Interim report on the first three quarters of 2019
Press conference call
Essen, 14 November 2019, 10.00 a.m. CET
Speech by Dr. Markus Krebber

Please check against delivery!

Ladies and Gentlemen,

Good morning from Essen, Germany. I, too, would like to welcome you to our conference call on the business trend in the first three quarters of this year.

The new RWE kicked off six weeks ago. RWE now ranks among the world's leading producers of renewable energy. And we intend to continue expanding this business with resolve.

We have a clear goal: we will be climate neutral by 2040. Our ambitious path to this goal has been underpinned by a roadmap:

- From 2012 to 2018, we reduced our carbon dioxide emissions by 60 million metric tons.
- By 2030, we want to have lowered our specific carbon emissions by 70 percent compared to 2012. To this end, we will shut down our last coal-fired power station in the United Kingdom. In the Netherlands, we are already in the process of converting our plants in Eemshaven and Amer to biomass. And in Germany, further coal-fired power stations are set to be taken offline following a staggered schedule, in line with the recommendations of the Commission for Structural Change, which the government is in the process of putting into practice.
- The objective is for electricity generation from coal to have been phased out completely by no later than 2038.
- We intend to continue to produce secure, clean and affordable electricity thereafter, on the strength of a large international portfolio of wind and solar farms as well as storage facilities, biomass and gas power plants predominantly fired by green gas.
- We will use carbon sinks wherever necessary.
- This is our definition of being climate neutral from 2040 onwards.

We received very positive feedback on this new positioning, which we presented on 30 September – from the market, from policymakers and from the public. And, what is especially important to us: from throughout the entire company.

In addition to the prospects resulting from our new strategy, our business performance to date this year gives us every reason to be optimistic.

Looking back on the current fiscal year, this is illustrated by two accomplishments:

1. The positive development displayed by our operating activities in the first half of the year has continued. This was primarily due to the outstanding trading performance.
2. European Power will benefit from the resumption of the British capacity market and the announced retrospective capacity payments. Therefore, earnings achieved by this segment will be higher – a factor we had not considered in our previous outlook for RWE stand-alone.

Against this backdrop, we are raising our forecast for 2019.

We now expect adjusted EBITDA, i.e. adjusted earnings before interest, taxes, depreciation and amortisation, for RWE stand-alone of between 1.8 billion and 2.1 billion euros, as opposed to the previous forecast of 1.4 billion to 1.7 billion euros.

We anticipate that adjusted net income will range between 0.9 billion and 1.2 billion euros, as opposed to the 0.5 billion to 0.8 billion euros predicted earlier in the year.

We confirm our target dividend of 80 euro cents per share for 2019.

Ladies and Gentlemen,

As set out earlier by Steffi Schunck, the transaction has led to changes in our financial reporting. For instance, the consolidated balance sheet for the first three quarters of 2019 already presents the new RWE.

We have put the operations acquired from E.ON on our balance sheet. Likewise, the innogy operations, which were temporarily transferred to E.ON and will be returned to us next year, remain fully consolidated. This is in line with international accounting policies.

The new RWE is not completely presented in the consolidated income statement yet. For example, the operations acquired from E.ON are only included in the operating result based on two weeks of September.

In exchange, innogy's grid and retail activities, which were transferred to E.ON, were taken off our balance sheet. This resulted in a capital gain of some 8.3 billion euros. This capital gain is the difference between the fair value of the assets transferred to E.ON, which are the foundation of the agreement with E.ON, and the historic amortised costs, which were stated on RWE's consolidated balance sheet.

The capital gain is a pure accounting effect and will not lead to cash inflows at RWE. Therefore, the Group's key figures in the interim report on the first three quarters are only of limited informational value. Consequently, RWE stand-alone's adjusted EBITDA and adjusted net income will remain the centerpiece of reporting on our business performance until the end of 2019.

However, the balance sheet at the end of the third quarter already reflects the new RWE completely, and a look at our current financial position shows that RWE has a very solid setup following the transaction.

This is substantiated by two factors in particular:

- The RWE Group now has approximately 16 billion euros in shareholders' equity. This results in an equity ratio of about 27 percent. At the end of 2017, before the transaction with E.ON was announced, it was roughly 17 percent.
- Since the execution of the transaction, our Group's net debt has amounted to about 10 billion euros. It has been nearly cut in half since the end of 2017, when it stood at approximately 20 billion euros.

Now let us move on to the operating business trend in the first three quarters, which is best illustrated by looking at the reporting on RWE stand-alone.

In the first three quarters of 2019, adjusted EBITDA recorded by RWE stand-alone totalled 1.5 billion euros, as opposed to 1.3 billion euros in the same period last year.

Adjusted net income came in at 854 million euros in the nine-month period, compared to 645 million euros a year earlier. We thus put in very good operating performance.

Now let us take a look at the development of business broken down by segment.

In the first nine months of the year, the Lignite & Nuclear segment recorded adjusted EBITDA of 231 million euros, which was roughly on a par with the level achieved by the same point in time last year. Two opposing effects offset each other.

On the one hand, we realised higher wholesale prices. And on the other hand, we generated less electricity than in the first nine months of 2018, two of the reasons being the halt to the clearance of Hambach Forest and overhauls of our power plants.

In addition, we put another two units on security standby at the end of September, causing our carbon emissions to drop further, as announced.

As before, we expect the segment to post adjusted EBITDA of between 300 million and 400 million euros.

The lignite business will continue to change as a result of the proposals made by the Structural Change Commission. Now the ball is in the politicians' court to ensure that the recommendations of the Commission are implemented rapidly. The talks have gained traction. I cannot disclose any details today for reasons of confidentiality.

This brings me to the European Power segment, which achieved 130 million euros in adjusted EBITDA after 234 million euros a year earlier. Power production was down year on year, as was income from the commercial optimisation of power plant dispatch.

Moreover, we did not receive any payments from the British capacity market in the first three quarters.

In view of the decision reached by the European Commission to reapprove the capacity market and the corresponding announcements by the UK government, we expect that the payments will be resumed.

We anticipate that the approximately 230 million euros in payments foregone in 2018 and 2019 will be made retrospectively at the beginning of 2020. They will affect earnings this year already.

Therefore, we are raising our outlook for this segment. We now forecast adjusted EBITDA of between 450 million and 550 million euros as opposed to the previous range of 250 million to 350 million euros.

The first nine months saw our third segment, Supply & Trading, post exceptionally good earnings of 545 million euros. This compares to 183 million euros in the same period last year and was primarily thanks to the trading business. Gas and LNG activities also made a strong contribution to earnings.

In light of the strong results after the first nine months, we expect Supply & Trading to end the year with adjusted EBITDA clearly in excess of 300 million euros.

In our figures for RWE stand-alone, innogy is only included with the dividend which we received in the second quarter of 2019.

Figures for RWE stand-alone do not include income from the operations acquired from E.ON. We anticipate that adjusted EBITDA from September through to the end of the year will total between 200 million and 300 million euros here.

Ladies and Gentlemen,

From next year, a significant portion of our adjusted EBITDA will come from renewable energy. This demonstrates how important renewables are for our company.

Our current portfolio gives us over 9 gigawatts of renewable energy capacity. Another 2.6 GW are currently under construction. We intend to steadily expand the remainder of our pipeline.

RWE

Some of our accomplishments in the last few weeks are testimony to how well we are progressing.

- In Poland, we acquired a pipeline consisting of four offshore wind projects with an installed capacity of 1.5 gigawatts. Construction of the four projects is scheduled to begin no earlier than 2023. We already have onshore wind farms in Poland, and our business here is growing. For instance, the expansion of the innogy wind farm near Danzig from 2021 onwards will cover the entire demand for energy of the Kompania Piwowarska breweries, which belong to the Japanese beverage group Asahi.

- In the USA, we concluded a 30-year power supply agreement with Georgia Power. The electricity will come from our Broken Spoke solar farm in Georgia, which will be commissioned at the end of 2021.
  With over 195 megawatts in installed capacity, it is our largest solar project in the USA to date. Thanks to a 40 megawatt, two-hour battery storage system, it is very flexible to boot.

- In the United Kingdom, the Sofia project is moving to the next phase, thanks to innogy's winning bid in an auction. The final investment decision on the offshore wind farm, which will have a capacity of 1.4 gigawatts, is expected to be made next year, with construction beginning in 2021. In the next two-and-a-half years, we will supply E.ON with electricity from our UK wind farms. We entered into an agreement to supply about three terawatt hours of electricity every year to this end.

- And two weeks ago we opened an office in Tokyo. We already had partnership agreements with Japanese offshore developers, with more to follow in the near future.

Ladies and Gentlemen,

These projects are examples of what exactly we intend to do with the 1.5 billion euros that we will set aside to invest in renewable energy and storage every year.

Be it onshore or offshore wind, photovoltaics or storage, we apply high implementation standards to every single project with a view to achieving value-added growth.

We attached great importance to investment discipline in the last few years. And we will continue to do so.

Legal and regulatory frameworks are particularly important when it comes to the attractiveness of investments. These are areas in which countries compete for investment resources. Germany is not well positioned in this contest at present. Sluggish offshore wind expansion as well as the expansion of onshore wind, which has almost ground to a standstill, are reasons for concern.

Whereas over 1,200 approvals were granted three years ago in the period from January to September, according to the German Association of Energy and Water Industries, this figure stood at a mere 350 in the first three quarters of this year.

The distance rule of 1,000 metres envisaged by the country's government will not improve the situation, instead making it more difficult to build onshore wind power capacity.

The goal is to cover 65 percent of Germany's gross consumption with renewable energy by 2030, but it will be impossible to achieve this unless large amounts of both onshore and offshore capacity are added.

Ladies and Gentlemen,

Renewable energy is on the rise throughout the world. It continues to develop rapidly.

Since volatile wind and solar power needs some backup, another point of focus is the development of storage facilities. Besides large batteries, hydrogen production is playing an increasingly important role.

Appropriate subsidisation of hydrogen technologies will create some more tailwind in this area.

This could eventually lead to a competitive, climate-neutral fuel for use in industry and heavy cargo transport via ships, aeroplanes and lorries. This would represent great progress in terms of protecting the climate.

And it is also very interesting to our business. Producing green hydrogen through electrolysis requires clean electricity. This is exactly where we step in.

We are conducting two projects to explore how this might work in practice.

- In Lingen, RWE has joined forces with high-profile partners to implement the GetH2 project, with a view to combining all the elements of generation, storage, usage and transport of green hydrogen at an industrial scale.
- In the Dutch province of Groningen, together with innogy we intend to build a plant with a capacity of up to 100 megawatts on the premises of RWE's Eemshaven power station in order to produce large amounts of green hydrogen using wind energy. We have initiated a feasibility study for the project.

Ladies and Gentlemen,

We have set the stage for us to tackle the challenges of the future head on.

In so doing, we can build on what we have achieved in the first nine months.

- We are profitable in operating terms.
- We have a very robust financial position.
- We have a financial basis that has put us back on track for growth.
- And our renewable energy business gives us formidable future growth prospects.

Ladies and Gentlemen,

We have good reasons to tackle the tasks ahead of us with great optimism.

And now we look forward to answering your questions.

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.