Report on Q1–Q3 2017

Online journalist press conference

Essen, 14 Nov 2017, 10:00 a.m. (CET)

Speaker's notes for Dr. Markus Krebber

Please check against delivery!

Ladies and Gentlemen,

Good morning to you from Essen!

Welcome to our conference call on our business performance in the first three quarters of 2017.

I would like to start with some good news:

After the first three quarters of 2017, RWE is right on track. We expect earnings for the full year to be at the upper ends of the forecast ranges published at the beginning of the year.

Moving on to the details of the business performance in the first three quarters:

Adjusted EBITDA, i.e. earnings before interest, taxes, depreciation and amortisation, amounted to 4.2 billion euros by the end of September 2017. This is 9% more than for the same period last year.

The main driver was the significant improvement in the results from energy trading.

Furthermore, innogy experienced a drop in grid operation and maintenance costs. Added to this were the good earnings achieved in European power generation, i.e. our gas and hard coal-fired power stations and hydroelectric power plants.

Net income totalled 2.2 billion euros, which was much higher than the 11 million euros achieved in the same period last year. This reflects the good operational business performance as well as the significantly improved financial result and the nuclear fuel tax refund.

Adjusted net income, which excludes exceptional items, more than tripled, jumping to 876 million euros, compared to 227 million euros a year earlier.

We continue to expect a significant year-on-year improvement in earnings for 2017 as a whole.

In addition, we confirm that we intend to reach the upper ends of our forecast ranges and confirm the dividend envisaged for 2017.

The Group's **adjusted EBITDA** is expected to total between 5.4 and 5.7 billion euros. We anticipate a range of 1.0 to 1.3 billion euros for **adjusted net income**.

Our **net debt** is expected to end 2017 down on 2016.

Ladies and Gentlemen,

We are operating profitably in our key business fields of electricity generation and trading.

And this is despite the difficult environment in conventional electricity generation.

This year, RWE has realised an average price of 31 euros for electricity produced from lignite and nuclear energy. As you know, we sell our electricity up to three years forward and therefore, the prices which were still lower at the time will have an impact by 2018.

However, based on current knowledge, we should emerge from the trough thereafter.

Our perfectly dovetailed trading and power stations ensures that we are able to earn the highest possible income on the market or from the wholesale and reserve markets because our assets are available at the right time.

This brings me to earnings for the quarter:

Our **adjusted earnings before interest, taxes, depreciation and amortisation** totalled 4.2 billion euros. Business unfolded as expected across all segments, and even better in some cases.

At the beginning of the year, we had announced that we wanted to reduce our cost base in conventional electricity production by 2019 by another 300 million euros compared to

2016. We will have achieved more than one third of this goal by the end of the year.

This has been having a positive effect on segment earnings in generation and enabled us to partially offset price and margin declines.

The **Lignite & Nuclear** division posted adjusted EBITDA of 551 million euros after 634 million euros in the same period last year.

The main reason for the decline were the lower realised wholesale electricity prices I mentioned earlier.

The abolition of the nuclear fuel tax and the savings I just mentioned as well as lower expenses associated with restructuring measures managed to cushion this somewhat.

By the way, the efforts we put in to maximise efficiency relate not only to the operational generation business, but also to the dismantling of nuclear power plants.

After all, we can keep every euro we don't have to spend as long as this is not to the detriment of the quality and the safety of dismantling work. In this context, it goes without saying that safety remains the highest priority.

Today RWE can already look back on a wealth of experience in dismantling, which we are now drawing on for the benefit of future dismantling projects.

Ladies and Gentlemen,

Now let us move on to the **European Power** segment. Here, after the first three quarters of 2017, EBITDA amounted to 324 million euros as opposed to 413 million euros for the same period last year. We had also anticipated this decline.

As you know, the figure recorded for the same period last year included significant one-off income from the reversal of provisions for restructuring and the settlement of damages at the new power station in Hamm.

The margins earned from the forward sales of electricity from our hard coal-fired power plants dropped, whereas the increase in the margins of our gas-fired power stations had a positive effect.

We believe that this trend will continue. Therefore, we recently put the gas turbines at the lignite-fired power station in Weisweiler, accounting for a total of 380 MW, and a gas unit in Werne with about 427 GW back online. They should come into their own particularly in times of high demand.

This approach already proved worthwhile last week.

The so-called ‘mini-doldrums’ during which electricity fed in by renewables occasionally fell below 10 GW has already resulted in the reactivated gas units being dispatched at attractive electricity prices.

European Power segment earnings also include one-off proceeds on the sale of our former Littlebrook power plant site. They also benefited from the positive effects of our efficiency programme.

This gives rise to our expectation that the operating result for this segment will be significantly higher than for the same period last year..

This brings me to our third segment, **Supply & Trading**.

Adjusted EBITDA amounted to 201 million euros. Our trading performance has thus returned to a good level, following the losses suffered in 2016.

We still see opportunities for organic growth in this area and are therefore selectively strengthening our business activities.

I would like to mention the LNG business as a representative example.

Liquefied natural gas is a growth market, and we want to partake in this growth.

In September, we signed a supply contract for Australian LNG with Woodside Energy, a leading Australian oil and gas producer. In so doing, we are expanding our activities in the Asian market in particular.

Similar supply agreements already exist with other important market participants.

Our growth ambitions in LNG trading are also reflected in figures: in 2017, we will trade 4.8 million metric tons of LNG, 40% more than in 2016.

What follows is the fourth and last segment, our financial investment, **innogy**. It is developing in line with our expectations and increased its adjusted EBITDA by 5%. You were already informed of the details yesterday.

Ladies and Gentlemen,
The strong rise in **net income** to 2.2 billion euros is encouraging.

This was due to the good operating performance as well as a significantly improved financial result and the nuclear fuel tax refund.

Adjusted net income, which excludes one-off effects and further major extraordinary items, totalled 876 million euros. This represents a rise of 649 million euros.

As of 30 September 2017, the **RWE Group's net debt** totalled 19.5 billion euros. This was 3.3 billion euros less than at the end of 2016.

The reasons for this were the positive operating business performance, the nuclear fuel tax refund and the reduction in provisions for pensions.

The backdrop to this is that – among other things – the pension plan assets with which we cover most of our pension obligations rose due to positive market developments.

Cash outflows resulting from the payment to the nuclear energy fund did not affect net debt as our nuclear energy provisions decreased by the same amount.

Ladies and Gentlemen,

The interim statement in front of you refers to the fully consolidated RWE Group including innogy.

Since we would like to give you a detailed view of our core businesses – electricity generation and trading – and their operating capacity, we started publishing additional key figures for 'RWE stand-alone' at the beginning of the year.

Looking at **adjusted net income of 'RWE stand-alone'** shows that all of our core businesses are delivering positive earnings.

By the end of the third quarter, we had recorded adjusted net income of 930 million euros for 'RWE stand-alone'. This earnings figure includes the innogy dividend of 683 million euros.

As of the cut-off date at the end of September, the **net debt of 'RWE stand-alone'** amounted to 3.4 billion euros. We thus cut our net debt roughly in half compared to the end of 2016.

We gradually improved our financing structure over the course of this year.

As announced, we redeemed three hybrid bonds with a total volume of about 1.2 billion euros, with the last repayment taking place on 12 October.

Furthermore, also in October, of the hybrid bonds outstanding, we bought back paper with a total nominal value of approximately 585 million euros.

This buyback will provide some 20 million euros of relief to our financial result in the next few years.

We spent about a third of the nuclear fuel tax refund on the buyback programme. Another third, 615 million euros to be precise, has been earmarked for the special divided that you have already been informed about.

We intend to make use of the remaining funds, which roughly amount to another 500 million euros, in an opportune moment.

The independent financial setup of RWE and innogy was completed in October.

Our financial investment received its own syndicated credit line of 2 billion euros. This makes innogy completely financially independent from RWE AG. As a result, RWE's credit line was reduced from 4.0 to 3.0 billion euros.

Ladies and Gentlemen,

Everyone knows that the supply of energy follows not only the logic of the markets, but is also decisively determined by the political environment.

These days, climate protection is one of the foremost subjects of public debate. Both at the Climate Conference in Bonn and in the exploratory talks in Berlin, ways are being sought to further reduce greenhouse gas emissions significantly. And this is a good thing.

Germany has made a clear commitment to the energy transition as an important socio-political task for forthcoming ahead.

This has led to incisive changes above all in our branch of industry over the last few years.

The expansion of renewable energy has been spurred substantially. The role of conventional power producers is increasingly changing from that of pure producer to provider of security of supply.

This has led to fundamentally new company structures and strategies in the sector.

Irrespective of the task on which the companies concentrate, they remain two sides of one and the same coin.

Our energy system is complex.

Besides climate protection, it is also important to think about security of supply and the competitiveness of our economy. Climate protection should be further developed as cost-effectively as possible. Otherwise, the energy transition will run the risk of losing acceptance.

A short-term policy of symbolism is not helpful in this respect. What does help is a resolute long-term energy and climate policy that shapes adaptation processes in a way that avoids creating industrial and socio-political rifts.

And by the way, this applies not only to the energy sector, but also to other branches of industry that are obligated to contribute to reducing carbon emissions.

I am confident that this will be accomplished if the complexity and interdependencies of the various instruments are not lost sight of.

In my opinion, three issues are important in this context:

First, climate policy should build on the European climate protection architecture and introduce funds for effective climate protection.

In the European Emissions Trading System, we already have the right tool for this. It guarantees that we will achieve the emission reduction goals that we have set ourselves in Europe through resolute volume management.

Last week, an agreement was reached at the European level to make the EU ETS much stricter.

For instance, the annual linear reduction factor for the volume of certificates was raised to 2.2% from 1.74%. This will lead to a 43% reduction in emissions by 2030 compared to 2005. By 2050, emissions will drop by as much as 87%, thus hitting the European climate target.

The agreement also envisages transferring more certificates to the Market Stability Reserve and permanently cancelling excess certificates from 2023 onwards. This will limit supply on the market even more and drive up certificate prices respectively.

Strengthening the EU ETS is good.

However, the expansion of the Market Stability Reserve and the cancellation of certificates in fact makes the goal more ambitious through the back door.

To be clear, this places a further, huge burden on the shoulders of industries and companies involved in the EU ETS against the backdrop of a market environment that continues to be very difficult.

It is thus all the more important not to add to this, for example by taking additional national measures that are useless to the climate and – more importantly – will hollow-out and weaken the EU ETS. This includes dual regulation, for example through the introduction of a carbon price floor.

If the level of emissions is clearly determined by the number of certificates and the goals are achieved as a result, the price of carbon becomes meaningless for the achievement of the emission-reduction goals.

A high price would primarily benefit the industry in countries that have a large number of nuclear power stations.

German industry would have to foot the bill without this having an effect on climate policy.

Second, we need more of a market in order to constantly guarantee security of supply in a cost-effective manner.

It is already becoming apparent that supply will become tight on the German electricity market in 2019/2020.

This will really manifest itself no later than in 2022/23 when the last German nuclear power plants are shut down.

What this says to me is that we are in dire need of a system that provides incentives to invest in new power stations and maintain existing plants.

The United Kingdom and France have demonstrated how security of supply can be organised at manageable cost through capacity markets.

Following good examples is most certainly not the worst solution.

And third, we need to take an integrated view of climate protection, security of supply and cost efficiency.

Focussing on climate protection goals alone is not enough and will lead to fatal misallocations.

To prevent any misunderstandings, I am not calling for electricity generation from coal to be continued indefinitely. Coal-based power production will significantly and constantly decline.

For example, our lignite generation alone will nearly halve over in the next twelve years.

Accelerating these processes arbitrarily and drastically, for instance by way of a politically mandated exit from coal, would have severe consequences:

- Exiting coal in the short term would make it impossible to continue ensuring security of supply. Replacing it in the short term with gas is unrealistic, if only for reasons related to planning, approval and construction periods. New gas-fired power stations alone will not get the job done, either. Today’s gas infrastructure is not designed to cope with such large additional amounts of peak-load electricity. In addition, there would be a huge dependency on gas imports from individual countries and suppliers.

  Replacing coal with gas would be absolutely inefficient and harm the economy over the medium term as well. We would invest in a transitional technology which would no longer be needed to that extent in the target scenario. This would be expensive and lead to massive electricity price increases for both industry and households.

- Furthermore, an exit from coal would have significant socio-political consequences. The required structural change would be unable to keep pace with the exit in the regions in which lignite use is reduced. The consequences would also be felt directly by the 75,000 direct and indirect employees in the lignite sector.

In our view, taking account of climate protection, security of supply, costs and social issues, it would be smarter to start by investing as much as possible in the expansion of renewables and grids.

After all, the more electricity is generated from renewables, the more kilowatts of coal-based power is forced off the market.

The expensive workaround via a full – but only temporary – replacement of coal with gas is thus no silver bullet.

Of course, this does not change the fact that new gas-fired power stations must be built according to the timelines to the extent required to ensure security of supply.

Ladies and Gentlemen,

The conversion of a system as complex as that of electricity supply – or in other words the road to largely carbon-free electricity production – is not a sprint: it's a marathon, and it must be tackled carefully.

Severe long-term consequences should not be traded in exchange for short-term successes.

Climate protection that is harmful to the economy and industry does not help anyone and gambles acceptance away. Climate protection requires good judgment and pragmatism.

I trust that such effects will be factored into the determination of the future course for energy and climate policy as well.

And now, I look forward to your questions.

Forward-looking statements

This speech contains forward-looking statements. These statements reflect management's current views, expectations and assumptions and are based on information available to management at present. Forward-looking statements do not guarantee that future results and developments will materialise and are subject to known and unknown risks and uncertainties. Actual future results and developments can deviate substantially from the expectations and assumptions expressed in this speech due to a variety of factors. These factors mainly include changes in the general economic and competitive landscape. Furthermore, developments on financial markets and changes in currency exchange rates as well as changes in national and international laws, in particular relating to tax regulations, as well as other factors may affect the company's future results and developments. Neither the company nor any of its affiliates assume the obligation to update the statements contained in this speech.