Results of the first half of 2017

Conference call for journalists

14 Aug 2017, 10:00 a.m. (CEST)

Notes for Dr Rolf Martin Schmitz/Dr Markus Krebber

Check against delivery.

Rolf Martin Schmitz

Ladies and gentlemen,

On behalf of myself and Markus Krebber, I wish you a very good morning from Essen. Welcome to our conference call. We are very pleased that you are interested in RWE’s performance in the first half of 2017.

Let me start with the most important indicators for the months of January to June 2017.

During this period, we generated adjusted earnings before interest, tax, depreciation and amortisation – i.e. adjusted EBITDA – of 3.2 billion euros. This was 7% higher than the figure for the same period last year. Adjusted net income amounted to 809 million euros, representing an increase of 35%.

Consequently, we confirm our outlook for the development of earnings this year.

During the first half of this year, we focused on further developing our company in line with our strategy, which defines the direction we will take in the future. This involves

- continuing to optimise our power generation operations;
- leveraging the growth potential linked to our core business areas; and
- actively driving new solutions for security of supply.

We’re doing all of this in the spirit of our motto ‘Powering. Reliable. Future.’ And our efforts are being well received, as demonstrated by the reaction of investors and analysts at our Capital Market Day and the subsequent road shows. Moreover, it is confirmed by the performance of our shares. During the first six months of this year, our common shares posted a gain of 48%. The DAX rose 7% during the same period.

The three major rating agencies also lauded the improvement in our financial strength, confirming their investment-grade ratings for our company, now with a stable outlook.

To a large degree, the developments in relation to nuclear energy were responsible for this.

For example, the restructuring of the responsibility for nuclear waste disposal was completed in three major steps.

- After having been reviewed for conformity with European law, the relevant act is now in effect.
- The plant operators and the Federal Republic of Germany concluded a supplementary public law contract.
- And the full amount of 24.1 billion euros was paid into the nuclear energy fund by the plant operators.

RWE transferred its share of 6.8 billion euros on 3 July. Paying this sum placed an enormous burden on us. But at the same time, risks over which we had little control in the long term were eliminated.

Furthermore, in its ruling published in early June, the Constitutional Court ruled that the law on the nuclear fuel tax was unconstitutional and retroactively void. As a result, the federal government had to refund us the payments amounting to 1.7 billion euros, which we had made between 2011 and 2016. This was repaid in full in June. Additionally, we are entitled to interest amounting to around 250 million euros, which we expect to receive during the course of this year.

The refund increases our taxable profit and will therefore result in a tax bill in the order of 200 million euros for this year. Roughly one-half of this tax payment – approximately 100 million euros – will benefit the almost 80 municipalities in which we have business locations and pay trade tax. More details on this will be available in the 2017 financial statements.

We also want our shareholders to benefit from the refund of the nuclear fuel tax. And so we will propose to the 2018 Annual General Meeting the payment of a special dividend of one euro per share. All in all, this would amount to 615 million euros. We believe that is fair and appropriate. However, we still plan to use the bulk of the tax refund to strengthen our financial position.

So, now let's move on to the figures and data for the first six months of the year.

Markus, the floor is yours.

Markus Krebber

Ladies and gentlemen, good morning.

As Rolf already mentioned, the development of our operating activities and our results for the first half of the year look good.

We recorded **adjusted EBITDA** of 3.2 billion euros, up 7% on the same period of last year. All of the segments made positive contributions to earnings and met our expectations.

One of the major drivers of the improvement compared to last year was Supply & Trading, which has posted solid profits again on the heels of last year's losses.

The very sharp increase in **net income** was also pleasing, as this indicator rose to 2.7 billion euros, from 457 million euros in the first half of 2016. Along with the good business results, this improvement was driven by a significantly better financial result and the refund of the nuclear fuel tax.

The refund has no impact on our two operating indicators which are used for management purposes – that is, adjusted EBITDA and adjusted net income – because it is reported in the non-operating result.

Adjusted net income, which excludes all special items, reached 809 million euros in the first half of 2017. This represents a year-on-year improvement of 35%.

Now, let's discuss the performance of the individual divisions.

In **Lignite & Nuclear**, we posted adjusted EBITDA of 401 million euros, compared to 471 million euros in the same period last year. The main reason for the decline was lower wholesale electricity prices. As you may know, we had already sold forward almost all of our electricity generation in earlier years. So, in 2016, the price of electricity from our German lignite-fired and nuclear power plants averaged 35 euros per megawatt-hour (MWh), whereas the price fell to 31 euros per MWh in 2017. We were unable to offset this with our ongoing efficiency enhancement measures.

In our **European Power** division– which includes power generation from gas, hard coal, biomass and hydroelectric plants – adjusted EBITDA amounted to 222 million euros, compared to 316 million euros in the first six months last year. The decline of almost 100 million euros was due exclusively to the lack of special items, which accounted for around 132 million euros last year. So, in operating terms, earnings actually improved year on year.

The unfavourable development of margins in electricity generation from hard coal was contrasted with better utilisation and higher margins at our gas-fired power stations. Furthermore, the commercial optimisation of our power plant dispatch made a strong contribution to earnings. We also continued to reduce costs, in accordance with the plans.

In particular, market conditions are currently improving for our gas-fired power stations. Consequently, in the Netherlands we will now continue to operate the Moerdijk 2 gas-fired plant until the second quarter of 2019, instead of mothballing it at the start of 2018, as originally planned.

Now, let's turn to our third division, **Supply & Trading**:

In Supply & Trading, adjusted EBITDA amounted to 131 million euros and was therefore back in line with our expectations. This represents an improvement of 284 million euros, due to the losses which were posted in the corresponding period in 2016.

Our financial investment, **innogy**, expanded its adjusted EBITDA by 2%. Bernhard Günther presented the details to you last Friday.

As a result of the aforementioned development of operating results and the refund of the nuclear fuel tax, the RWE Group's **cash flow from continuing operations** has improved a great deal. In the first half of 2017, it amounted to 1.7 billion euros, whereas the figure for the same period last year was in the red, at –1.0 billion euros.

As of 30 June, the **net debt of the RWE Group** amounted to 21.5 billion euros. This was 1.2 billion euros less than at the end of 2016, mainly as a result of the positive cash flow and lower pension obligations. Provisions for pensions fell by 0.9 billion euros. In line with the increases in interest rate levels, the discount rates are being raised. The good returns registered on pension plan assets also facilitated this reduction.

The Interim Report for the First Half of 2017 pertains to the RWE Group together with its fully consolidated subsidiary, innogy.

As part of our strategic re-orientation, from this year on we are also releasing additional figures for 'RWE stand alone'. Viewed from this perspective, we only consider our core operating business areas. By contrast, we treat innogy as a pure financial investment, which pays us a dividend.

The ‘stand-alone’ indicators are used for the management of RWE and for determining the dividends.

In the first six months of 2017, the **adjusted net income figure for ‘RWE stand alone’** was 883 million euros. This result for the half-year cannot be simply extrapolated forward for the year as a whole, as it contains the annual dividend paid to us by innogy in the second quarter.

As of 30 June 2017, **net debt** directly attributable to RWE amounted to 4.3 billion euros. Hence, compared to 31 December 2016, we were able to reduce our debt by 2.6 billion euros. Along with the improved cash flow and the refund of the nuclear fuel tax, the decline in pension provisions also had a positive effect.

In April and July 2017, we redeemed hybrid bonds with a total volume of CHF 400 million, without issuing new hybrid capital. Another hybrid bond with a nominal volume of US$ 1 billion can be called in the second half of the year. We will also redeem this bond, without replacing it. The coupons on these bonds ranged between 5% and 7%.

Let me now turn to the Group outlook for the year as a whole: for 2017, we continue to project adjusted EBITDA of 5.4 billion to 5.7 billion euros and adjusted net income of 1.0 billion to 1.3 billion euros. In light of the good performance in the first six months, we should end the year towards the upper end of these ranges.

In the ‘Lignite & Nuclear’ segment, adjusted EBITDA will decline sharply due to the lower wholesale electricity prices.

In ‘European Power’, we now anticipate a robust increase in earnings. Up to now, we had been expecting a decline. This increase will be driven by the strong operating performance and proceeds from the sale of a former power station site in England.

We also expect a substantial improvement in earnings at our ‘Supply & Trading’ division. Our financial investment innogy will close 2017 with a moderately higher result compared to last year.

Due to the refund of the nuclear fuel tax, we now project that net debt at the end of 2017 will be lower than the 22.7 billion euros recorded at the end of last year. Previously, we had expected that net debt would remain stable.

With regard to fiscal 2017, we still expect to propose to the 2018 Annual General Meeting the payment of an ordinary dividend of 0.5 euro per share. Above and beyond this, we are planning on paying a special dividend in the amount of 1 euro per share, as mentioned earlier.

Consequently, for the 2017 fiscal year we intend to pay out around 920 million euros to our shareholders.

And now, with this positive outlook, I'll hand back to Rolf.

Rolf Martin Schmitz

Thank you, Markus.

We are pleased with this good business performance, as it forms the basis for us to forge ahead with our strategy.

First of all, this involves optimising our portfolio of power stations and making sure it is in great shape. This is the day-to-day challenge which faces our employees. On the one hand, it requires us to maximise the efficiency of our power generation. On the other hand, it means that our plants must have a very high level of flexibility. Because this flexibility is necessary to be able to ensure security of supply and place it on the market.

There are two main reasons why we have been able to successfully master the task of continuous optimisation in the past:

First, the successful commercial optimisation of our power plant portfolio. Perfect co-ordination between trading and power plants ensures that we can generate the highest revenue on the market or from the grid operator, by being available at the right time.

During the overcast, calm periods early this year and on the days around Easter and Pentecost, the optimised dispatch of our hard coal and gas-fired plants in particular was very profitable for us.

Second: our efficiency enhancement measures. We are right on schedule in this regard. Thanks to our project NEO, we will achieve additional, sustainable improvements of around 300 million euros in power generation between 2017 and 2019.

This is one way we can work pro-actively to counter the decline in wholesale electricity prices. It is only possible because the entire team at RWE is focused on the same goal.

Furthermore, we are continuously upgrading the technology at our power plants. The Great Yarmouth power station in the UK is a good example of this. With new gas turbines, the station can react even more flexibly to the needs of the power market and also shorten its ramp-up time.

The energy world of tomorrow needs security of supply. We are the guarantor for this.

And that is why we are working on projects which focus on this subject. Here are four specific examples:

First: In the UK, we have started the initial planning for the ‘Tilbury Energy Centre’ at our site in Tilbury, simultaneously opening up three potential options for us:

- a combined cycle gas turbine power station with a capacity of up to 2,500 MW;
- an open cycle gas turbine with a capacity of up to 300 MW; and
- an energy storage facility with a volume of up to 100 megawatt-hours.

The site, where electricity has been generated since the 1950s, is very well suited for this, due to its location. As in any undertaking of this nature, the project must be profitable under future market conditions. In this regard, the capacity market, which has already been introduced in the United Kingdom, plays a decisive role.

Second: In the Netherlands, RWE is a pioneer in the ‘biobased economy’, i.e. the comprehensive use of biomass as a raw material and as a fuel in the final stage of the value chain. This is a central part of Dutch energy policy, targeting the desire to be CO_2 neutral by 2050.

We have already started retrofitting our power stations. In the autumn, a ship with the first load of biomass will arrive at the quay in Amer. We intend to replace 80% of the hard coal at the power station at that site with biomass by no later than 2019. The goal for Eemshaven is 15%. Altogether, the resulting reduction in CO_2 emissions from these two stations amounts to around 4 million metric tons annually.

In the course of two tenders in 2016, we were awarded 2.6 billion euros over a period of eight years, to ensure the economic viability of co-firing.

RWE is therefore linking the state-subsidised utilisation of biomass with the opportunities in a forward-looking business area. A business area that offers the ability to plan ahead and hence a secure investment and returns.

The biomass we will use complies with the strictest sustainability criteria in the world, as agreed with nature conservation and environmental protection organisations.

Third: The European Union and the German government have just approved research funding for us to launch three pilot projects at our Niederaußem site. At our coal innovation centre, we are exploring ways to store surplus electricity in chemical compounds and at the same time lower CO_2 emissions. For example, using water, electricity and the carbon dioxide segregated by our flue gas scrubbers, we can develop fuels that may be useful for the transport sector. This is one of the ways that the long-term storage of electricity from renewables might be solved.

Fourth: As part of new offer by RWE Supply & Trading, the operators of emergency power generators – such as hospitals and data centres – are given the option of selling the electricity they generate in test operations as well as the capacity they keep in reserve.

We believe that an additional 400 MW to 500 MW of decentralised generation capacity may become accessible in Germany as a result of this. This capacity could be used both for network stabilisation and peak load management. In an emergency, the generators would of course be available.

This represents yet another product from our flex2market line, and is a good example of an innovative solution which helps to ensure security of supply.

As you can see, security of supply plays a key role in our business. And this issue will be back in the political limelight even more after the general elections in Germany. Many experts are predicting supply shortfalls of secured capacity. Other countries are preparing for this. The United Kingdom and France have both introduced capacity markets. In Germany, we will also need an appropriate mechanism to suitably remunerate the reservation of secured capacity. Advantages such as manageable costs and the increase in security of supply must play a role in the political debate.

Climate protection is another issue which remains on the agenda. Both the political agenda, and for RWE as well.

By 2030, we will cut the CO_2 emissions of our current portfolio of power stations in all countries by 55 million to 65 million metric tons compared to 2015 levels. The reason I have cited a range here is that the dispatch time of our power stations cannot always be planned, but it is tending to fall, in line with the expansion of renewable energy production. All in all, we therefore anticipate a reduction of 40 per cent to 50 per cent compared to 2015.

As these numbers demonstrate, there is probably no other sector which is making such a strong contribution to achieving the national and European climate protection goals as RWE.

We have a functional instrument to achieve this: the European Emissions Trading System, which contains a detailed roadmap for reducing emissions. Germany in particular should actively work to shape this system and not undermine it by going it alone. The reform which is currently underway to improve emissions trading as a tool from 2021 is both important and expedient. We expressly support the proposals of the Commission which are currently being discussed in Brussels. By improving the system, these proposals will help to achieve Europe's minimum goal of reducing CO_2 emissions by 40% by 2030. For instance, they include an increase in the factor by which CO_2 certificates are reduced.

Let me just summarise:

In the first six months of 2017, RWE has demonstrated its strength:

- By posting convincing half-year results, based upon which we are able to confirm our forecasts for 2017.

- By pursuing our strategy, which offers a clear outlook for the future, focusing on the issue of security of supply.

- And with a team that is enthusiastic and energetic about moving in a new direction.

These are ideal conditions for us to make our contribution to a successful transformation of the energy sector. In line with our motto Powering. Reliable. Future.

And now, we look forward to your questions.

Forward-looking statements

This speech contains forward-looking statements. The statements reflect the current assessments, expectations and assumptions of the management and are based on the information available to the management at the current time. 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 in this publication. 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.