Interim Statement on the First Quarter of 2018

Press conference call for journalists

Essen, 15 May 2018, 10:00 (CET)

Notes for Dr. Markus Krebber

Check versus delivery!

Ladies and gentlemen,

Good morning from Essen! Let me begin by welcoming you to our conference call on RWE’s business performance for the first three months of 2018.

The main events for RWE are the progress in the execution of the transaction with E.ON and the political discussions about the future outlook for energy policy in Germany.

At the same time, we are on track with our operating business: the year started well and we confirm our outlook for the full year and the targeted ordinary dividend of 70 euro cents per share for 2018.

Our two conventional power generation divisions only registered modest declines in earnings for the first quarter. Nevertheless, as the year progresses we expect these to be more pronounced and we are working to counter this with efficiency-enhancement measures.

This comes as no surprise, since we knew we would be facing low wholesale prices this year. In 2018, RWE achieved an average price of 28 euros per megawatt hour for generation from lignite and nuclear power, down from 31 euros in 2017. From the current perspective, this means that we have reached the trough.

Our trading business posted a weak performance in Q1 2018. As these kinds of fluctuations are not unusual in this volatile business, we still project that we will be able to finish the year within the forecast earnings range of 100 to 300 million euros.

Our **adjusted EBITDA**, or earnings before interest, tax, depreciation and amortisation, reached 1.9 billion euros at the end of March 2018, compared to 2.1 billion euros in the first quarter of 2017.

The main reason for this was the weak energy trading performance, but falling power plant margins and the declines in innogy's retail business also had an impact.

Adjusted net income, which excludes special items, reached 517 million euros, compared to 689 million euros in the previous year.

Now let's turn to the results of the individual divisions:

Lignite & Nuclear generated adjusted EBITDA of 180 million euros in the first quarter, versus 213 million euros in the same period last year.

The main factors behind this were the aforementioned lower wholesale prices for electricity and a decline in electricity generation. Unit B of the Gundremmingen nuclear power plant was shut down at the end of 2017.

In addition, the two 300 MW lignite-fired units at the Frimmersdorf plant, which are in stand-by operation, stopped being available for regular electricity production in October of last year.

We also completed the sale of our Hungarian investment Matra during the first quarter of 2018.

The segment **European Power** recorded EBITDA of 159 million euros, compared to 167 million euros in the first quarter of last year.

Thanks to higher income from the UK capacity market, we were almost able to compensate for this quarter’s decline in earnings, which stemmed from lower margins.

Disregarding special items such as capital gains from the sale of properties which were included in the quarterly figures for the previous year, the results were actually slightly better than last year.

Adjusted EBITDA in our third division, **Supply & Trading**, was much lower than last year, as it registered a result of minus 24 million euros. Nevertheless, as mentioned earlier, we still expect to achieve a result of between 100 and 300 million euros this year.

Our fourth and final segment is our financial investment in **innogy**, which also performed in line with expectations, recording a 2% decline in adjusted EBITDA. While improvements were seen in the Renewables and Grid & Infrastructure segments, earnings in the Retail division fell. You already heard more details about this yesterday from innogy.

As of 31 March 2018, the **net debt of the RWE Group** amounted to 20.9 billion euros. This was 0.7 billion euros more than at the end of 2017. The main reason for this was higher provisions for pensions.

Ladies and gentlemen,

As you know, in addition to the fully consolidated figures from the financial reporting, since last year RWE has also published indicators for 'RWE stand-alone'. This covers the core divisions Lignite & Nuclear, European Power and Supply & Trading, plus the innogy dividend.

With regard to 'RWE stand-alone', we also confirm our outlook for 2018.

We expect **adjusted EBITDA** of between 1.4 and 1.7 billion euros and **adjusted net income** of between 500 to 800 million euros.

At the end of the first quarter, we generated **adjusted net income** of 78 million euros for 'RWE stand-alone'. This figure does not include the innogy dividend of 683 million euros, which we received in the second quarter.

As of the reporting date in March, the **net debt of 'RWE stand-alone'** amounted to 3.5 billion euros, down by about 1 billion euros versus the end of 2017. This change resulted from higher payments received to pledge collateral.

Due to this effect, we now project that our debt at the end of the year will be moderately lower compared to last year. Previously, we had expected to see a slight increase in debt.

This concludes my remarks on our day-to-day operations.

Ladies and gentlemen,

In mid-March, E.ON and RWE agreed on a comprehensive exchange of business activities.

With the sale of our majority stake in innogy, in the future RWE will focus on electricity generation, while E.ON will concentrate on grids and retail.

With this transaction, RWE will become the No. 3 in renewables in Europe.

We will also acquire a very attractive growth business, double our EBITDA and be able to keep investing in growth, thanks to a robust financial position.

Our announcement was very well received. The transaction was not only welcomed on the capital markets, but unions and politicians also expressed their approval. We explained our plans to our shareholders during our recent roadshows and at our Annual General Meeting.

On 27 April, E.ON presented the voluntary public offer to innogy's minority shareholders, offering 40 euros per share less the dividends for 2017 and 2018, as announced. The initial acceptance deadline is 6 July. The legally mandated additional acceptance deadline is 25 July.

Last week, the Executive Board and the Supervisory Board of innogy published their reasoned statement on the takeover offer. They declared that they deem the offer per innogy share appropriate in financial terms. This was confirmed by the three investment banks commissioned by innogy.

The Executive Board did not evaluate the extent to which the offer to the minority shareholders is comparable to the consideration that RWE will receive for the sale of its stake in innogy to E.ON.

However, the Federal Financial Supervisory Authority (BAFin) as well is responsible for making this assessment.

Before giving clearance to the publication of the offer, BAFin thoroughly reviewed the offer for appropriateness and approved the publication of the offer.

Fully irrespective of the positive statement concerning the appropriateness of the offer, innogy's statement is of no relevance to the execution of the transaction between RWE and E.ON. The change of control at innogy will solely result from RWE's sale of its 76.8% stake in innogy to E.ON. The behaviour of the minority shareholders has no influence on this for the time being.

Therefore, we will continue to implement the transaction as planned.

We are currently preparing the anti-trust approvals and have already started talks with the relevant authorities. We expect to have the necessary permits by mid-2019 and that we can complete the transaction promptly thereafter.

A step that is also very important to us with regard to the implementation of the transaction is the agreement on a declaration of principles of wage policy reached by the three companies with the labour unions. The declaration effectively rules out forced redundancies.

In addition, the parties involved agreed that the existing wage and operating regulations will remain valid until further notice.

It is envisaged that negotiations on the further framework conditions in relation to collectively bargained wages begin now. They will apply to all of the employees of the groups involved and ensure both fair and equal treatment.

With its binding and reliable commitments, this agreement also provides security to the employees of innogy.

We believe that this is more than a positive signal. For us, the agreement forms the basis for a fair and constructive integration process.

Sales of operations proposed to innogy are not in the interests of the majority shareholder or the future owner and in our opinion, they are not in the interests of the employees of innogy, either.

Rather, in our view, a good and trusting cooperation between the companies can reduce the uncertainty for the employees even further.

As before, we are always available to answer questions from all employees of the entire RWE Group, including innogy.

We are convinced that the transaction with E.ON is the right decision for all stakeholders with a view to creating two stronger European energy companies that will focus their activities and strengthen their positions in their respective core businesses even further.

Ladies and gentlemen,

I’d now like to discuss energy policy.

After several years of declines, wholesale electricity prices have stabilised. Nevertheless, the margins are not really generous enough to act as an incentive for new power plants. From the perspective of ensuring security of supply, however, new plants are urgently needed.

This was recently pointed out by the German Association of Energy and Water Industries (BDEW): in the publication of its current power plant list, the Association warned about a shortfall in secured capacity in the years ahead and talked about a ‘wake-up call for political decision-makers’.

Its most important finding was that the trend towards less and less secured generation capacity is continuing unabated.

BDEW projects that existing surplus capacities will be completely wound down within a few years and that we will be facing insufficient capacity by 2023 at the latest.

The performance report released by the German transmission system operators in January also clearly states that our energy system will be able to get by until 2020, thanks in part to the power stations that have been placed in reserve so far. After 2020, the margin of safety starts to get very thin.

Furthermore, even when feed-ins of renewables are high, conventional power plants will still be needed in the future to ensure grid stability.

So, in the debate about security of supply, it is important to focus on the technical aspects, and not the ideological ones.

The Cabinet will soon be deciding on the composition of the Commission for Growth, Structural Transformation and Employment.

The Commission’s job is to elaborate measures to achieve the 2020 climate protection goals as much as possible and to hit the targets for 2030 in the energy sector.

They will also develop a plan for reducing and ending the use of coal for electricity production, along with the accompanying legal, economic, social and structural measures. Other issues include financial support for the necessary structural transformation in the regions affected and a fund for structural change financed by the government.

So, clearly there is a lot more involved here than just the issue of how much coal-fired generation capacity should be shut down.

And that’s good. Because in addition to climate protection, issues such as structural transformation, security of supply and affordable energy must also be on the agenda.

The Commission offers the opportunity to reach a satisfactory conclusion to the debates and to create planning security for companies, and thus for the regions and locations which are affected as well.

It’s important that the Commission has adequate professional expertise to do this. And we are more than willing to help.

Ladies and gentlemen,

In December 2016, Germany’s Constitutional Court declared parts of the 13th Amendment to the Nuclear Energy Act unconstitutional and instructed the government to enact a compensation regulation by mid-2018.

In the meantime, a draft bill of the Ministry of the Environment has become public, which calls for financial compensation of the companies affected, namely RWE, Vattenfall and E.ON.

Generally speaking, we are happy that this issue is now being addressed. We expect that we will receive compensation for our stranded investments and that our electricity quota for Mülheim-Kärlich can either be sold to a competitor or reimbursed by the government. After deducting the volumes we wish to transfer to the Emsland and Gundremmingen plants, which we will own in full following the transaction with E.ON, this quota still amounts to 27 terawatt hours.

We anticipate that we may receive up to a medium triple-digit million euro sum based on these regulations in the years ahead.

And now I will be happy to take your questions.

Forward-looking statements

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