Report on the First Quarter of 2017

Online Journalist Press Conference

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Notes for Dr Markus Krebber

**Please check against delivery!**

Ladies and Gentlemen, Good morning from Essen!

I would like to welcome you to our conference call on our business performance in the first quarter of 2017.

We got the year off to a good start and are thus able to confirm our optimistic outlook and the targeted dividend for 2017.

For 2017 as a whole, we expect to see better earnings compared to last year. RWE projects **adjusted Group EBITDA** of 5.4 to 5.7 billion euros and **adjusted net income** of 1.0 to 1.3 billion euros.

A the end of 2017, **net debt** should be of the order of last year's level.

In the first quarter, we recorded adjusted EBITDA – earnings before interest, taxes, depreciation and amortisation – of 2.1 billion euros. As expected, this figure was 6% lower than in the same quarter in 2016. The main reason for this was the lower wholesale prices in electricity generation.

One positive point was the increase of 10% in **net income**, which amounted to 946 million euros versus 860 million euros in last year's corresponding period.

**Adjusted net income**, which excludes special items, reached 689 million euros.

Ladies and Gentlemen,

Before talking about the details of RWE's business performance, I would like to discuss two important events that occurred in recent weeks.

**First:** In the first quarter, we presented our strategy and our equity story at our Capital Market Day in London, and subsequently at a roadshow for investors in Europe and North America.

Some of you had the opportunity to follow our event in London on 28 March.

In times marked by declines in secured capacity, we are there to guarantee security of supply, and the capital market has taken a positive view of this clear orientation for the future. This is also reflected in the upward trend posted by RWE shares this year.

More and more, people are realising that security of supply must be remunerated.

I am convinced that the capacity mechanism will be back on the political agenda after the general elections in Germany.

**Let me address the second issue before coming to the figures:** We have made progress in optimising our capital structure. As part of this, we successfully completed the legal transfer of our debt in the form of senior bonds to innogy in February. This involved 18 bonds issued in various currencies with a total volume of around 11 billion euros.

We also announced that we would reduce the outstanding volume of hybrid bonds. We redeemed a hybrid bond with a volume of 250 million Swiss francs, which was issued in November 2011, at the first call date on 4 April.

Furthermore, we will use the upcoming call dates this year to redeem two more hybrid bonds in the amounts of 150 million Swiss francs and one billion US dollars.

We will not be issuing any new hybrid bonds for refinancing. Both of these bonds are covered by internal loans from innogy, and thus redemption will not have any impact on our liquidity.

In redeeming these bonds, we are taking advantage of our new financial leeway resulting from the innogy IPO to reduce our debt servicing burdens.

In reaction to the announcement of our first bond redemption, Standard & Poor's withdrew the equity credit for all of our outstanding hybrid bonds. Despite this, the RWE Group's rating was left unchanged at BBB- and the rating outlook at 'stable'.

The main reason for this was the positive impact of the innogy IPO on our financial position.

In early April, Fitch also updated its credit rating. For 'RWE stand alone', it confirmed the BBB rating and raised the outlook from 'negative' to 'stable'.

In its analysis, Fitch focused on the operations remaining at RWE, along with the dividend payment by innogy.

This corresponds to our view of the business.

Ladies and Gentlemen,

I would also like to point out a change in our financial reporting: starting with the interim statement for the first quarter, we are using a new segment structure, which improves the transparency of presentation.

The name of the ‘Trading/Gas Midstream’ segment has been changed to ‘Energy Trading’, and the former ‘Conventional Power Generation’ segment has been divided into the ‘Lignite & Nuclear’ and ‘European Power Generation’ segments.

As you know, the two independent generation companies, RWE Power and RWE Generation, are headed by Matthias Hartung, as the CEO of both companies. As planned, he will be retiring at the end of this year.

This joint management of the companies will then come to an end. As a result, both companies will be able to work more flexibly and focus on their respective energy sources. RWE’s generation portfolio will thus maintain its strong positioning over the long term.

Now, let’s look at the quarterly results:

As I mentioned, **adjusted earnings before interest, tax, depreciation and amortisation** amounted to 2.1 billion euros, in line with our expectations.

In the individual segments, business performance also met – or slightly exceeded – expectations.

In the **Lignite & Nuclear** segment we generated adjusted EBITDA of 213 million euros, down from 406 million euros in the same period last year. This was primarily due to the lower wholesale electricity prices I mentioned earlier.

In 2016, we realised an average price of around 35 euros per megawatt hour (MWh), as opposed to just 31 euros per MWh so far this year. The positive effects from our ongoing efficiency-enhancement programme partially offset this decline.

The **European Power Generation** segment recorded EBITDA of 167 million euros, compared to 148 million in the first quarter of 2016.

This represents a solid improvement of 13%. Margins on forward sales of electricity also declined for our gas-fired and hard coal-fired power plants. On the other hand, one positive factor was that we booked additional revenue from the commercial optimisation of our power plant utilisation.

In other words, we profited from the supply gap on the market, i.e. the ‘dark doldrums’. This manifested itself in the form of higher prices on the spot and reserve markets.

While this is a good development for us, it will not ensure security of supply over the long term.

The United Kingdom provides a good example of how to establish a good framework for ensuring security of supply at an early stage.

At the capacity auctions, which take place annually, our plants have always been successful so far, as was the case in January 2017 as well.

If the UK's auction model were transposed to Germany, it would be worth around two billion euros annually. This would correspond to less than 0.4 cents per kilowatt hour: 0.4 cents for all-around security: 24 hours a day, 365 days a year.

This sum is comparable to the costs that consumers would theoretically bear in the future via price peaks in the 'energy only' market. But it offers better reliability and incentives for investments.

In addition to optimising our plant utilisation, we also improved our cost basis in the European Power Generation segment. Despite this, however, we maintain our projection and expect that 2017 earnings will fall short of last year.

In the **Energy Trading** segment, adjusted EBITDA amounted to 146 million euros. The decline came as no surprise, in light of the exceptionally strong performance and the proceeds from the sale of the UK Lynemouth hard coal-fired plant in the first quarter of last year.

On a medium-term average basis, we expect that Energy Trading will have sustained earnings potential of the order of roughly 200 million euros annually.

Our financial investment, **innogy**, boosted its adjusted EBITDA by 4%.

The strong rise in **RWE net income** to 946 million euros was also a positive development. This was mainly due to the significant improvement in the financial result.

**Adjusted net income** amounted to 689 million euros. In contrast to net income, the ‘adjusted net income’ indicator excludes the impact of one-off effects and other material special items.

**Cash flows from operating activities** came in at minus 1.1 billion euros. Last year’s figure of minus 2.0 billion euros was also in negative territory. For the most part, seasonal factors were at play here.

First-quarter electricity and gas sales are usually above average for weather-related reasons. By contrast, payments from customers are spread evenly over the year.

This causes receivables to rise in the retail business and commensurately lower operating cash flows. Furthermore, a large portion of the expenditure on $CO_2$ emission allowances occurs in the first quarter.

This will balance out over the course of the year. We forecast a substantial improvement in operating cash flows for the year as a whole.

As of 31 March, the **net debt of the RWE Group** amounted to 23.7 billion euros. This was 1.0 billion euros more than at the end of 2016.

Here again, this was due to the aforementioned seasonal effect. At the end of 2017, net debt should be comparable to last year's level.

Ladies and Gentlemen,

The interim statement at hand pertains to the RWE Group, including the fully consolidated subsidiary innogy.

This format satisfies our reporting obligations pursuant to international accounting standards.

As part of our strategic re-orientation, starting this year, we will also be releasing additional figures for 'RWE stand alone'. From this perspective, we only take into account our operative core business areas and treat innogy as a pure financial investment, which pays us a dividend.

Why are we doing this?

The 'stand-alone' indicators are used for the management of RWE and for determining the dividends of RWE shareholders. We also want this to be transparent for external parties.

The figure for **net debt for 'RWE stand alone'** demonstrates most clearly that these indicators provide a better view of RWE. As of the end of March, our net debt totalled 7 billion euros.

This calculation takes into account the payment of 6.8 billion euros to the nuclear energy fund. As a result, net debt is almost unchanged compared to the end of 2016.

A look at the **adjusted net income of ‘RWE stand alone’** shows that all of our core businesses are making positive contributions to earnings. At the end of the first quarter, we generated adjusted net income of 203 million euros for ‘RWE stand alone’. This figure does not include the innogy dividend of 683 million euros, which was received during the second quarter.

Ladies and Gentlemen,

Let me just summarise briefly:

RWE has performed as expected, despite the persistently difficult conditions.

We got the year off to a good start, achieving our goals in all of our segments.

In the Conventional Power Generation segment, the first quarter developed as anticipated, and even somewhat better.

We’ve seen good results again in Energy Trading.

This upbeat beginning to the year gives us the motivation to move forward confidently with our strategy of being a guarantor for security of supply.

And now I will be happy to take your questions.

## *Forward-looking statements*

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