Peter Terium/ Dr Bernhard Günther
RWE AG mid-year press conference
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Check against delivery.

Peter Terium

Ladies and Gentlemen,

Good morning from Essen and welcome to our conference call.

My Executive Board colleagues Rolf Martin Schmitz, Bernhard Günther, Uwe Tigges and I would like to thank you for joining us.

Well, here we are again. On Monday we were talking about the restructuring of RWE; today, the focus is on our business performance during the first half of 2015.

You could almost say it's impossible for you to avoid RWE right now. But I can assure you: we have no more press conferences lined up in the next few days. Although you never know…

First, some key indicators, following which Bernhard Günther will provide more details on our business performance.

In the first half of 2015, we achieved an EBITDA of €3.2 billion and an operating result of €2 billion. As expected, these figures are down on the corresponding results for last year, with decreases of 7% and 11% respectively. The main contributing factor was the continued decline in margins in conventional electricity generation. However, in the area of energy supply, which contributed €614 million to our operating result across Europe (previous year: €589 million), we benefited from weather effects. This was strongly driven by the gas business, but was, however, partially offset by burdens caused by unexpected operational and technical problems in our UK supply business.

Adjusted net income, which we used to call ‘recurrent net income’, declined by 28% to €543 million.

Although the decline in the Group operating result is no surprise, it goes without saying that we are not happy with it, and we are doing everything in our power to counteract it.

We went public with details of the planned restructuring of RWE three days ago. The restructured Group will be

significantly leaner, faster, more efficient and more powerful. And we will be closer to our customers.

Granted, compared to what our competitor in Düsseldorf has planned with its split into two companies, our own project is less radical and less spectacular.

Even so, this does not yet answer the question of what the right strategy is – assuming there even is one in a period of such great uncertainty in our industry. We asked ourselves this very question just under three years ago and, at the time, we reached a different answer. Apart from choosing to sell RWE Dea, we decided that RWE should remain an integrated energy company. That still applies, for the time being. We are expressly not making a categorical statement that we cannot imagine a scenario of this nature. Quite the opposite, in fact: something may still happen that would make such action beneficial. However, we currently do not perceive any <u>immediate</u> pressure to act. There are a number of reasons for this:

<u>Firstly</u>: As an integrated enterprise, we are in good company. Consider Enel in Italy, Centrica in the UK or CEZ in the Czech Republic: European energy companies generally group conventional and renewable generation, trading and supply under one roof – and the networks too, where the regulations allow it. Integrated

energy providers are also the norm beyond Europe. My conversations with colleagues in Europe's Magritte Group or the international Global Sustainability Energy Partnership have shown me one thing: none of these companies has currently expressed any intention of splitting up. The Düsseldorf undertaking is therefore unprecedented and no-one has yet seen fit to imitate it.

<u>Secondly</u>: <u>Currently</u>, we see no long-term share-price potential in splitting up the company. Integrated energy companies that actively manage their portfolios tend to offer more opportunities. They can draw on synergies between the individual business areas, but rigorously hive off segments that bring no added value to the rest of the business – say Dea or Urenco, for example.

A specific example of synergies is the role the trading business plays as the commercial core of the Group. We use our expertise in that area to optimise our power station fleet as well as in marketing renewables and in key account supply.

On the whole, a glance at the shares of RWE and its competitors shows that share price movements are driven mainly by fundamental company data and the discussion on energy policy.

That's why we are concentrating mainly on how to further improve our operating business.

And that is exactly why active, well-designed and sustainable portfolio management is the focus of our strategic deliberations. In the past we have focused on certain areas in this regard (e.g. Dea) and we will continue to do so in the future.

<u>Thirdly</u>: We are counting on stable revenues along the entire value chain. Fixed feed-in compensation for renewables guarantees moderate, but stable returns. The same applies to the regulated network business. The conventional generation business in Europe is increasingly developing away from producing as many megawatt hours as possible and towards making back-up capacity available for renewables. This income flows away from volatile margins in the wholesale business and towards market-oriented capacity premiums for security of supply.

We are currently in the difficult period of transitioning from one position to the other. This transition is much further advanced in the UK, France and other European markets. I am firmly convinced that we in Germany cannot avoid a capacity market – and the industry is of the same opinion.

We do notice, however, that this realisation only ever leads to action when things become tight. The further development of the energy-only market that the German government has in mind is therefore, in our view, a

necessary step, but will not be sufficient in the medium term. That is why I am campaigning to continue the discussion on introducing a capacity market, so that we do not run out of time at the end of the day. After all, the experience in the countries I mentioned just now shows that we need at least four years to prepare, or even longer.

Under different circumstances, therefore, conventional power generation would stabilise again, though at a much lower level.

To sum up: what we would then have is a balanced mix of "traditionally" regulated business in the area of renewables and networks, market-oriented premiums for conventional power stations, and competition in the highly competitive supply business. That would spread the risk wide and provide a high level of calculability for investors.

I grant that the future of conventional power generation depends essentially on what happens with the framework conditions for energy policy in future. This is why we do not entirely rule out the possibility of splitting the company, but for us this is only an option, not a strategy, which is <u>point four</u> of my presentation today.

<u>Fifthly</u>: Our “Yes” to the value chain is not set in stone. The energy world is constantly changing and we will review our decision regularly. In the current uncertain situation, we must stay calm, do our homework, work on making the company faster, bringing innovative products to market and satisfying our customers. For us, developing long-term future concepts takes priority over short-term profit objectives. Splitting up the company would involve problems and risks that are almost impossible to foresee. The reaction of the government in Berlin to what is happening in Düsseldorf is a good example (e.g. with regard to extended liability period).

So: it is not always good to be a “first mover”. Sometimes it’s preferable to be a “fast follower”.

That concludes what I have to say on this subject.

You will be aware that we are struggling for economic survival in the area of conventional electricity generation. We are doing all we can to keep our cash flow and earnings in the positive zone. RWE Generation will be making further efforts to achieve this as part of our €2 billion efficiency-enhancement programme.

One thing is certain for us in this regard: even if conventional power generation is under huge pressure right now, it will continue to have a role for the

foreseeable future in complementing the use of renewables. The key question is whether – and how – this will be taken into account in setting the framework conditions for energy and climate policy.

In this connection, the fact that the coalition has abandoned the proposed climate levy is a good thing. This would inevitably have led to structural rifts in the lignite-producing regions, and substantial social disruption – not to mention the impact on security of supply. Instead, a capacity reserve is now to be established. The reserve is to amount to 2,700 megawatts and be restricted to lignite-fired power stations. This is nothing to celebrate, however, since it will mean closing down commercially viable power station units and reducing headcount by about 1,000 at RWE alone. But it will make socially compatible structural change possible in the mining regions. At least there's that.

In passing, I should note that according to a recent Forsa survey, a large majority of Germany's citizens – 75% – considers the traditional energy sources essential for guaranteeing security of supply. Sixty-three percent expressly opposed decommissioning coal-fired power stations.

The cabinet decision on the capacity reserve is now moving into the parliamentary stage. These discussions

will lead to a decision on the details of how the reserve will be structured. Therefore, we cannot currently assess which of our lignite units will be considered for the capacity reserve.

Ladies and Gentlemen,

The energy transition is being accompanied by the huge global digital revolution.

We are living in a time of rapid change, characterised by global mega-trends that will affect us for the long term – a subject that has occupied us for some time now. These include:

- **Big Data, or the use of increasing volumes of data with rapidly increasing processing speeds, to produce new, data-based business models.**

- **The Internet of Things, or Industry 4.0, in other words the massive growth in networking between products and devices of all kinds. In 2012, the number of devices communicating with each other via their own IP address and able to communicate with each other was around 12 billion; reliable estimates suggest this figure will reach about 75 trillion by 2020.**

- **The Sharing Economy, which refers to new business models offering shared use of all kinds of goods and services without the need to actually own them, posing a huge threat to traditional asset-based business.**

Overlaying these mega-trends are economic and demographic changes that will lead to further growth in energy consumption worldwide:

- **Digitisation will penetrate every sector, including the energy industry. And so, also in our own sector, every process capable of being digitised, will be digitised.**

- **Global population growth, the disproportionate growth of a consumption-oriented middle class and the needs of that group for communications, mobility etc. will cause a worldwide increase in demand for energy. The result will be further urbanisation, and the creation of urban agglomerations with tens of millions of inhabitants. The population of the world's cities will grow to about 6.3 billion, most of whom will live in "megacities" with more than 10 million inhabitants each.**

- **The increasing decarbonisation of the energy industry and the presence of more renewables in**

the system will push up overall electricity consumption at the expense of other forms of primary energy such as gas and oil. Demand for electricity for mobility, heating and small-scale networks, known as "peer-to-peer networks", will increase.

- **In other words, the energy world will become more electrified, more decentralised – and more complex as a result. It will be more tightly networked via smart grids and products, and the expansion of renewables will make it more sustainable.**

We want to draw on these trends to achieve renewed growth. By developing projects and products that respond to these mega-trends and also make a contribution to the new decentralised and digital energy world. With decentralised energy solutions, e-mobility, solutions for the electricity supply in major cities and the expansion of renewables. But at the same time, we will continue to focus on strict financial discipline. It's what I call a controlled offensive.

The basic precondition for new growth is innovations and new technologies. This is why RWE has put "innovation" right at the top of its agenda.

We have the foundations for an innovation-friendly RWE in place: by defining areas of innovation that are relevant to us, with offices in Silicon Valley and Israel, and through cooperation with developers and start-ups. The creation of the “German Tech Entrepeneurship Center” initiative, or GTECin collaboration with ESMT and industrial partners such as Henkel was a milestone in this regard. We have also merged the areas of strategy and innovation within RWE AG.

When it comes to innovation, we can do “small” as well as “big”. Just one example: as you know, RWE wants to be a “decentralised energy manager” for its customers. We have launched our first start-up with the “easyOptimize” box. The box provides our customers not only with information on their current energy consumption but also on how they can optmise it. The next step with this innovation is then to enable dialogue between multiple “private energy producers”. Neighbour A may be able to help out with their micro-CHP when neighbour B is temporarily not able to produce electricity with their photovoltaic system – a development that makes full use of the digitisation and Big Data trends.

We view innovations as the basis for new growth in our three future areas: the network business, renewables and supply.

We are achieving stable revenues in the regulated network business in Germany and Eastern Europe. Our efficient regulation management and decades of experience in network operation are paying off here.

The continued expansion of renewables produces growth opportunities in the network business. Green electricity is taken up almost entirely by the distribution systems. RWE distribution system operators alone have connected more than 300,000 "renewables" plants to their distribution systems. We have the most powerful networks in Germany and transport the most energy.

The distribution systems are increasingly taking on the role of a technology platform for the changing energy markets. They are increasingly performing the task of collecting electricity. To achieve this, there is one thing they are becoming above all else: smarter. Our capital expenditure to this end last year amounted to just under €770 million. Between 2015 and 2017 we intend to invest some €2.5 billion in expanding and modernising our distribution systems in Germany.

To draw an analogy with road transport – in simple terms – there are two key elements here:

As electricity consumption increases in the cities, we need wider roads, in other words, greater and more efficient capacities in the network. We are doing this

very successfully – for example by way of our "Ampacity" project. Without the super-cable, it would be almost impossible to imagine the megacities of the future – where would we even put all those conventional transformer boxes?

Secondly, in the past the flow of electricity has been a one-way street – from the power station to the customer. With the decentralised feed-in of green electricity, however, we get two-way traffic to a certain extent. Electron traffic, that is. This is why we are developing "smart grids", in other words intelligent measuring and distributed control systems that bring electricity supply and demand into balance.

As part of two demonstration projects – "Smart Country" and "Smart Operator" – we are investigating the interactions between distribution systems and consumers in various different locations. In this connection I should note that "Smart Country" received the "GreenTec Award" in the "Energy" category at the end of May. We are also involved in the innovation project "Grid4EU". The objective of all of these projects is to optimise the flow of electricity from both a technical and a commercial perspective and to stabilise the network as the feed-in of green electricity continues to increase.

The German government is emphasising the importance of the distribution systems as the backbone of the energy transition by offering substantial subsidies for the integration of renewables into the network. On behalf of 36 partners from industry and research, RWE submitted an outline for the project known as "Design network – Energy transition kit – From individual solutions to efficient systems of the future" to the Federal Ministry for Economic Affairs and Energy (BMWi). We believe we have a strong chance of success.

In the area of renewables we have been through a learning curve and can now start to reap the benefits. Following the recent commissioning of the two large offshore wind farms Nordsee Ost and Gwynt y Môr, we have moved into the Champions League of wind power operators with an offshore capacity of some 1,000 megawatts.

For this year we are expecting Innogy to double the result of €186 million that it achieved in 2014.

For the period from 2015 to 2017 we will make about €1 billion available for the further expansion of renewables.

As a general principle, in future we will no longer undertake large, highly capital-intensive projects such as offshore wind farms alone. We will continue to make

smart investments in renewables. Our guiding principle here is “from volume to value”. And we will be concentrating in this regard on making use of wind power, both on and offshore.

Work will start on the Nordsee One offshore wind farm in 2016. Following the sale of our majority stake, we retain a 15% shareholding in this project. Other development projects for which we have a partnership arrangement are the Nordsee 2 & 3 wind farms in Germany, and the offshore wind projects Galloper and Triton Knoll in the UK. We are also driving forward the Kaskasi wind farm in Germany’s North Sea area, off Heligoland.

One option for further involvement in offshore wind involves participating in the auction for the Borselle wind farm off the Rotterdam coast in the Netherlands.

We are one of Europe’s major onshore wind farm operators, with a generating capacity of around 2,000 megawatts. However, this is not enough. In four European countries[1] we are currently building eight onshore wind farms with a total generating capacity of 220 megawatts. One of these is a likely record-holder: our 90 MW Zuidwester project in the Netherlands, which will not only include the world’s largest wind turbines,

[1] Germany, the UK, the Netherlands and Poland

at 7.5 MW each, but will also – togethter with assets from our partner investors – form Europe's largest onshore wind farm.

On the whole, therefore, the positive operating result achieved recently in the Renewables Division has given us confidence. We are once again much more open to new projects. And if any truly attractive options should arise, we will ensure that they are financed and implemented.

Although the <u>supply</u> business is subject to vigorous competition, we ourselves are highly competitive in this area and assert ourselves well on the market. With a total of some 23 million electricity and gas customers – including 8 million in Germany – we are in a strong position in this segment. With eprimo, we are the market leader in online supply.

New and innovative products such as SmartHome help protect our existing supply business while enabling us to prepare for the market of the future – the key word here is 'digitisation'. We also no longer market our innovations only as "own-brand products" but also collaborate with municipal utilities that put their own logo on the products.

This is why the growth fields of "decentralised energy solutions" and "innovative products" are the focus of

our supply activities. They complement the traditional commodities business.

In other words, our customers expect more from us than just fair prices and security of supply. This was confirmed once again by a Forsa survey just a few weeks ago.

They also expect products that are precisely tailored to suit their requirements. At the same time we can see how our customers' behaviour is changing more and more – especially among our residential customers: from just consuming electricity to generating and storing their own.

An attractive market independent of the traditional business model is taking shape here, and it is one that we will make more efforts to address. We will not be starting from scratch, however. Our extensive range of products and services for different customer groups is pretty impressive. You will be familiar with the products I mean: in addition to SmartHome, which I have already mentioned, and for which we are the market leader, there is SmartCompany, HomePower Solar, energy consulting, the House of the Future in Bottrop, heating contracting, micro-cogeneration, Power to Heat and much more besides.

And another thing: three of the top five companies offering the best service quality, as judged by independent observers such as “TOP SERVICE Deutschland” or “ServiceRating” are RWE member companies: RWE Vertrieb, eprimo and enviaM.
The reward at the end of the day is reflected in stable customer numbers.

We also must not forget about electric mobility. In terms of infrastructure, our 4,400 smart charging points make us front runners in Europe. Although electric mobility is still struggling here in Germany, the situation in other countries is quite different. But here, too, without electric mobility, it would be impossible to cope with increasing urbanisation and the long-term restructuring of the energy systems.

Together with Nissan – the global market leader in electric vehicles – we are working to drive forward emission-free mobility at trades companies. Together, we have brought to market a package of e-mobility products and services for RWE partner companies. These companies can purchase the Nissan e-NV200 for up to 21% below list price and a free charging box for charging in company buildings. This offer can result in savings of up to €5,000.

And recently we began working with Aldi Süd. Using RWE's quick charging points, Aldi customers can do a renewable recharge for free.

The good thing about this is that these projects, and others, not only prepare us for the megatrends and for the future; they are also earning us money right now.

A good example of the economically successful realignment of our supply business in accordance with the energy transition is our subsidiary enviaM in Chemnitz. Besides the traditional supply of electricity, gas and heat, enviaM already offers its customers more than 70 different products and services. With these energy service packages, enviaM now generates about 10% of its sales revenue.

Besides aligning our operational business with the energy transition, we are focusing more on growth in Eastern Europe and beyond:

- **We entered the Croatian gas market at the start of 2015;**

- **We have been active in Slovenia since June 2015;**

- **We have had a nationwide presence in the gas business in Poland and Hungary since July 2015;**

- **And also since July, the regional Slovakian electricity provider VSE, in which we have a 49% shareholding, and RWE Gas Slovensko have come under common ownership. The company now sells both products nationwide from a single source. RWE is responsible for the business management aspects of VSE.**

- **We do all of this via the existing supply structure on-site. That is what I call organic growth.**

- **We also must not lose sight of our involvement in the MENA region, which is now reaping its first rewards with the successful acquisition of two well remunerated consulting projects in Abu Dhabi and Dubai, and which is continuing to grow in interest for us.**

That is all I have to say on the subject of the “controlled offensive”.

So now I will hand you over to Bernhard Günther, who will discuss our business performance.

Bernhard Günther

Thank you, Peter.

Ladies and Gentlemen,

Good mornig from me, too.

Peter Terium has already mentioned the key financial indicators for our business performance.

As usual, I would like to limit myself to the main aspects of our business performance, to leave you more time for questions.

As expected, the trend from the first quarter continued and our mid-year results reflect the difficult environment that the energy industry continues to experience.

EBITDA was €3.2 billion and the Group operating result was €2.0 billion, down 7% and 11%, respectively, on the same period last year. The main contributing factor was the continued decline in margins in conventional electricity generation. Conversely, our energy supply across Europe benefited from the positive effect of the weather on sales, in particular in the gas business. The

reconciliation of the operating result to net income is as follows:

The non-operating result deteriorated by €585 million to -€447 million. The reasons were declines in capital gains and the accrual of provisions for legal risks arising from pending lawsuits in particular.

Our financial result improved by €272 million to -€635 million, predominantly due to the proceeds from the sale of securities and the fact that the interest accretion to non-current provisions declined. In the previous year we reduced our discount rates in reaction to the drop in market interest rates.

Our tax burden increased substantially during the reporting period. During the first six months of 2015, our effective tax rate rose compared to the previous year, from 27% to 48%. This was because we cannot offset tax losses within RWE AG's tax group for the foreseeable future in the absence of sufficient revenue. However, we anticipate that the effective tax rate for 2015 as a whole will be considerably lower than during the first six months.

The item "Income from discontinued operations" still includes RWE Dea, as it did in the first quarter, and shows the book gain on the sale of RWE Dea of around €1.5 billion.

This book gain is also the reason why our net income increased by 70% year on year to about €1.7 billion.

Adjusted net income, which calculates the book gain from RWE Dea and the non-operating result separately, was just under 28% below the previous year's figure, at €543 million. Contributing factors were the deteriorated operating earnings and the significant rise in the effective tax rate that I mentioned earlier.

I would like to close, however, with a positive message. This relates to our net debt. Since the end of 2014 this has fallen, in round figures, by €5 billion, from €31 billion to €26 billion. The sale of RWE Dea played a major part in this. This total represents a further decrease of €2 billion since the end of March. We can see from this that the trend toward constantly falling interest rates has turned around and had a positive effect on provisions for pensions. Compared to the end of the last financial year, discount rates for provisions for pensions in Germany rose from 2.1% to 2.3%, and for those in the UK, from 3.4% to 3.7%. Our provisions for pensions fell as a consequence by about €0.8 billion. At the end of the first quarter, provisions for pensions were still up by about €1.4 billion because interest rates and discount rates had been declining until that point.

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

Peter Terium

Thank you, Bernhard.

Ladies and Gentlemen,

I'll keep it short. There is no question that we are facing an uphill struggle. The crisis in conventional electricity generation, in particular, continues to cause us a lot of trouble. That can't be denied.

But there is one thing that I hope has been made clear today: we have a plan to bring the Group back to its old strength again:

- **This strategy builds on a restructured RWE with an operational AG that will draw the best out of the interplay between the various business areas.**

- **Active portfolio management remains on our agenda.**

- **Strict spending discipline and an ambitious efficiency-enhancement programme will bolster our financial strength.**

- **Further, cautious steps into new markets will help us grow organically.**

- **At the same time we are looking beyond our own horizons and have our sights firmly on the future. In this regard we have identified global megatrends relating to technology/economy, demographics and the energy industry.**

- **It is these megatrends that we will focus on: with innovative products and services in the three growth areas of networks, renewables and supply.**

This brings me to our outlook:

As some of the aforementioned burdens were much heavier than assumed in our budgets, we had to make a correction to our forecast for Supply United Kingdom for the full year. We no longer expect RWE npower to close 2015 moderately up on 2014. Instead, we anticipate a significant deterioration in its operating result.

The outlook for all other divisions remains unchanged.

The positive message is that we are able to confirm our outlook for the indicators at a Group level, despite the worsening of our UK supply business. We currently anticipate that EBITDA will be between €6.1 billion and €6.4 billion. The operating result is expected to range

from €3.6 billion to €3.9 billion. Adjusted net income should total between €1.1 billion and €1.3 billion.

That's about it, ladies and gentlemen, from our side. Now the floor is open to you for any questions you may have.

Thank you very much.