CO₂ by 2020, thanks to stand-by operation;
- 40%-50% less CO₂ thanks to the end of opencast mining at Inden, and the related closure of the Weisweiler power plant by the early 2030s;
- And further reduction of CO₂ emissions after 2030 with the end of opencast mining in Hambach and Garzweiler around the middle of this century.

I know of no other sector which is cutting CO₂ emissions so much and on such a well-defined schedule, and is thus supporting the national and European climate protection goals for 2050.

At the same time, this schedule also form the basis upon which we must formulate long-term adjustment strategies for lignite as flanking measures for this transformation, covering aspects such as energy policy, climate policy, social policy and regional development.

Let me finish with a few words on nuclear power.

In 2022, the last nuclear power plant in Germany will be going offline. As a responsible operator, up to the very last minute of operation our guiding principle will always be “Safety first”.

Dismantling the plants will be a job that takes us many years. When the Commission on Nuclear Phase-Out addressed this issue, it noted that progress could be quicker and cheaper in this field. We also see these possibilities, and we want to take advantage of the technical and commercial potential with resolve.

This brings me to the end of the first point.

Second, we want to leverage the potential linked to our core business.

Over the longer term, the restructuring of the energy system will have an effect on our power plant portfolio. Our fleet will shrink, especially in lignite and nuclear. At the same time, we want to continue developing our portfolio of flexible assets. In terms of our strategy, operations and organisation, we want to position ourselves in order to anticipate and embrace developments on the market. We know that we do a great job of operating power plants.

In our energy trading business, our main goal is to ensure long-term profitability. That said, we also want to achieve organic growth in this business in the years ahead. We see opportunities in neighbouring areas and regions. Our trading team was and continues to be a trend-setter for liquid, functioning energy markets in Europe.

With this experience and expertise, we intend to participate in the strongly growing energy markets in the dynamic, increasingly liberalised economies in Asia. In addition, we will maintain the principal investments of RWE Supply and Trading, which include investments in assets and companies.

This brings me to the third goal. We will be an active driver behind new solutions for security of supply.

Security of supply is one of the core challenges in the transformation of the energy sector. This is why we have to try to form a vision of the more distant future right now. We have to consider the technologies which we believe have potential going forward.

Examples are power to gas, power to liquid and large-scale batteries. Since the beginning of the year, we have been working on a 6 MWh battery at our plant in Herdecke.



Technologies like this may be able to support power plants, when it comes to competing to ensure security of supply—and in the future, they may even replace them to a certain degree.

And they may be an important key to success for the transformation of the energy sector.

That's why we want to be involved in these developments right from the very start.

Our strategy is security of supply, This is our long-term mission. And it is the primary objective of the energy transition. What this means for us specifically is

that first: we are able to keep our current business powerful,

second: we will develop areas linked to our core business,

and third: we will pursue the solutions underpinning the energy system of the future.

This is our clearly defined plan for the future: we are a provider of security of supply.

It also clearly reflects the fact that our role will be changing.

We take a long-term view. Today, we have an urgent need for conventional generation to provide base load power.

But security and reliability will be increasingly important aspects of our business. We are prepared for this.

Right now, policymakers are also intensely discussing the future regulatory outline for security of supply. France and the United Kingdom already have capacity markets. And this topic will be back on the agenda again in Germany as well. It is still unclear what the final result will be: whether models such as a decentralised capacity market, as proposed by the German Association of Energy and Water Industries (BDEW) has proposed, or other solutions will prevail. One thing is clear: security of supply is indispensable and will thus have to be priced.

In the future, RWE will continue to actively engage in these debates on energy policy and to put forth its proposals.



RWE is a company with a clear-cut goal, for the present and for the future:

Powering. Reliable. Future.

We made a conscious decision to stake this claim for the 'new' RWE.

Because we are a powerful participant in and strong backbone for the transformation of the European energy system. It is important for us that economies, enterprises and in particular the people living here have electricity available to them. Electricity that is both secure and affordable.

That's our commitment. Backed by our energy, expertise and innovation.

And now, we look forward to your questions.

Forward-looking statements

This speech contains forward-looking statements. These statements reflect the current views, expectations and assumptions of the management and are based on information currently available to the management. Forward-looking statements do not guarantee the occurrence of future results and developments and are subject to known and unknown risks and uncertainties. Actual future results and developments may deviate materially from the expectations and assumptions expressed in this document due to various factors. These factors primarily include changes in the general economic and competitive environment. Furthermore, developments on financial markets and changes in currency exchange rates as well as changes in national and international laws, in particular in respect of fiscal regulation, and other factors influence the company's future results and developments. Neither the company nor any of its affiliates undertakes to update the statements contained in this speech.