

Report on the first half of 2019
Journalist conference call
Dr. Rolf Martin Schmitz and Dr. Markus Krebber
Essen, 14 August 2019

Please check against delivery!

Rolf Martin Schmitz:

Ladies and Gentlemen,

Warm greetings from Essen. Welcome to our conference call on the development of business in the first half of 2019.

Today's press conference is very special to us, because it will probably be the last one before we execute the transaction with E.ON.

We are fully aware that the coming months will be one of the most exciting periods in our company's history. This is something we are really looking forward to.

RWE will soon be a 'new RWE', with an international setup and a clear focus on renewables and storage.



We will be a strong company, ranking among the world's leading green energy producers. We will hit the ground running as the world number two in offshore wind.

The transaction is running in parallel to our operating activities, both of which demand our utmost concentration and dedication. I am proud that we are doing such a great job of this as a team at RWE.

Our positive sentiment is reinforced by the earnings achieved by our operating activities. We exceeded our ambitious goals for the first half of the year. My colleague Markus Krebber will go through the results in detail.

But before he does this, let me give you a brief overview of the key figures.

In view of the development of business in the first six months of 2019, two weeks ago we informed the public that we raised our earnings forecast for the full year. We now expect 'RWE stand-alone' to achieve adjusted EBITDA, in other words earnings before interest, taxes, depreciation and amortisation, of between 1.4 billion and 1.7 billion euros.

Our previous outlook envisaged 1.2 billion to 1.5 billion euros.

Accordingly, adjusted net income should come in between 500 million and 800 million euros, as opposed to our previous forecast of 300 million to 600 million euros.

The main reason for the improved outlook was the energy trading business, which Markus will comment on in more detail shortly.

The raised forecast supports our goal of paying a dividend of 80 cents per share for 2019.

Adjusted EBITDA recorded for 'RWE stand-alone' by the end of the first half of the year amounted to 1.4 billion euros compared to 1.1 billion euros in the same period in 2018.

Adjusted net income totalled 914 million euros as opposed to 683 million euros in the first six months of 2018.



Ladies and Gentlemen,

We are on track in operating terms. And as far as our transaction with E.ON is concerned, we at RWE are ready to go.

- The framework for RWE Renewables has been defined.
- The management team has been chosen.
- The integration of the employees joining us from E.ON and innogy has been prepared as far as we can under competition law.

So, you see, the 'new RWE' has been gaining momentum for a long time now. This is a consequence of the rules that we established when agreeing the transaction. Irrespective of the timing of the deal's legal execution, we have been entitled to the economic value added by the transferred assets since 1 January 2018. We are making the investments and we are covering the costs.

Therefore, all of the renewable energy operations run by E.ON and innogy have been paying into the 'new RWE' for one-and-a-half years.

The positive development displayed by our future business in the last few months can be traced back to attractive projects. Since our press conference on the Q1 figures in May, new projects have been created, while others have made further progress.

Let me give you four examples:

- In April, the foundations of the Cranell onshore wind farm were cast for E.ON in the state of Texas. The wind farm will have a capacity of 220 megawatts. The 151 megawatt Peyton Creek project is also under construction in Texas. Both wind farms are scheduled to go online this year.
- As reported by many of you, E.ON and the Norwegian energy company Equinor commissioned the Arkona wind farm to the north east of the island of Ruegen. It is Germany's largest offshore wind farm and has an installed capacity of 385 megawatts.
- innogy celebrated the start of construction of its first onshore wind farm in the USA: Scioto Ridge is a 250 megawatt project in the state of Ohio. The 75 turbines are due to be connected to the grid in the fourth quarter of 2020.
- And innogy successfully concluded the approval procedure for the Eekerpolder onshore wind farm at the end of May. The 150 megawatt project is set to be built in the Dutch province of Groningen.

These four projects alone will have a combined capacity of nearly 1.2 gigawatts. This will enable them to generate some 3.5 terawatt hours of clean energy on an annual basis. Once they replace the same amount of electricity produced by conventional techniques, these assets will achieve about 2 billion metric tons in CO₂ savings every year.

The good progress is thanks to our future colleagues, who currently work for E.ON or innogy and will soon join us. They are highly motivated and working hard on extremely interesting projects. They want to continue to plan and develop good facilities and earn money with them.

And this is precisely what they can do at RWE.

In the beginning, our portfolio will encompass about 9 gigawatts of renewable energy. And it will continue to grow. We will set aside a net 1.5 billion euros for this every year.



Ladies and Gentlemen,

A new era will begin for RWE also in financial terms. In sum, EBITDA of the renewables activities of E.ON and innogy in the first half of 2019 totalled over 800 million euros based on figures published by the two companies last week.

This is an excellent basis for our new business, which will change RWE's earnings substantially. In the future, about 60 percent will come from renewables, 20 percent from conventional energy, roughly 10 percent from our trading business and the remaining 10 percent from our financial investments.

The market rewards RWE's clear focus on forward-looking technologies. It is greatly welcomed by investors, banks, insurance companies and rating agencies.

And now my colleague, Markus Krebber, will explain to you what the figures look like in detail.

Markus, the floor is yours.

Markus Krebber:

Ladies and Gentlemen,

Good morning from Essen from me as well.

This morning is especially good, because our figures are better than expected.

- Earnings from our trading business clearly exceeded our forecast.
- We are on schedule in conventional generation, despite the challenging framework conditions.

As Rolf Martin said, two weeks ago we were able to raise our full-year outlook for 2019 thanks to these developments.

This brings me to the economic development at the segment level:

In the first half of the year, adjusted EBIT in the Lignite & Nuclear segment totalled 172 million euros, matching the level achieved in the same period last year. Two opposing effects cancelled each other out.

On the one hand, we realised higher wholesale prices, which had a positive effect. On the other hand, we generated less electricity than in the first six months of 2018, in part due to the halt to the clearance of Hambach Forest and power plant overhauls.

We continue to expect that this segment will achieve adjusted EBITDA of between 300 and 400 million euros for the full year.

Ladies and Gentlemen,

A look at the economic situation of the lignite business reveals a complex system of opencast mines and power plants, requiring one to keep the long-term effects in mind.

During certain weeks this summer, the extremely low gas prices and higher CO₂ prices resulted in gas-fired power stations often generating electricity more cost-effectively than hard coal or lignite power plants.

But this is just a snapshot. Next winter, things will be entirely different, as demonstrated by the current high forward prices. In addition, Germany will exit from coal in 2022.

Further shutdowns resulting from the German Network Agency's shutdown list and the Commission's proposals will tighten the markets even more.

This will have an impact on electricity prices. Therefore, we expect this segment to become more profitable, a view shared by many analysts.

Moving on to the European Power segment:

Here, we posted adjusted EBITDA of 99 million euros, as opposed to 196 million euros in the first half of last year. This was due to the year-on-year reduction in electricity production, weaker earnings from the commercial optimisation of power plant dispatch and the suspension of capacity payments for our UK power stations.

We confirm the outlook for this segment. However, we anticipate ending the year with adjusted EBITDA at the bottom of the forecast range of 250 to 350 million euros, owing to the weak first quarter.

Ladies and Gentlemen,

Our third segment, Supply and Trading, achieved an unusually strong result in the first half of the year, recording adjusted EBITDA of 434 million euros.

This compares to 101 million euros in the same period last year. This significant growth is primarily a consequence of an outstanding trading performance. The gas and LNG business also made a strong contribution to earnings.

Business in this segment has a tradition of being volatile. In view of the strong results in the first six months, we now expect this segment to close the year with adjusted EBITDA significantly above 300 million euros.

Our fourth segment is our financial investment in innogy SE, from which we received a dividend in the second quarter. You were given details on innogy's business performance by the company itself on Friday.

Moving on to our financial position, net debt for 'RWE stand-alone' moved within the anticipated range. At 4.7 billion euros as of the cut-off date at the end of June 2019, it was about 2.4 billion euros higher than at the end of 2018.

This was mainly due to cash outflows caused by variation margins.

In the first half of last year, changes in commodity prices led to high cash inflows from margins, resulting in an above-average decline in net debt. As expected, this effect is partially neutralising now.

Further effects stemmed from the redemption of the 750 million pound hybrid bond that was cancelled in March and higher provisions as a result of the continued decline in interest rates.

Ladies and Gentlemen,

Taking stock at the mid-year point shows that

- we are profitable in operating terms – even more so than expected,
- we have resolutely reduced costs in the past,
- and we have constantly improved our financial position.

This is a very good basis from which to tackle the challenges of the future.

Having said that, I now hand over to Rolf.

Rolf Martin Schmitz:

Thank you, Markus.

Ladies and Gentlemen,

Electricity is and remains the main driving force of innovation and modernisation of our time. Demand is increasing because electrification and digitisation dominate most areas of society or will do so in the future.

For example, every year the global need for energy to manufacture and use servers, networks, smartphones, etc. rises by 9 percent. The share of total energy consumption accounted for by the IT sector will amount to 3.3 percent as early as 2020, 70 percent more than in 2013

To give you another example, electrification in transport is in its early stages. It will gain considerable momentum in the coming years, driven by passenger transport with many towns and cities seeking to provide zero carbon rapid transit services.

What these two areas have in common is that they want to use clean energy. Transforming the energy system is a necessary, exciting and technically demanding task.

It is in full swing in our core markets. Germany plans to phase out coal-based electricity generation by 2038, with the Netherlands and the UK aiming for an exit by 2030 and 2025.

However, each of these countries has a very different starting point, and can therefore not be compared to each other. Germany's goal of phasing out coal by 2038 is extremely ambitious given that we will also be exiting from nuclear. To survive as an industrial hotspot, Germany must maintain a reliable and competitive supply of electricity.

Just replacing coal with renewables will not get the job done. Thousands of kilometres of new power grids and new storage techniques are also required.

And where do we stand today?

In the first half of the year, renewables covered 44 percent of the electricity consumed in Germany. This is a substantial increase, as in the first six months of 2018, the share amounted to 39 percent. The energy transition is making inroads.

However, if Germany wants to achieve the goal set by the government of generating enough electricity from renewables to cover some 65 percent of consumption by 2030, the sector will have to expand a lot more.

This sounds simple, but it soon becomes complicated when put into practice. This always happens whenever a strong will clashes with strong individual interests.

Construction of new onshore wind turbines in particular is now often limited.

No more than 88 onshore wind turbines were built in the first half of 2019 in Germany. This was the lowest number of new builds since 2000. Based on estimates by the German Wind Energy Association, the expansion of onshore wind capacity in 2019 will total 1,500 megawatts. In 2017, the record year, this figure stood at 5,300 megawatts.

It takes too long to plan, build and commission new turbines. This scares off investors. But the situation will not improve without better and more effective framework conditions.

These factors must also be taken into account in the widespread and heated public debate on the path to follow into the renewables era. This is what will expedite the process.

The goal is clear: reduce greenhouse gases as significantly and quickly as possible. This is what the majority of society wants. RWE is also pursuing this goal and supports both national and international climate protection targets.

However, the energy transition will not benefit from competition for the most radical subsidy. What is useful is to focus on what is feasible and to implement that both resolutely and quickly. Switching off stations alone will not get the job done. You have to switch something else on in exchange.

Ladies and Gentlemen,

Besides the expansion of renewable energy, industrial scale storage technologies are indispensable to the energy transition. One project that RWE is working on is called StoreToPower.

We intend to work with partners to test a heat storage facility based on liquid salt in the Rhenish lignite mining region. The storage unit uses electricity from renewable sources to heat molten salt to temperatures of up to 560 degrees Celsius. The resultant heat is then converted to steam, which is used to generate electricity.

We intend to use our existing infrastructure for the storage project, which will involve converting one of our power stations. The German economics ministry recently placed StoreToPower on the list of the 20 best projects qualifying for the Real-life Laboratories for the Energy Transition subsidy programme.

This represents a huge success for RWE Power, which is extremely dedicated to forward-looking projects. Through StoreToPower, we want to play an active and leading role in developing storage technologies.

Ladies and Gentlemen,

Hydrogen is also high on our list of priorities. It is an element of the future especially because it is an energy source and commodity which can contribute to achieving substantial reductions in carbon emissions, for instance in freight and passenger transport and industry.

RWE has joined forces with high-profile partners to carry out the GetH2 project, which aims to combine all aspects of generation, storage, utilisation and transport of green hydrogen.

The main task is to build a Power-to-Gas facility in Lingen, which will have a capacity of 105 megawatts. The objective here is to convert excess electricity from renewable sources of energy to 'green hydrogen'.

Although it did not advance to the top 20 real-life laboratories in the first round, we will continue to forge ahead.

We initiated a feasibility study for a similar project.

In partnership with innogy, we plan to build a facility with a capacity of up to 100 megawatts on the premises of RWE's Eemshaven power station in the Dutch province of Groningen, in order to produce large amounts of green hydrogen using wind energy.

This requires market conditions that enable the technologies to be competitive in the end. What is good for the climate must also be good for the company. Politicians have recognised this and rightly intend to move faster in this area.

Ladies and Gentlemen,

In Germany, the energy sector has come along much farther than other branches of industry when it comes to reducing carbon emissions. We will achieve the goals for 2020 and probably even exceed them. There is still a lot of room for improvement in other areas.

CO₂ pricing outside of the EU ETS may be helpful here, because the climate targets can only be achieved if sectors such as transport, buildings and business contribute to reducing carbon emissions outside of the Emissions Trading System much more than before.

A CO₂ price alone is not a panacea.

Incentives and a push for innovative technologies paying into decarbonisation are also necessary, for instance in sector coupling.

At RWE, we have reduced our greenhouse gas emissions consistently. We lowered our annual carbon dioxide emissions by 60 million metric tons from 2012 to 2018. This represents a drop of 34 percent and equals the total annual emissions of 30 million cars. Last year, this accomplishment made us one of the front-runners among industrial groups listed on the DAX.

Admittedly, we have a high baseline.

However, our specific carbon emissions will continue to drop in the coming years. The proposal of the Growth, Structural Change and Employment Commission will make a further contribution to this. It maps out the ambitious path towards the transformation of the energy system. This path will demand a lot of RWE, but we are ready to take on this challenge.

Talks with the government about the proposals regarding the lignite business, which are very important to RWE, are underway. We hope that they soon lead to tangible results that ensure planning certainty for our company, our employees and the affected regions.

The Commission has succeeded in establishing consensus among environmental activist groups, the scientific community, trade unions, the country's regions, industry and further stakeholder groups regarding the coal phase-out in Germany. This is a great accomplishment, which all parties involved should seek to implement without making any changes to it.

Ladies and Gentlemen,

Those who want to clear hurdles must trust in their strengths. In Germany and Europe, inventive spirit and engineering prowess definitely rank among them.

As demonstrated by RWE, innovation is born whenever one is courageous enough to try and shape things in a suitable environment.

- We are working to the best of our ability to ensure clean and secure electricity production.
- We are doing this with great determination and full of optimism.
- To accomplish this, we are drawing on our full potential, from the talent of our employees to billions in investments in renewables and energy storage.

I hope that the energy transition also benefits from this confidence.

I am convinced that we will complete the journey to an increasingly carbon-free world if we are courageous and passionate enough to embrace new technologies. This is a huge opportunity to strike a balance between creating value, being innovative and protecting the climate. Those who tackle the challenges with such a positive attitude will be able to face the future with optimism. This holds true for investors, employees, partner companies and entire regions alike.

RWE is passionate about new horizons.

Now we look forward to any questions you may have.

Forward-looking statements

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