Peter Terium / Dr Bernhard Günther
RWE AG 2016 mid-year press conference
Essen, 11 August 2016

Check against delivery.

Peter Terium

Ladies and Gentlemen,

Good morning to you all from Essen.

My Executive Board colleagues Rolf Martin Schmitz, Bernhard Günther, Uwe Tigges and I wish you a warm welcome.

I am glad you have joined us today. Thank you for your interest in RWE's business performance during the first half of 2016. Once again, we will also be focusing today on the future, rather than looking only at the past. But let me take things in order.

I will lead off with the key figures, following which Bernhard Günther will provide more details on our business performance.

A 21% rise in the price of our common stock in the first half of 2016 made RWE's shares the second-strongest on the DAX, despite the fact that the dividend on common shares was suspended. An important driver has been the restructuring of the RWE Group, which is proceeding as planned. The rapid positive response on the capital market shows that we are on the right track with our realignment. Clearly, others can see the benefits too: by establishing innogy, we want to put ourselves on a sturdier footing and we want to create new growth opportunities. The slight increase in German wholesale electricity forward prices provided added stimulus.

In the first six months of the year, we achieved EBITDA of €3 billion and an operating result of €1.9 billion. These figures are down 5% and 7% respectively year on year, mainly due to significant losses in our trading business, which was still looking very positive in the first quarter. As we noted at the time, no other division is as volatile as this one, and in no other do the upward or downward swings happen so fast. Overall, I am confident that RWE Supply & Trading will be an important source of revenue for RWE AG.

Our adjusted net income was €598 million, which is up 10% year on year. The main reason for this was the low effective tax rate.

The operating result from conventional power generation increased by 34%, to €390 million. The success of our ongoing efficiency-enhancement programme contributed to this figure. All of this is very easy to say, but it has been underpinned by a painful process of adjustment. And so it is all the more gratifying to see that the team is sticking together in this difficult situation and collaborating closely to achieve the best possible solutions. I have a lot of respect for that.

Despite the changes in our trading business, we are keeping to our forecast for Group earnings in 2016.

One thing is also clear, however: we are not over the worst yet, in economic terms. We don't want to gloss over this. But even so, there have also been exaggerations in one direction or another, sometimes based on incorrect assumptions. For example, some reports look only at RWE's current stock market capitalisation of about €9.3 billion [as at 9 August 2016] and compare this against our net debt or against our provisions. And then there have been speculations about the presumed market value of innogy, which are used as a basis to calculate the value of the rest of the business. That's all far too simplistic. The value of our equity is what is left after financial debt and provisions.

It's also simplistic to compare equity and net debt. The key determinant of creditworthiness is liquidity, and we have no problems there.

Instead of speculating about stock market values, we are focusing on matters that we do have some influence over – in the UK, for example.

The UK supply business proved a bitter disappointment in 2015. Serious process- and system-related problems cost us many customers, and a lot of money. The result left us in the red, and facing tough requirements imposed by the UK Office of Gas and Electricity Markets (Ofgem). We took determined action in response. By autumn last year, we had replaced the entire management. At the beginning of 2016, the new Executive Board of npower submitted a comprehensive restructuring plan that is now being rigorously implemented. Initial, gratifying results are already evident:

- In the first half of 2016 customer losses decreased significantly compared to the year before. This ran against the trend experienced by most other major energy suppliers. Right now it even looks like we have reached the turning point: the number of contracts we concluded in July is higher than the number of customers we lost in the whole first half of the year.

- The number of customer complaints also fell greatly during the first six months of the year. One indicator of the level of customer satisfaction is the latest complaint statistics supplied by Ofgem, the regulatory authority, according to which we have improved from last to thirdbest among the country's six major energy companies in this category.

- Our IT systems are running with greater stability, and the processes in our residential customer business are running more smoothly.

- We are adhering to ambitious customer service targets, including the targets we agreed to last year with Ofgem.

- All in all, the restructuring process is going to plan. All of the key analyses to re-assess the problems have been completed.

- Even so, times are still hard for the employees in our UK retail business. That's why we also want to set an example where management is concerned, and slim down their numbers. One outcome is that the number of Managing Directors at npower will be reduced from three to two in September.

Support from the entire Supply Division is helping our UK colleagues to make good progress in dealing with the symptoms. Our principle of functional steering is paying off in this regard.

We can see the light at the end of the tunnel. But that doesn't mean that we have been able yet to offset the burdens from previous years. We are still keeping our efforts up and we are committed to further improvements. By 2018, the restructuring process should be largely complete, based on our current progress.

And, if I may anticipate a question that is bound to arise in connection with the UK: as things currently stand, the economic consequences of Brexit for the RWE Group will be manageable.

Far more important is the question of how the European Union will cope with Brexit. And more importantly still: how will we keep the EU together? One thing is clear: in the UK, the EU is losing a powerful partner in economic and in political terms. This makes it all the more urgent to ensure that the EU is not weakened further. After all, with the many problems that Europe is facing at the moment, there is much at stake: peace, a common market to encourage growth, social security, rule of law, responsibility in international politics, and cultural and linguistic diversity. These achievements should not be given up lightly.

The former High Representative of the European Union for Foreign Affairs and Security Policy, Catherine Ashton, was right in saying that "In the countries of the EU, historic enemies have become close partners and friends."

That's something we always have to keep in mind, particularly at a time when unrest or even war reigns in many regions beyond Europe.

For me personally, there has never been an alternative to the European idea at any time. You might say I'm a child of Europe. I'm at home in different countries, languages and cultures. That's also why I'm very happy to head a European corporate group.

Ladies and Gentlemen,

It has been an eventful and exciting first half-year, not only for our company but from the perspective of energy policy too.

On 8 July, the German Lower House introduced a fundamental reform to the Renewable Energy Act, or "EEG". In doing so, it has realigned the way renewables are promoted, with a greater focus on the market and on competition. In future, subsidies for newly built facilities will be subject to the successful completion of a public invitation to tender.

This will start in Germany in 2017 with invitations to tender for onshore wind power. The transition to a tendering process will also be made for offshore wind. This process has already been in place for some time in other countries such as

Denmark and the UK, where the costs have fallen accordingly.

We aren’t afraid of competition – quite the opposite, in fact.

All we ask is that it be fair and that it take place on a level playing field. From our point of view, there are some shortcomings in this respect with the German Renewable Energy Act (EEG), for instance when individual stakeholders or locations are unilaterally favoured. Otherwise, however, evaluation of the Act very much comes down to certain details. There are elements we would have liked to see handled differently. But for the time being, we need to remember the old rule: if one party is happy and no-one else is, then something is wrong. You have only reached a compromise once *everyone* is unhappy.

As you know, at the end of April, the commission reviewing the financing of the nuclear phase-out (KFK) presented its recommendations. It suggests that the energy utilities pay funds equalling their provisions for interim and final nuclear waste storage into a state-run fund.

As I’ve said on numerous occasions, the recommendations are logical in principle. However, the commission wants to add a high risk premium to these provisions, which places a substantial burden on the ability of the affected energy companies to perform commercially. This comes at a very difficult moment, while also failing to take into consideration the Group’s current economic situation. Even so, we remain interested in achieving a consensus on financing the phase-out of nuclear energy. Major issues that remain to be clarified from the operators’ point of view relate to the details – for example the transfer of liability. Furthermore, the level and date of funding for each of the energy utilities must be determined (e.g. a funding schedule). There have been numerous discussions with representatives of the German government about this in recent weeks. We are in a phase of constructive dialogue right now. The government is expected to initiate the necessary legal changes largely in line with KFK recommendations after the summer break.

And now let’s move over to Bernhard and the figures.

Bernhard Günther

Thank you, Peter.

Ladies and Gentlemen,

Now it’s my turn to welcome you all and wish you a good morning.

Peter mentioned the key figures for our business performance right at the start.

EBITDA declined by 5% to €3.0 billion. The operating result declined by 7% to €1.9 billion.

The key factor contributing to these changes was unexpectedly large losses in the trading business. The operating result in this area was minus €156 million, compared to €73 million for the first six months of 2015.

The changes in revenue for conventional power generation, on the other hand, were gratifying, with a 34% improvement in operating result, to €390 million. Our ongoing efficiency-enhancement programme contributed to this result.

Due to time constraints, I would like to refer you to our interim report for details of the performance of the individual divisions, so you can review the figures at your leisure.

I would, however, like to briefly explain the reconciliation of the operating result to adjusted net income.

The non-operating result, in which we group certain one-off effects that are not related to operations or to the period being reviewed, improved by €239 million to minus €208 million. The main reason behind this is that we had accrued provisions for legal risks associated with arbitration proceedings in 2015 and this one-off item has been removed.

In 2016, however, we have had to deal with a negative one-off effect resulting from impairment losses on our German gas storage facilities.

At minus €957 million, our financial result was down €322 million on the previous year. Slight improvements in net interest and the interest accretion to non-current provisions were offset by a major decline in the other components of the financial result. This was mainly because we made large profits from the sale of securities in the previous year, whereas in the first six months of 2016, transactions of this kind resulted in losses.

Income from continuing operations before tax declined by 24%, to €719 million. At 8%, the effective tax rate was unusually low. This is because we were able to capitalise substantial deferred taxes. After taxes, our continuing operations generated income of €663 million.

Deducting the stakes held by other shareholders and income attributable to non-controlling interests takes our net income to €457 million. This represents a major decline compared to the first half of 2015 (€1.7 billion). The reason is that the previous year's figures still contained a book profit of €1.5 billion from the disposal of RWE Dea.

Our adjusted net income was €598 million. This differs from our net income in that the non-operating result, which is characterised by one-off effects – including the applicable taxes – and any other special items, are calculated separately. Despite the declines in operating and financial results, adjusted net income is up 10% compared to 2015. This is mainly due to the extremely low effective tax rate I mentioned just now.

The cash flows from operating activities which we achieved from our continuing operations declined to minus €1 billion. This can be attributed largely to the fact that we had to pledge more collateral for forward transactions, which was reflected in changes in working capital. In addition, we no longer benefited from positive one-off effects from the previous year that came from measures to optimise our working capital.

As of 30 June 2016, our net debt amounted to €28.3 billion, compared to €25.5 billion at the end of 2015. These figures now include the provisions for dismantling wind farms. The increase in liabilities is partly an effect of the negative free cash flow. There was also an increase in provisions for pensions, since we applied lower discount rates when calculating them to reflect recent changes in market interest rates. The new discount rates are 1.5% in Germany and 2.7% in the UK. Revenue from divestments, on the other hand, helped bolster our financial position. The largest single transaction was the sale of our minority shareholding in the Luxembourg energy utility Enovos.

On that note, I will now hand you back to Peter Terium.

Peter Terium

Thank you, Bernhard, for that detailed review of our business figures.

This brings me to what is currently our most significant project – the restructuring of the RWE Group. As you know, we have pooled our future-oriented divisions, Retail, Renewables and Grid & Infrastructure, to form a new company. Its provisional name is RWE International SE.

This is probably one of the largest restructurings at the moment on the European energy market.

The project also has a very ambitious timeframe.

It is only thanks to highly motivated and extremely dedicated employees that we can observe such a tight schedule. We in the Executive Board realise that many are working at the limits of their capacity to achieve this ambitious goal. Private lives have often had to take a back seat in recent weeks. That’s why I would like to express my deepest gratitude to the entire team for the superb level of commitment they have shown.

Some of the milestones for this project are already behind us. Let me recap:

On 1 April, RWE International SE began operating, with about 3,100 employees. On completion of the Group restructuring process, the company is expected to have about 40,000 employees in total, across 16 countries.

On 29 June we announced our new brand, “innogy”.

As of 30 June, we assigned the domestic and foreign subsidiaries of RWE International SE – the future innogy SE.

On 30 June, RWE AG introduced innogy at a Capital Market Day in London. If the development of our share price is any indicator, the presentation was a great success. Our innogy model is also apparently finding favour with analysts and investors: some people say that “RWE sells the future, Eon sells the past”.

On 1 August we published an earnings outlook for RWE International SE (innogy) for the years 2016 and 2017, according to which EBIDTA for 2016 will be somewhere between €4.1 billion and €4.4 billion. For fiscal 2017, EBITDA for innogy is expected to be between €4.3 billion and €4.7 billion.

Our intention is to turn innogy into an example, a blueprint for the energy company of the future.

Energy supply is becoming more sustainable, more networked, more decentralised, more digital and more electrical. innogy is very well placed to act as a leader in driving forward these developments toward achieving climate-friendly and intelligent energy supply. Even more, it also has the will to achieve it.

innogy will be daring and different, fast and customer-oriented, colourful and flexible, full of energy and new ideas. It will no longer follow well-worn paths, but will take a chance on the new, and set out in new directions. innogy wants to make life a little more convenient for its customers, and bring improvements they can feel.

Our new subsidiary is not starting from scratch. Even now, we are already moving beyond the traditional tasks of an energy supplier. You could say we're ahead of the game. We are doing much more than just generating electricity and transmitting it to our customers. We are investing in the smart infrastructure we will need for a comprehensive systemic change.

According to its 2015 financial statements, RWE was Germany's largest distribution system operator for electricity, based on volume. The Grid & Infrastructure Division of our new company operates one of Europe's most powerful and advanced electricity and gas distribution networks. These networks are the backbone of the energy market transformation. A predictable regulatory framework in this area ensures secure and stable revenues.

The grid business represents stability for the future business model for innogy. From today's perspective, it would account for more than 60% of EBITDA.

The fact is that the grid business is precisely where the transformation of the energy market offers further potential for growth. Investment in distribution systems is a *sine qua non* for a green and decentralised energy supply. This is also shown by the Distribution Network Study conducted by the Federal Ministry for Economic Affairs and Energy. Between now and 2032, it predicts that investment will be needed ranging from €23 billion to €49 billion.

It is not just about expanding the networks, however. The main thing is to make networks smarter and more powerful. Here, too, RWE is ahead of the game:

- With high-efficiency cables such as the superconductor cable in the Ampacity pilot project, which is setting new standards in optimising network losses and use of space.

- With flexible storage systems such as the power-to-gas plant in Ibbenbüren.

- With intelligent control modules such as Smart Operator.

In short, we have a comprehensive construction kit that we would like to expand in future to include even more innovative items. That will give us the tools to construct the distribution system of the future!

I have great expectations for the Designetz research project, for example. It is being generously sponsored by the German government and is jointly supported by many different partners. It will be able to take on a trail-blazing role across Germany in ensuring an even stronger decentralised energy supply.

And there's more: modernising the entire technological infrastructure based on advances in digitalisation represents huge potential that goes well beyond our current core business activities.

RWE was early to understand that megatrends such as digitalisation of infrastructure and the transformation of the energy sector go hand in hand. This is something else that innogy will profit from.

Take broadband, for example: the expansion of fast internet has long been a small, but quietly lucrative business for RWE. We have already connected several hundred thousand households to the fibre-optic network, making a contribution to social development at the same time.

As an electricity grid operator, RWE achieves both synergy effects and cost benefits. That's why we are installing broadband in areas the major telecommunications companies tend to pass over. But now that the infrastructure has been installed, some of them are suddenly showing interest in making use of it.

In short, RWE is bringing fast internet to small towns and the countryside!

We are helping to modernise rural areas – to improve standards of living and economic prospects!

This always reminds me of something that Hugo Stinnes once said, more than a century ago: "Even the smallest farmer in the Bergisches Land should have light in his home – by having access to electricity as cheaply as possible." What was true of electricity then is true of fast internet now.

RWE is also well ahead of the game when it comes to e-mobility. The RWE Group maintains one of the largest publicly accessible charging networks, with just under 5,000 charging points throughout Europe.[1]

By offering incentives to buy electric cars, the German government has signalled that it is serious about e-mobility. It is not isolated measures that will make a difference, however, but a systematic change in thinking.

That's why I welcome the subsidy for expanding the publicly accessible charging infrastructure, which has also been approved. Specific terms need to be established for this promptly, to enable it to take effect from 2017.

I firmly believe that the charging system we have in place with cities and municipalities – known as "e-roaming" – serves as a role model. It is a cooperative arrangement that benefits all the players. More than 100 municipal utilities are already involved, and more are joining every month.

RWE considers itself an enabler in the process of further expanding the charging infrastructure. Our technology solutions and expertise position us as partner to the operators.

One thing seems to be clear – tomorrow's charging point will not be the same as a petrol pump today. Large numbers of

[1] More than 4,900

vehicles will no longer drive to petrol stations to refuel. They will recharge where they stop to park anyway – at work, outside the supermarket, or at home.

We are making our own contribution to this trend: through our cooperation with Aldi Süd, customers can charge their electric vehicles there at no cost. And employees at VW, Daimler and Siemens use our technology when they recharge. Motorway services operated by Tank & Rast also offer charging infrastructure from RWE – or from innogy in the near future.

There are also currently 6,000 charging boxes in private households. Even so, there's certainly room for many, many more. I believe the German government should consider incentive mechanisms in this area as well.

This closes the circle, as electric cars will be tied more closely to private electricity generation in future. They will act as buffers, or even storage units. And in this way they will help stabilise the grids.

RWE already offers everything needed in this regard, from the charging box to solar panels, including the home automation system to go with them.
innogy's general goal is to provide innovative future technologies that will make life better and more convenient for our customers. That isn't something we've just started

thinking about – for example, more than one hundred employees at our Innovation Hub have been working on this for some time now.

We rely on the creativity of our own employees – and we are searching worldwide for new opportunities to stimulate our business. We are rigorously pursuing our venture capital activities, both nationally and internationally.

And we're on the ground with our own innovation teams at the "hot spots" of the IT and energy industry, such as Silicon Valley, Tel Aviv and Berlin, where a lively start-up scene has been developing.

Right now, all those who see a place for themselves in digitalisation, big data and social media make the pilgrimage to Silicon Valley. I can understand that. But I really enjoy making the regular pilgrimage to Berlin. I'd like to fly the flag for Berlin, and for all of Germany. We have an exciting start-up scene of our own right here at home.

An excellent example of our focus on future technologies is our participation in Heliatek in Dresden. Heliatek's organic, extremely light and flexible solar films can be elegantly integrated into building façades, for example, or laminated onto glass surfaces, creating totally new application opportunities. Heliatek is no longer a start-up but has grown into a successful enterprise that will celebrate its tenth anniversary this coming autumn. We recognised the potential of this technology at an early stage and invested in Heliatek as long ago as the end of 2009, via our Innogy Venture Capital fund.

Our innovation offensive is also proceeding internationally: in recent months we have concluded numerous partnerships, mainly in the USA, with highly promising young companies such as the geodata specialist PlanetOS. We are already using the trail-blazing geodata technology from PlanetOS at our Gwynt y Môr wind farm, off the coast of Wales. The PlanetOS technology lets us record the key figures needed to operate 160 turbines at a glance. This helps us do a better job of coordinating maintenance work, for example, while also running the wind farm even more efficiently.

Our desire to drive forward our international innovation strategy is also demonstrated by some impressive figures. In spring, we founded our new venture capital company, RWE Ventures GmbH. It has been given a budget of €130 million for ten years. It focuses investment on new technology companies in the start-up and growth phases, in fields such as “Smart Grids” or “Big Data”.

That’s all for our summary of how things stand.

So – what specific steps do we need to take now?

Exactly three weeks from now, on 1 September, RWE International SE will be renamed innogy SE. Of course there will be no changes to either the contract terms or our multi-award-winning service for our customers.

On 1 October, further employees in back-office functions will move to innogy. The last of these transfer rounds will follow in 2017.

We are still planning the IPO for the fourth quarter of this year – depending on the situation on the capital market at the time.

This brings me to the outlook for 2016.

Our Group earnings outlook for the current fiscal year, which we published in the 2015 Annual Report, still applies. As we confirmed on 1 August, we still expect EBITDA of between €5.2 and €5.5 billion, an operating result of between €2.8 and €3.1 billion, and an adjusted net income of €0.5 to €0.7 billion.

A few adjustments must be made to the forecast at the segment level, however. The outlook for the Supply Division, where a moderate decline had been originally anticipated, is now more optimistic: the operating result is likely to be in the order of last year's level, in particular thanks to the positive developments in the UK. In contrast, the Trading/Gas Midstream Division will probably close the year much lower than in 2015 due to the unexpectedly weak second trading quarter. A significant improvement in earnings had previously been expected. The forecast for the other segments remains in place.

That's enough from us for now. We look forward to your questions.