Report on the first three quarters of 2015
Conference call for journalists
Essen, 12 November 2015, 10:00 a.m. CET/9:00 a.m. UK time
Speech notes for Dr. Bernhard Günther

Check against delivery.

Ladies and Gentlemen,

Good morning from Essen and welcome to our conference call.

Our focus today is on the business performance of RWE AG in the first three quarters of this year.

As expected, our result reflects the difficult environment the energy industry continues to find itself in.

EBITDA was **€4.4 billion** and the operating result was **€2.6 billion**, down 6% and 9%, respectively, on the same period last year.

The main reason for this was the continued shrinkage of margins in conventional electricity generation.

The energy supply business contributed €594 million to the operating result throughout Europe, compared to €605 million for the first three quarters of 2014. We benefited here from the absence of the negative effect that the weather had in the corresponding period last year. We suffered from unexpectedly substantial burdens imposed by the operational and technical problems encountered by RWE npower in the UK. The full consolidation at the end of August of Slovak energy utility VSE, which we previously accounted for using the equity method, had a positive impact on the Group's earnings. Prior to the change in accounting treatment there was a revaluation of the investment, which made substantial contributions to earnings.

Our adjusted net income, which we used to refer to as 'recurrent net income', amounted to **€545 million,** down 29% on the first three quarters of last year. In addition to the significant deterioration in operating earnings, the increased effective tax rate also came to bear. The effective tax rate will fall again as the year progresses.

Before I deal with our business figures in greater detail, I'd like to address a number of current developments affecting our energy and corporate policy.

The development of our share price has been anything but pleasing in 2015. There are various reasons for this, which are not at all limited to the low wholesale electricity prices. The capital market was also unpleasantly surprised by the problems faced by our UK energy supply business that I mentioned a moment ago.

RWE's shares suffered even more from political uncertainty, primarily in terms of lignite – and here I mean mainly the climate levy – and the nuclear energy business. Fortunately we have a slightly clearer perspective now.

Firstly, lignite. The German Federal Government's paper on successfully implementing the energy transformation, published on 1 July 2015, established the contribution that the electricity sector has to make to the climate protection action programme "Climate Protection 2020". Greenhouse gas emissions in Germany are to be reduced by 40 percent by 2020 compared to 1990 levels. The electricity sector has to contribute carbon savings of an additional 22 million tonnes, 12.5 million tonnes of which will come from the lignite industry by transferring, on a step-by-step basis, power plants with a total capacity of 2,700 megawatts into "standby" for four years before they are shut down.

RWE will provide more than 50% of this "standby" capacity. Between 2017 and 2019, it will therefore transfer a total of five power plant units with an overall capacity of some 1,500 megawatts into "standby". Specifically, the "standby" of the 300 megawatt units registered by RWE will start with units P and Q at Frimmersdorf on 1 October 2017, then units E and

F at Niederaussem on 1 October 2018, and unit C at Neurath on 1 October 2019. They will only be available as facilities of last resort for a limited period of time to safeguard power supplies. For a period of four years, each of these units will be kept in standby mode by the required qualified staff.

This standby arrangement represents a deep cut, with a reduction of some 15% in both electricity generation from lignite and lignite mining. Putting these commercially viable plants into standby will mean a loss of 800 to 1,000 jobs. We will endeavour to structure the workforce adjustment in a fair and socially responsible manner.

The bill to structure this measure was passed by the Federal Cabinet on 4 November and has moved into the parliamentary stage. The total annual cost is expected to average **€230 million**. The “standby” design was the subject of intensive prior discussion with the European Commission. The German Ministry for Economic Affairs and Energy (BMWi) therefore expresses confidence that this measure does not constitute a public subsidy.

And now to nuclear energy. On 10 October, the BMWi published the result of a stress test to which the provisions of Germany’s nuclear power plant operators were subjected. The expert opinion from the Düsseldorf-based auditors Warth & Klein Grant Thornton commissioned by the BMWi reaches the conclusion that the energy utilities investigated are able to meet their obligations to dismantle generation assets and dispose of radioactive waste. The appraiser certifies that the utilities have taken full account of the disposal tasks that can be foreseen at present.

The reports also confirm that the utilities have calculated their provisions correctly. The accounting treatment is not in dispute. The appraisal also suggests that the accounting approach adopted by German utilities is conservative in comparison to the real interest rate assumptions specific to nuclear energy that have been made in France and the UK.

Warth & Klein Grant Thornton considered a number of scenarios that resulted in a wide range of estimated liabilities. The total of **€38.3 billion** in provisions accrued by the companies is within this range. In this context, the BMWi declared that it finds the scenarios with the significant liabilities to be improbable, and does not adopt any of the scenarios presented. In the Ministry's opinion, the appraisal does not result in the need for any further action.

In addition, on 14 October, the German government created a 'Commission for the Review of Nuclear Exit Financing' (KFK). The KFK has been tasked to evaluate the debated concepts for financing the dismantling and disposal obligations and to come up with proposals. Conceivable financing models include the full or partial transfer of the obligations to a fund or foundation. It is envisaged that the Commission will submit a list of recommended actions by the end of January 2016.

That’s enough on energy policy for now.

And now a word on our current corporate policy. We are relying on organic growth in Eastern Europe and are striving to expand our business there. In Poland, we recently completed the construction of two wind farms with a combined generating capacity of 45 megawatts. We operate eight onshore wind farms in that country overall, with a total capacity of **240 megawatts**. In Hungary, we officially commissioned the country’s largest photovoltaic park in mid-October, with a generating capacity of **16 megawatts**.

In late September we signed a Memorandum of Understanding with the Dubai Supreme Council of Energy, laying the foundations for closer cooperation in the area of management services and technical consulting. The Dubai Supreme Council of Energy is that country’s government committee responsible for energy policy decisions. As you know, RWE already provides consulting services to Dubai.

I would now like to give you more details of our business performance during the first three quarters of 2015.

I’ll start with **electricity generation**:
Between January and September 2015, the RWE Group produced **154.9 billion** kilowatt hours of electricity, 2% more than in the same period in 2014. One of the contributors was our new **1,554 megawatt** hard coal-fired power plant near Eemshaven in the Netherlands. The expansion of our wind

power capacity and high wind levels also came to bear. A counteracting effect was felt from the fact that we no longer use some third-party German hard coal-fired power stations, because the underlying contracts expired during the previous year and were not extended.

Regarding **electricity sales volumes**:
The volume of electricity supplied to external customers totalled **191.8 billion** kilowatt hours, nearly exactly as much as in the same period last year. We achieved gains in sales in the industrial and corporate customer segment, partly because we won new customers. By contrast, we experienced a decline in deliveries to German distributors. Sales to households and small commercial enterprises also dropped. In the UK, this was exacerbated by customer losses, which was more than made up for by gains elsewhere, particularly in Central Eastern Europe and Germany.

Regarding **gas sales – volume** rose by 12% to **207.2 billion** kilowatt hours. The fact that the winter and spring of 2015 were colder than last year in all key RWE markets came to bear here. In addition, in business with distributors, companies belonging to RWE Deutschland won new customers and intensified their supply relationships with existing ones. Another driver of our growth in gas sales volume was the successful acquisition of industrial and corporate customers. Our share of the UK residential market declined. Customer acquisitions in Germany and the Benelux region were unable to compensate for this.

Now on to **revenue developments**:
Our external revenue (including natural gas and electricity tax) posted a marginal increase, rising to **€35.4 billion**. Gas revenue was up 7% to **€8.5 billion**, even though some of our supply companies lowered their tariffs. The main reason was the weather-driven positive trend in sales volumes. In contrast, our electricity revenue amounted to **€24.9 billion**, slightly less than in the same period last year. Price reductions came to bear here as well. First-time consolidations and deconsolidations of Group companies did not have a notable influence on revenue, in contrast to the appreciation of the British pound, which cost an average of **€1.38** in the period under review, compared to **€1.23** in the first three quarters of 2014.

Now to our **operating result**:
As mentioned at the beginning, it decreased by 9% to **€2.6 billion.**

The picture for the individual divisions is as follows:

I'll start with **Conventional Power Generation**:
Here, the operating result amounted to **€376 million**, just under half the figure achieved in the same period last year. The main reason for this is that we realised lower wholesale prices for our German and Dutch electricity power plants

than in 2014. This was only somewhat cushioned by price-driven relief in the purchase of fuel, especially hard coal. Cost-cutting measures enabled us to limit the decline in earnings.

On the **Supply/Distribution Networks Germany Division**: The division posted an operating result of **€1.3 billion**, 9% down compared to 2014. Proceeds from the sale of networks declined considerably. These disposals generally take place only whenever we do not place the winning bid when our network licences are retendered. In addition, we quite often forge partnerships with cities or communities. Although we do not remain the networks' sole owner in such events, in most cases, we can continue to operate them.

Earnings achieved by our German supply business improved. A year before, earnings were still characterised by weather-induced drops in gas sales volume.

Now on to **Supply Netherlands/Belgium**:
The operating result of our supply activities here rose by 72% to **€165 million**. The weather played an important role. In addition, we were successful in marketing new supply offerings.

The next area is **Supply United Kingdom**:
The operating result achieved by RWE npower deteriorated by **€156 million** to **−€66 million**. One reason for this is the problems in residential customer billing referred to earlier.

Earnings shortfalls also stemmed from the loss of residential and commercial customers and the trend towards saving energy. We were often only able to retain residential customers with expired contracts by offering them new ones with more favourable conditions. In addition, network fees imposed on RWE npower increased. By contrast, we spent less on implementing the Energy Companies Obligation (ECO) government programme. ECO requires the major electricity providers to finance measures to improve energy efficiency in homes. Due to these burdens, RWE npower is also expected to record an operating loss in the financial statements for fiscal 2015.

As you know, we took action immediately following the poor half-yearly results posted by RWE npower. A new Board has taken over the supply business in the UK and is working hard to resolve the problems in residential customer billing.

This brings me to the **Central Eastern and South Eastern Europe** Division.
Here, the operating result increased by 34% to **€710 million**, primarily due to the one-off income resulting from the change in accounting treatment of Slovak utility VSE. Without this effect, this division would have closed the period at about the same level as in 2014.

In the Czech gas business, we benefited from the fact that the cooler weather invigorated sales. In addition, the regulatory framework for distribution system operators improved. However, we experienced declines in storage margins. In Hungary, lower prices on the electricity market and the expenses for power plant inspections led to earnings shortfalls at Mátra, which produces electricity from lignite.

We now anticipate that the Central Eastern and South Eastern Europe Division will close 2015 clearly up year on year, as opposed to the moderate decline in earnings that was expected previously.

Now on to the **Renewables Division**:
The operating result earned by RWE Innogy rose by **€251 million** to **€280 million**. This was due in particular to the commissioning of new wind farms, especially Gwynt y Môr off the coast of North Wales and Nordsee Ost near Heligoland. In addition, higher wind levels led to an increase in the utilisation of our existing capacity. The sale of Gwynt y Môr's grid connection, which was mandated by the UK regulator, the appreciation of the British pound, and the absence of the exceptional burdens experienced last year had a positive effect on the development of earnings.

And finally, the **Trading/Gas Midstream Division**:
The operating result recorded by this division declined by 43% to **€126 million**. We were unable to match last year's extraordinarily good energy trading performance. Moreover, we are still confronted with burdens in the gas midstream business because the cost of managing and marketing gas

storage capacity contracted over the long term cannot be recovered. Due in part to these factors, we now expect that the operating result of the Trading/Gas Midstream Division will also be much lower for the full year than in 2014. Previously, we had only forecast a moderate decline.

That concludes my report on the performance of the divisions.

Headcount

RWE employed **59,777** people as of 30 September 2015, roughly as many as at the end of 2014. Part-time positions were considered in these figures on a pro-rata basis. On balance, operating changes caused **1,468 employees** to leave the Group, with streamlining measures playing a central role, especially in the Conventional Power Generation Division. In contrast, first-time consolidations and deconsolidations of companies had a positive net effect, adding **1,461 staff members**. The full consolidation of the VSE Group in Slovakia alone added **1,565 employees**. The number of people working at our German sites dropped by **947** to **35,464**, whereas in other countries it rose by **940** to **24,313**.

Capital Expenditure

At **€1.9 billion**, our capital expenditure was 17% lower than the figure recorded in the equivalent period last year. There was a substantial decrease in spending in conventional electricity generation, which last year still focused on two new hard coal-fired power stations at Hamm in Germany and Eemshaven in the Netherlands. Both units at Eemshaven are now producing electricity commercially. At Hamm, this only holds true for one unit, as the other one has experienced substantial delays. Capital expenditure in the Renewables Division also declined significantly. It was mainly dedicated to the new offshore wind farms Nordsee Ost near Heligoland and Gwynt y Môr off the coast of North Wales, which were inaugurated in May and June 2015, respectively. In the first three quarters of 2014, they were still under construction. We recorded a substantial increase in capital expenditure in the Supply/Distribution Networks Germany Division, which stepped up its measures to improve electricity and gas network infrastructure.

Cash Flow

The cash flows from operating activities which we achieved from our continuing operations declined by **€2.6 billion** to **€2.2 billion**. This is largely due to transactions which are reflected in changes in working capital. Among other things, we deferred the majority of our payments for the CO_2 emission allowances required for 2014 until 2015.

Free Cash Flow

Deducting capital expenditure on property, plant and equipment and intangible assets from cash flows from the operating activities of continuing operations results in free cash flow. At **€508 million**, the latter was positive, but was clearly below the corresponding figure for last year of **€2.6 billion**.

Net Debt

With effect from 30 September 2015, our net debt amounted to **€25.8 billion**, which was much less than the figure of **€31.0 billion** as of 31 December 2014. The main reason for this was the disposal of RWE Dea, which had an impact of **€5.3 billion**, including the interest on the sale price. Further disposals had a total debt-reducing effect of **€1.0 billion**, such as the divestment of the grid connection of our new Welsh offshore wind farm Gwynt y Môr and the reduction of our stake in our Czech subsidiary RWE Grid Holding. The positive free cash flow also contributed to the decline in net debt.

Outlook

We are able to confirm the forecast for the RWE Group's business trend this year, which we published in March. As before, for the 2015 fiscal year we anticipate EBITDA of **€6.1 billion to €6.4 billion** and an operating result of **€3.6 billion to €3.9 billion.** Adjusted net income is expected to range between **€1.1 billion and €1.3 billion**, though most likely toward the lower end.

Ladies and Gentlemen, that about covers RWE's business performance in the first three quarters of 2015 for now.

The floor is now yours. We look forward to your questions.