Interim Statement on the First Three Quarters of 2016
Telephone press conference for journalists
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Notes for Markus Krebber

Check against delivery.

Ladies and gentlemen,

Good morning from Essen! I would like to start by welcoming you to our conference call on our business performance in the first three quarters of 2016.

As the new CFO of RWE AG, today is the first time that I will be presenting the quarterly results for RWE AG, so let me begin by saying that, along with my new responsibilities, I am looking forward to the exciting prospect of working closely with you. At the same time, my new position comes with significant challenges and considerable scope for action – a combination which I find very interesting. I'd like to do my part to ensure that RWE is able to provide a fundamental product such as a secure supply of energy in functioning markets.

But I also like getting straight to the point, and so without further ado, let me turn to the facts and figures.

Before I address our quarterly results, however, I'd first like to speak about the IPO of our subsidiary innogy.

As you know, we are now two independent companies, with separate, clearly defined corporate governance. As part of this, the management of the company was taken over seamlessly by the new team.

innogy's IPO went extremely well. And this success is very important, not only for innogy, but for RWE as well. Despite the placement price being situated at the upper end of the price range, the offer was oversubscribed several times.

With an issue volume of €4.6 billion, including the over-allotment or 'greenshoe' option, this was the largest IPO in Germany since the end of 2000. With the capital increase, innogy received proceeds of €2.0 billion to finance its own investment programme. By selling around 73.4 million shares from its own holdings, RWE received roughly €2.6 billion. After the IPO and sale of shares, RWE's interest in innogy amounts to 76.8%. These proceeds strengthen RWE AG. Having regained our financial flexibility, we now have new options and opportunities available to us. Thanks to the proceeds from the IPO and our majority ownership in innogy, RWE has a solid financial basis to shape the company's future.

Up until the IPO our work had focused on ensuring a successful public offering. This also represented the first step in a new strategy for RWE. Our company is now based on three strong pillars: the generation business, trading, and the majority interest in innogy.

There are certainly opportunities in the conventional energy market. Today, 65% of electricity production in Germany comes from conventional power plants. Our assets are reliable partners for the renewables business. They offer security of supply, even when there is no wind and the sun is not shining, making them a key part of today's changing energy sector. They will be needed for a few more decades to come.

Functioning markets are also indispensable when it comes to supplying our economy with energy. We support these markets with our trading activities. RWE Supply & Trading is one of the largest traders of energy and commodities in Europe and we constantly grow this business organically.

The third pillar is our financial investment innogy, which my colleague Bernhard Günther discussed in detail last Friday.

Let me now turn to the key **figures**:

It is typically the case that our operating result is below average during the summer months and that we generate most of our operating earnings in the winter months.

Accordingly, we are very pleased that our **full-year forecast for 2016** for the RWE Group as a whole has remained unchanged after the third quarter. First and foremost, that is the most important message.

This means that there are no changes to our forecasts for **EBITDA of €5.2 to €5.5 billion**, as well as an **operating result of €2.8 to €3.1 billion**, and **adjusted net income of €0.5 to €0.7 billion**.

One very positive aspect is that – due to the favourable business performance – we have raised the forecast for conventional power generation to last year's level, whereas we had previously anticipated a significant decline.

Fortunately, this also means that, from the current perspective, we also expect to finish the year towards the upper end of the forecast range.

Now, turning to the results for the period from January to September 2016:

For this period, we recorded **EBITDA of €3.8 billion.** The **operating result** came in at **€2.1 billion.** As expected, these figures were lower than those recorded in the same period last year, by 13% and 20% respectively.

One reason for this was the decline in earnings in the grid business. Along with increased expenses for grid maintenance, a positive extraordinary item from the previous year did not recur. This item stemmed from the revaluation of our investment in the Slovakian power utility VSE.

Furthermore, the Q2 losses suffered in the trading business, which were discussed in the report on the first half of the year, also had a negative impact. While Trading /Gas Midstream posted positive earnings again in the third quarter, this was not enough to compensate for the trading losses recorded in the second quarter.

Adjusted net income amounted to **€227 million**, which is 58% lower than the figure for the previous year. The main reasons for this were the operating result, which – as discussed earlier – was weaker than expected, and the deterioration of the financial result.

Last year's **financial result** was influenced by gains from sales of securities. In contrast, losses were recorded on sales of securities during the first three quarters of 2016. These sales of securities occurred with an eye to the future sums that will have to be paid into the nuclear energy fund. We shifted long-term securities into short-term facilities, to ensure liquidity. Unfortunately, this results in additional costs in the current interest rate environment.

RWE's financial situation continues to be heavily influenced by political decisions. One particularly relevant aspect right now is the **draft bill on the restructuring of responsibilities for nuclear waste disposal**, which was adopted by the Federal Cabinet on 19 October. The draft broadly mirrors the recommendations of the "Commission for the Review of Financing the Phase-Out of Nuclear Power". According to the draft, the companies would continue to be responsible for decommissioning and dismantling the reactors. Responsibility for intermediate and final storage would be transferred in full to the Federal Government.

The responsibilities transferred to the Federal Government are to be financed from a fund which is paid into by the plant operators. According to the draft legislation, the companies must provide a base amount totalling €17.4 billion.

In return for the payment of a risk premium of 35.47%, amounting to €6.2 billion, they can be released from liability risks. We have made it clear that a risk premium of this size pushes us to the limits of our abilities. Altogether, this results in a total amount of €23.6 billion, of which RWE is responsible for roughly €6.8 billion. These figures are still preliminary, as all of the details of the reform have not yet been finalised. The draft bill must still go through the legislative process in the lower house of parliament and the EU's state aid procedures.

For the utility companies, it is very important that – in addition to the law – a contract is concluded which provides us with a legitimate expectation and legal security. Furthermore, defining the cut-off point for the transition to intermediate storage is also a key point for the operating business.

Turning to the payment modalities: At the moment, there are three options for the companies to pay into the fund:

- full payment of the entire contribution seven months after the legislation enters into force;
- full payment of the base amount (i.e. the updated amount of reserves determined by Warth & Klein Grant Thornton AG) seven months after the legislation enters into force and payment of the risk premium by the end of 2022, with interest on outstanding balances accruing at an annual rate of around 4.6%;
- payment of the entire amount in instalments by the end of 2026 at the latest. Here again, interest on outstanding balances accrues at an annual rate of around 4.6%.

Following the successful IPO of innogy, we will pay the bulk of the proceeds from that transaction into the fund. Additionally, there are also still funds available from the sale of RWE Dea.

It seems reasonable due to the interest rate of around 4.6% to intensively look into financing options other than the payment of instalments to the Federal Government.

In view of our very robust liquidity position, this will involve paying as quickly as possible.

Now, before I turn to the individual businesses, I'd like to discuss the **structure for our future financial reporting**: Instead of the three corporate segments Renewables, Grids/Participations/Other and Supply, we will now report on a single segment under the name 'innogy'. This change will be reflected in the year-end financial statements for fiscal 2016. Consequently, the earnings forecast only pertains to the new segment innogy. However, as innogy's IPO only occurred in the fourth quarter of 2016, we still use the old structure in the interim statements on the first three quarters of this year. Last Friday, Bernhard Günther explained the relevant issues involving the Renewables, Grids/Participations/Other and Supply business segments, which comprise innogy.

Turning to the current situation in our **generation business**, the **operating result** achieved by this segment increased by 7% to **€435 million**. This improvement is very pleasing, especially against the backdrop of the difficult economic environment. One key factor behind this is our ongoing efficiency-enhancement programme, which is being vigorously pursued at the operational level. We are very impressed with the progress in this regard.

While we currently see some easing of tensions in wholesale electricity prices, in light of the market volatility and persistently low price levels, it is too early to say that our generation business no longer faces any difficulties. Consequently, efficiency programmes will unfortunately remain on the agenda.

Returning to the operating result of the generation segment: We earned additional income from the sale of land in the United Kingdom. An agreement with the insurer on damages in relation to the hard coal-fired power station at Hamm (Westphalia) was concluded in early July and this also had a positive effect on the operating result.

One negative factor which impacted earnings was that, as anticipated, the electricity generation of our German and Dutch power plants was sold at lower wholesale prices than in 2015. This mainly applied to our lignite-fired and nuclear power stations. On the whole, the margins of our hard coal and gas-fired power plants were more stable due to a reduction in fuel prices. In some cases, they actually improved somewhat, especially in the United Kingdom.

Taking into consideration that earnings **in Conventional Power Generation** have been better than expected so far this year, **we have raised the forecast for the year as a whole**: We now project that the operating result for this division will be on par with 2015, as opposed to the significant decline we had been expecting.

As for the **operating result of Trading/Gas Midstream**, its **operating result** deteriorated by €226 million to −€100 million compared to the same period of last year. Although this division was back in the black in the third quarter, these were unable to offset the losses on energy trading from the second quarter.

The results of the Trading/Gas Midstream Division have also been severely undermined by the negative earnings contribution from the long-term gas business. Factors behind this have included loss-making gas delivery contracts, due to the link to oil prices, and gas transport and storage contracts. Further progress was made in cleaning up this portfolio in 2016. The agreement with Gazprom on our long-term gas delivery contract was discussed in our half-year report. Thanks to the progress in adjusting the portfolio, we currently forecast that the results of this segment will no longer be burdened by the long-term gas business starting from 2017.

Let me turn now to the development of **external revenue**: During the reporting period, the RWE Group recorded revenue of **€33.2 billion**, including electricity tax and natural gas tax. This was 5% lower compared to the same period of the previous year.

Moving on from the development of earnings to **capital expenditure**. At **€1.3 billion**, our capital spending was down 29% on the previous year. We recorded a significant decline in capital expenditure on property, plant and equipment in conventional power generation, after having made substantial investments last year to upgrade the UK gas-fired power stations Pembroke and Staythorpe. Another factor was the significantly lower level of investments by innogy.

Our **operating cash flow** deteriorated by €1.6 billion to **€608 million.** Certain issues came to bear here, which were reflected in changes in working capital. For example, we had to pledge significantly more collateral for forward transactions, due to the strong price volatility. Furthermore, in the previous year we had profited from measures taken to optimise working capital.

Nevertheless, for the year as a whole we forecast a substantial improvement in operating cash flow, compared to the performance for the first nine months of the year. Amongst other things, we expect that the negative developments in working capital will subside to a large degree towards the end of the year.

We have registered a rise in our **net debt**. As of 30 September 2016, our net debt amounted to €27.4 billion, up €2.0 billion on the figure recorded as of 31 December 2015.

The main reason for this was the sharp decline in market interest rates. As a result of this, we had to increase payments into pension reserves. Conversely, our financial position was strengthened by the sale of our non-controlling interest in the Luxembourg-based energy utility Enovos and the UK company Zephyr Investments Limited.

Moreover, the depreciation of sterling caused the volume of our bonds issued in this currency to be lower in euro terms.

The **forecast for net debt** looks better. We now expect net debt at 31 December 2016 to amount to **€25.5 billion,** roughly on par with the figure for 2015, as opposed to the moderate increase we had been anticipating.

This improvement in the forecast was mainly due to the high proceeds of €4.6 billion from innogy's IPO. In contrast, the targeted legal framework for financing the phase-out of nuclear power has a negative impact on the forecast. Although the risk premium of probably about €1.8 billion would be due in 2017 at the earliest, it may already be reflected in the balance sheet as at 31 December 2016, as an increase in debt.

If one were to disregard innogy in terms of net debt, RWE's debt would currently amount to around €8.7 billion.

After this detailed look at the figures, I'd like to underline the following once again: despite the tough conditions, we are maintaining our earnings forecast for fiscal 2016 for the RWE Group as a whole. Indeed, we currently believe that we can achieve results towards the upper end of the forecast range.

In closing, I'd like to briefly look to the future: We know our market and have gained flexibility thanks to innogy's successful listing on the stock market. We will develop our strategy accordingly. RWE is founded on three strong pillars: conventional power generation ensuring a reliable, secure supply, strong trading business featuring organic growth, and the majority interest in innogy.

We are currently working on RWE's strategy. This includes setting a focused management agenda for the years to come and establishing the financial framework.

Next spring we will present the details of these plans.

Now, I look forward to talking with you.