Interim statement on the first quarter of 2019
Press conference call
Essen, 15 May 2019, 10:00 a.m. (CEST)
Speech by Dr Markus Krebber

Please check against delivery!

Ladies and Gentlemen,

Good morning to you all from Essen. Now it's my turn to welcome you to our conference call on our business performance in the first three months of this year.

We got off to a good start to the year.

This applies to our earnings as well as the transaction with E.ON, which is progressing step by step.

Competition clearance has been obtained for the acquisition of the renewables activities of E.ON and innogy from the European Commission, the German Cartel Office and the UK Competition and Markets Authority. We're also faring well internally: in addition to the board, we have also nominated the second management level of the future RWE Renewables.

The 'new RWE' is therefore in sight.

Our focus clearly rests on renewable energy and storage. We will start from a strong position in the market and intend to enlarge our global footprint even more going forward. Our future colleagues are already making a major contribution to accomplishing this. They are initiating new projects today that will strengthen the portfolio of RWE Renewables tomorrow.

The earnings power of the future RWE Renewables becomes evident if one looks at one key performance indicator: in 2018, the two divisions combined for about 1.5 billion euros in EBITDA, which is short for earnings before interest, taxes, depreciation and amortisation. This does an impressive job of illustrating the prospects we will have as the ‘new RWE’.

Ladies and Gentlemen,

This brings me to our operating activities:

‘RWE stand-alone’ posted 510 million euros in adjusted EBITDA. This compares to 299 million euros in 2018. Adjusted net income also grew, rising by 195 million euros to 273 million euros. We therefore put in a much better performance than in the same quarter last year.

This was primarily due to the outstanding performance put in by our energy trading operations.

We confirm our outlook for 2019 as a whole:

- We expect ‘RWE stand-alone’ to achieve adjusted EBITDA of between 1.2 and 1.5 billion euros and
- adjusted net income of between 300 and 600 million euros.

In view of the good business trend and improving medium-term earnings prospects, we reaffirm our dividend outlook as well. It envisages increasing the dividend for 2019 from 0.70 euros to 0.80 euros.

Ladies and Gentlemen,

Moving on to the developments at the segment level:

Adjusted EBITDA in the Lignite & Nuclear division recorded a marginal increase, rising by 8 million euros to 188 million euros. Higher wholesale prices had a positive effect. The reduced capacity utilisation of our lignite-fired power plants came to bear, in particular due to the suspension of the clearance of Hambach Forest. We continue to anticipate that we will post between 300 and 400 million euros in adjusted EBITDA for 2019 as a whole.

In the European Power segment, we achieved 63 million euros in adjusted EBITDA as opposed to 159 million in the same quarter last year. One factor was the reduction in electricity generation and the weaker earnings from the commercial asset optimisation of our power plants. Furthermore, unlike in the first quarter of last year, we did not receive any capacity payments for our UK power stations. Our forecast for 2019 does not include any payments from the capacity market. This would account for some 180 million euros in total.

As you all know, the European Commission´s approval of the capacity market was declared null and void by the European Court of Justice at the end of 2018. Payments to power plant operators have been suspended until the completion of a new approval procedure.

In the meantime, the European Commission has initiated an in-depth probe to determine whether the UK capacity market complies with EU state subsidy regulations. Capacity payments may resume if the Commission grants the UK's original request for approval once again. If this happens, we expect the suspended capacity payments to be made retrospectively.

We uphold the outlook for the result of this segment, with our expectation being that, after a rather weak first quarter, it will achieve adjusted EBITDA at the lower end of the forecast range of 250 to 350 million euros.

And by the way, we took the hard-coal fired unit of Gersteinwerk power station in Werne offline for good at the end of March. We support both European and national climate goals and are reducing our carbon emissions with resolve. We have lowered them by about 60 million metric tons since 2012 alone. This represents a decline of approximately 34%.

Ladies and Gentlemen,

At 255 million euros, earnings posted by our third segment, Supply & Trading, were outstanding. This was primarily thanks to the very good performance put in by the trading business. We also recorded a gain in the gas and LNG business.

We uphold our forecast for 2019 as a whole, which envisages adjusted EBITDA amounting to between 100 and 300 million euros. All in all, we are optimistic about being able to close the year at the upper end of the forecast range.

innogy SE, which remains our financial investment for the time being, represents our fourth segment. It will be the source of the dividend paid to us in the second quarter. You received details on the business trend from innogy itself yesterday.

This brings me to our financial position:

We optimised our financial structure even further in March by cancelling a 750 million pound hybrid bond without replacing it with fresh hybrid capital. The bond had a 7% coupon. This redemption will reduce our borrowing costs even further.

Our net debt is developing within the expected range. At 4.7 billion euros on the cut-off date at the end of March, the net debt of ‘RWE stand-alone’ was about 2.4 billion euros higher than at the end of 2018. But this was predominantly due to the deduction of variation margins. We had expected that this would happen. This is because changes in commodity prices resulted in substantial margins being earned last year. Now this impact is reversing.

Additional effects resulted from the redemption of the hybrid bond I mentioned earlier and the adoption of the IFRS 16 accounting standard. The standard requires leases to be recognised on the balance sheet unless they are current or relate to low-value assets.
Further details can be found in the Annual Report.

Ladies and Gentlemen,

In the future, there will be just one RWE share class on the capital market. Our shareholders gave the go-ahead to the conversion of RWE preferred shares to common shares. The non-voting preferred shares will be converted to voting common shares without cash adjustment at a ratio of 1:1. In so doing, we are adopting the ‘one share, one vote’ principle called for by many investors, while improving the liquidity of our RWE share.

The conversion will be completed once the company’s Articles of Incorporation have been adapted and the amendment has been entered into the Commercial Register. This should occur by no later than June.

Ladies and Gentlemen,

we are receiving widespread support for our far-reaching transformation from our investors and financial service providers, i.e. the banks and insurance companies with which we have been working for years.

This is evident in various ways.

- The acts of the Executive Board and the Supervisory Board were approved by a vast majority clearly exceeding 95%.
- The trust placed in us by the capital market also remains high: the RWE share has continued to rise in price since the beginning of the year. Including the dividend, it had recorded a gain of approximately 24% by yesterday.
- We succeeded in replacing our 3 billion euro syndicated credit line with a new agreement with a volume of 5 billion euros. The enlarged credit facility is being granted to us by a consortium consisting of 27 international banks. The credit line was significantly oversubscribed.

Our transformation is also being recognised by rating agencies and investor associations in their sustainability assessments.

Let me give you three examples of this.

- First, ISS Oekomm rates us a C+. This places us in the top thirty percent in our sector.
- Second, Sustainalytics ranks us 43rd out of 194 companies polled, putting us in the top twenty-five percent.
- Third, MSCI, one of the world's largest ESG rating agencies, issued us another double A this spring, just one notch below triple A, which is the best possible score.

Ladies and Gentlemen,

RWE got off to a good start to the year. Our transaction is making good progress and we are doing all the preparatory work necessary to ensure the smooth integration of the renewable energy divisions of innogy and E.ON after the deal closes.

Our strategy is in place: we want to grow on an international scale and further expand our outstanding position on the market by making goal-oriented investments in both markets and projects. One can feel that the entire team is looking forward to the 'new RWE'.

And now we look forward to answering any questions you may have.

Forward-looking statements

This speech includes forward-looking statements. These statements reflect management's current assessments, expectations and assumptions and are based on the information currently available to it. Forward-looking statements provide no assurance that future results and developments will occur and are subject to known and unknown risks and uncertainties. As a result of various factors, actual future results 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.