Report on the first half of 2018

Journalist conference call

Dr. Rolf Martin Schmitz and Dr. Markus Krebber

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Rolf Martin Schmitz:

Ladies and Gentlemen,

Good morning to you from Essen! Welcome to our conference call on our business performance in the first half of 2018.

The public debate in the first six months of the year was characterised by our transaction with E.ON and political events. More on that later.

In operating terms, the first half of the year went well for RWE. In conventional electricity generation – in other words in the Lignite & Nuclear and European Power divisions – we recorded an overall decline in earnings in the first six months as expected. This was primarily due to lower margins and electricity volumes.

We continue to counter these developments by taking measures to increase efficiency and expect them to have further cost-reducing effects during the rest of the year.

Our energy trading operations put in a good performance. The first quarter of 2018 was weak, but the second was stronger. On the whole, we're right on track.

My colleague Markus Krebber will go into our earnings in more detail later on.

We adjusted our financial reporting in light of the transaction with E.ON. We will keep this presentation until the transaction closes. However, it is of limited informational value.

Therefore, we will highlight the key figures for 'RWE stand-alone' until the completion of the transaction. It encompasses our three key divisions: Lignite & Nuclear, European Power and Supply & Trading. innogy is included as a pure financial investment, from which we receive a dividend.

By the end of the first half of the year, we had posted **adjusted EBITDA of 1.1 billion euros** for 'RWE stand-alone'. This compares to 1.4 billion euros in the same period last year.

Adjusted net income amounted to 683 million euros, as opposed to 883 million euros in the first six months of 2017. This decline was expected.

We confirm our outlook for 2018 in relation to ‘RWE stand-alone’.

We expect **adjusted EBITDA** of between 1.4 and 1.7 billion euros and **adjusted net income** of between 500 and 800 million euros.

In view of the business trend in the first half of the year and our expectations regarding the rest of 2018, we also confirm the statement we made in relation to our dividend. We plan to significantly increase the ordinary dividend for fiscal 2018.

Ladies and Gentlemen,

For weeks, everyone has been talking about the weather. As have we. Because the hot and dry summer is affecting power production in Germany and Europe.

I would like to illustrate this based on just one example. On 1 August, approximately 1.4 billion kilowatt hours of electricity were generated in Germany. There was plenty of sunshine during the day. Photovoltaic units covered nearly 13% of electricity demand.

The fact that they did not account for a larger share is due to their efficiency, which decreases the hotter the solar panels get.

On and offshore wind combined for 7%. And this is not surprising. There is very little wind under high-pressure weather conditions.

Twenty-six percent came from lignite and 19% from hard coal. Nuclear contributed 15%, biomass added 7% and gas accounted for 4%. The small remainder was generated from oil or pumped storage.

Conventional power stations also have a tough time when it's hot, resulting in declines in efficiency due to the laws of physics, especially when it comes to gas-fired power plants. Some nuclear and hard coal-fired power stations were forced to reduce output due to declines in water levels and higher river temperatures.

As lignite-fired power plants are cooled using pit water, which has a constant temperature, they were able to operate reliably despite the hot summer.

To sum up, this unusual summer demonstrates how important a broad energy mix is, in which each generation technology can play to its strengths.

RWE

Simply put, the more diverse the mix, the more secure the supply.

Electricity imports cannot solve the problem, as weather conditions and their effects do not stop at country borders.

Ladies and Gentlemen,

A broad energy mix under one roof – this is the very result of our transaction with E.ON. It will turn RWE into the second-largest offshore wind operator in Europe and the No. 3 in renewable energy in one fell swoop.

60 % of our generation portfolio will consist of electricity with low or zero carbon dioxide emissions stemming from gas-fired power stations, hydroelectric, on and offshore wind as well as photovoltaic units.

In addition, 80% of the production of our generation fleet will be secured capacity. In other words, this share of our capacity will be used to generate electricity whenever it is needed. Therefore, the ‘new’ RWE will have one of the strongest portfolios of generation assets in Europe.

We stand for an energy transition with security of supply.

RWE

We intend to expand our renewables business significantly in the future: The Group has set aside about 1.5 billion euros for new projects every year. This is also good news for our new colleagues and co-workers, because in order for us to grow and be successful in the future, we need the know-how and dedication of everyone who is already active in this business today.

The transaction is progressing well.

At the beginning of May, E.ON, RWE and innogy, the companies' respective group works councils and the trade unions ver.di and IGBCE agreed on a declaration of collective wage bargaining principles.

This was followed in July by the agreement with innogy. We welcome the fact that innogy is supporting the deal's rapid execution. This provides for both clarity and security. And it is important for the employees.

We will ensure a fair and transparent integration. We are already working together to prepare the transfer of innogy's and E.ON's renewables activities.

To this end, we have created a steering committee including members of the executive boards of all three companies. We are developing joint solutions that are acceptable to everyone involved in conjunction with the co-determination bodies.

And we are following a detailed road map: the first closing is expected to occur once the relevant authorities have issued the necessary antitrust approvals – roughly in the middle of 2019. After this, E.ON will become innogy's majority shareholder. Thereafter, E.ON's and innogy's renewable operations will be transferred to RWE as quickly as possible.

Along with innogy's gas storage business, the minority interests in our Gundremmingen and Emsland nuclear power stations and the stake in the Austrian regional utility Kelag.

A total of just under 40 billion euros in assets will change ownership. This alone demonstrates how comprehensive RWE's current transformation is.

Ladies and Gentlemen,

The transaction will have a significant effect on RWE's earnings structure. In the future, renewables will account for some 60% of our EBITDA.

Twenty percent of our earnings will come from conventional electricity generation. The trading business will add 10%.

The income achieved by our financial investments in E.ON, Amprion and Kelag will contribute another 10%.

In sum, 90% of our earnings will be recorded by our operating activities. By comparison, in 2017, they probably accounted for a share of about 50% to 60%.

Conventional generation will remain one of the Group's important mainstays. This is an area in which we intend to supplement our portfolio opportunistically. Especially in the area of gas.

Here's a current example: We are participating in the tender for assets for the grid stability reserve of transmission system opeartors. At the beginning of August, we submitted application documents for the Gundremmingen, Biblis and Karlstein-Dettingen sites. We offer the provision of up to 300 MW of secured capacity available at short notice from gas-fired power stations at all three of these locations.

Ladies and Gentlemen,

As you can see, we are very optimistic about RWE’s future.

- Because we can post strong growth and seize new opportunities.
- Because we will assume responsibility and stabilise the system.
- Because we will harness our strengths and be successful as a team.

The energy transition combined with security of supply. This is the future RWE. Or, in other words,

Powering. Reliable. Future.

Having said that, let us come back to the financials of the first half of the year. Markus, the floor is now yours.

Markus Krebber:

Good morning, ladies and gentlemen.

As pointed out by Rolf, due to the transaction, we are adjusting our Group reporting structure. We are focusing on the presentation of the key figures for ‘RWE stand-alone’. We have been reporting these financials to you in additional to the usual key figures since last year.

We are using these figures for the financial steering of our operating activities. And they form the basis for determining the dividend for RWE’s shareholders.

They encompass the Lignite & Nuclear, European Power and Supply & Trading divisions plus the innogy dividend.

At the end of the first half of 2018, we posted **adjusted EBITDA** of 1.1 billion euros for ‘RWE stand-alone’ following 1.4 billion euros in the same period last year. This decline is due to lower realised electricity prices and lower production volumes.

Adjusted net income amounted to 683 million euros. This compares to 883 million euros in the same period in 2017. We are therefore on track in operating terms.

This brings me to the results of each segment.

The **Lignite & Nuclear** division posted adjusted EBITDA of 167 million euros in the first six months after 401 million euros in the same period last year.

One of the reasons for this decline is the drop in realised wholesale prices, as you all know.

The reduction in production volume also had an effect. As you're aware, Unit B of the Gundremmingen nuclear power station was decommissioned at the end of 2017. This was followed by several outages caused by scheduled maintenance work, which lasted longer than last year.

We expect to be able to drive down operating costs for the full year even further compared to 2017. Therefore, we still anticipate that we can achieve adjusted EBITDA of between 350 and 450 million euros in this segment for the year as a whole.

We welcome the amendment to the Nuclear Energy Act which was passed in June. The Lower House of Parliament implemented the judgement of the Federal Constitutional Court in relation to the nuclear phase-out.

At the end of 2016, the Court had ruled that the power utilities are entitled to compensation for stranded investments and electricity volumes that have not yet been generated in the field of nuclear energy.

The exact amount of the compensation will be determined in 2023, when the last of the nuclear power stations in Germany have been taken offline. We expect that we will be reimbursed for these investments and that we can sell the electricity contingent of the Mülheim-Kärlich nuclear power station to our competitors or receive compensation for it from the federal government.

In compliance with statutory regulations, we are offering electricity volumes to our competitors and have initiated talks to this end. We expect to receive a medium triple-digit million euro amount.

In the **European Power** segment, we recorded adjusted EBITDA of 196 million euros after 222 million euros in the first half of last year.

We offset the decline in earnings resulting from lower margins with income from the UK capacity market and cost reductions. Unlike in last year's corresponding period, we did not record any capital gains on property sales.

We still expect a segment result of between 300 and 400 million euros for the year as a whole.

Our third segment, **Supply & Trading**, posted adjusted EBITDA of 101 million euros by the mid-year point, making up a lot of lost ground. Earnings in the first quarter of 2018 were slightly negative. The good turnout in the second quarter was primarily due to the very positive energy trading performance.

We still expect adjusted EBITDA of between 100 and 300 million euros for the year as a whole.

In the second quarter, we received a dividend of €683 million from **innogy**. This matched last year's level. You received details on innogy's business performance on Friday.

We confirm our outlook for 2018 in relation to 'RWE stand-alone'. We expect **adjusted EBITDA** of between 1.4 and 1.7 billion euros and **adjusted net income** of between 500 and 800 million euros.

By the cut-off date at the end of June, the **net debt of 'RWE stand-alone'** totalled 3.7 billion euros, which was approximately 800 million euros less than at the end of 2017.

The rating agencies Moody’s and Fitch placed RWE on review due to the planned transaction with E.ON. This is standard procedure for this type of transaction. Moody’s has since completed their review and confirmed our investment grade rating with a stable outlook. This assessment is based on our conservative financing policy.

With this, I would like to hand back to Rolf.

RWE

Rolf Martin Schmitz:

Thank you Markus.

Ladies and Gentlemen,

Recently, the Commission for Growth, Structural Change and Employment has started its work. The range of topics up for consideration is enormous, and apparently the Commission's appetite for information is huge. Bearing in mind the complex interdependencies of the energy business and the economy, the Commission is on a tight schedule – a schedule that is actually too tight, if you ask me. It is impossible to explore every single aspect as thoroughly as necessary given the importance of this matter in just half a year. If you want to reach intelligent decisions on the energy transition and structural change, you have to take the time required to do so.

I am confident that the Commission can come up with good results – results that will give companies and regions planning security over the long term. When doing so, it is important to weigh all the arguments against each other. It is not helpful if you draw red lines that mute every discussion.

In our view, the Commission's work has four particularly important aspects:

First,

the formula for the success of the energy transition is simple: expand renewables and grids with resolve. The faster this is accomplished, the faster coal will be forced off the system via the market. By contrast, exiting from coal before looking for solutions is nothing but symbolic politics.

But symbols do not produce electricity.

The biggest hurdle in the way of the energy transition is the sluggish expansion of the grids. This is an area in which solutions must be found so that the expansion of renewables can unleash its full potential. I am very eager to learn about the proposals the Commission comes up with in relation to this topic. I hope that they provide some fresh momentum.

Network expansion is the most important building block in the coal phase-out. Perhaps the opponents of grid expansion should keep the following in mind: if the grid is not big enough, renewables cannot be expanded and conventional stations will have to continue operating.

After all, the electricity has to come from somewhere.

Second,

the energy transition affects large parts of Germany's industrial value chains – going as far as key sectors such as automotive and mechanical engineering.

Another yardstick for measuring the success of the energy transition is how it affects Germany's competitiveness. We must not lose sight of the future of the labour and energy-intensive industry, which is one of the cornerstones of prosperity in our country.

North Rhine-Westphalia, the heart of German industry, is particularly affected by this. For example, per-capita economic output in North Rhine-Westphalia is the highest along the Rhine. And this is no coincidence: this is where there are traditionally strong interdependencies between lignite and energy-intensive plants in such sectors as chemicals, aluminium and paper. More than 300,000 jobs, most of which belong to highly qualified professionals, are involved in these interdependencies.

An intelligent energy transition will ensure that we transform this nucleus of economic power and prosperity instead of destroying it.

This brings me to my *third point*:

“Coal can quickly be replaced by gas” – those who make this claim want to have their way without considering the facts. This approach never succeeds and is always painful. When it comes to the energy transition, it is extremely expensive more than anything else.

A lot of money would have to be invested to build a new fleet of gas-fired power stations. Even though it would only be needed for a short period of time. After all, renewables will also force gas off the market as the energy transition progresses. In addition, the huge sums that we need for renewables, grids and storage would be wasted.

Therefore, this would not represent a major step towards the future for our economy, but instead a missed opportunity and an expensive detour.

Completely independent of this, Germany would be well advised not becoming too dependent on gas deliveries when it comes to matters that are as fundamental as the country’s energy security.

Moreover, this would be compounded by further problems: demand for gas would rise significantly in Germany, and there would be a risk of gas prices rising. The network stability reserve would also have to be expanded. And the list goes on.

Gas will not be able to replace coal. If used strategically and sensibly, it can help to safeguard the energy transition. This is also in RWE's best interests. We are No. 4 in gas in Europe. And, as I mentioned earlier, we want to grow further in this area.

Fourth,

the energy sector delivers: it will be the only sector to hit the bull's-eye of the climate targets for 2020. The goal is 40% less carbon dioxide than in 1990. Based on estimates by the Federal Association of the German Energy and Water Industries, this goal will be achieved and perhaps even exceeded.

RWE is making a major contribution to this. Last year alone, we realised 10 million metric tons of CO_2 savings in Germany and as much as 16 million metric tons throughout Europe. And we continue to implement our reduction road map with resolve.

By 2030 – compared to 2015 – we will have reduced CO_2 emissions by up to 50% from lignite alone.

We are playing a major role in ensuring that the energy sector achieves its climate goals in 2030 as well.

The Climate Protection Plan and the coalition agreement envisage that this branch of industry lowers its carbon dioxide emissions by 61% by then. This is an ambitious undertaking – and again more than all other sectors.

Sectors that are already lagging behind today: agriculture, transportation and construction will miss their targets for 2020 by a long way.

Against this backdrop, I do not believe that it is appropriate for the energy sector to bear an increasingly heavy burden, which will overwhelm not only the sector, but in turn our industry as well.

Ladies and Gentlemen,

The exit from coal-based electricity generation has been going on for a long time. Therefore, the Commission is right to focus especially on backing the phase-out both politically and structurally. Such a process requires both money and experience. But, above all, it takes time.

This is demonstrated by the Rhine region. The exit from hard coal mining in the region lasted over 30 years. And to date, not all of the wounds have healed. Gelsenkirchen still has the nation’s highest unemployment rate.

People trust that politicians will apply the lessons learned from this to the lignite phase-out so that they will have both future prospects and the time to prepare for new challenges.

A huge number of stakeholders stand to benefit from a structural development that is managed with such circumspection: the employees of the companies, service providers and suppliers as well as the cities, communities and associations.

They are all in favour of action being taken both prudently and intelligently. Structural disruption must be avoided. Otherwise, the social climate will suffer in the end.

The German Labour Minister Hubertus Heil identified these topics in the six-point plan which he published recently. I believe that he has taken the right approach. It will not be enough to just distribute money among the regions. What is needed is a package of suitable measures, new ideas and the right time line.

We, RWE, are and will remain a partner to the region. We award contracts to about 3,000 companies every year. This makes us an important pillar of the part of the region’s economy that is made up of medium-sized enterprises.

In 2017, RWE paid nearly 1.6 billion euros in contract awards, wages and salaries in the Rhenish lignite mining region. This is a lot of money, which benefits the region greatly.

We also want to support the region in the future. The best way to do this is by being a strong, future-proof company.

A company capable of safeguarding jobs and distributing contracts among suppliers and partner companies. This is what we work for.

And now we look forward to your questions.

Forward-looking statements

This speech contains forward-looking statements. The statements reflect management's current assessments, expectations and assumptions and are based on the information currently available to management. Forward-looking statements provide no assurance that future events or developments will occur and are subject to known and unknown risks and uncertainties. As a result of various factors, actual future events and developments may differ materially from the expectations and assumptions expressed herein. In particular, these factors include changes in the general economic environment and the competitive situation. Above and beyond this, developments on the financial markets, fluctuations in exchange rates, changes to national and international law, especially with regard to tax regulations, and other factors can influence the future results and performance of the Company. Neither the Company nor any of its associated companies undertake to update the statements contained in this speech.