Report on the first three quarters of 2014
Conference call for journalists
10:00 a.m. CET on 13 November 2014
Speech notes for Dr. Bernhard Günther

Check against delivery.

Ladies and Gentlemen,

Good morning to you all from Essen and welcome to our conference call.

As I usually do at this time of the year, I would like to bring you up to date regarding RWE's business performance during the first three quarters of this year. I'd like to lead with the following key points.

EBITDA was down 22% year on year, to **€4.7 billion**. This figure is in line with expectations. The same applies to our operating result, which declined by 31% to **€2.9 billion** compared to 2013.

The main reason was that the figures for 2013 included substantial extraordinary income from the compensation we were awarded by an arbitration court in the price revision proceedings with our gas supplier Gazprom. In addition, weather induced revenue shortfalls in gas supply and a deterioration in generation margins came to bear.

Furthermore, the earnings of the Czech long-distance gas network operator NET4GAS, which was sold last year, were no longer recognised.

Recurrent net income, the basis that we use to calculate our dividend, decreased by 60% to **€763 million**.

The above-mentioned factors were also evident here. Furthermore, the upstream business of RWE Dea, the sale of which is currently pending, did not contribute to the Group's recurrent net income during the period under report. Nevertheless, in the previous year, RWE Dea was still contributing earnings of **€209 million**. Although this activity will be considered in recurrent net income for the full year, it will only contain the prorated interest on the price that LetterOne has contractually undertaken to pay us for the period from 1 January 2014 onwards.

Our earnings outlook for fiscal 2014, which we confirmed most recently in mid-August, remains unchanged. Leaving RWE Dea out of the equation, this means we are expecting EBITDA of **€6.4 to €6.8 billion** and an operating result of between **€3.9 and €4.3 billion**. Recurrent net income – including the interest on the sale price for RWE Dea – should be in the order of **€1.2 to €1.4 billion**.

With regard to the planned disposal of RWE Dea, we are working on closing the transaction quickly, but some third-party approvals are still pending. We cannot predict whether we will be able to bring the talks to a conclusion during 2014.

A positive aspect is that our cash flows from operating activities were 6% higher than the corresponding figure from last year, at **€4.8 billion.** The high level of cash inflows was the main reason why we managed to reduce our net financial debt by **€2.3 billion** to **€8 billion**. As you know, we want to fully finance our capital expenditure and dividend payments with operating cash flows and intend to achieve this goal by no later than 2015.

Another piece of good news is that we pre-qualified for the new UK capacity market across all of our eligible power stations. The qualified volume amounts to **8,000 megawatts** of net installed capacity. This makes us the second-largest participant in the capacity auctions, which are scheduled to take place in December and will determine which power plants are included in the capacity market. The operators of these stations will be compensated for making secured capacity available to the market on top of receiving the revenue from electricity sales.

We were particularly delighted to have recently been awarded twice for our sustainable management: RWE was again included in the group of Dow Jones Sustainability Indices (DJSI) and qualified for the Climate Performance Leadership Index published by the non-government organisation Carbon Disclosure Project. In particular the latter of the distinctions, which we received for measures taken to reduce our carbon dioxide emissions, shows that we are on the right path.

A brief comment on current energy policy: in its Green Paper on electricity market design, the Federal Ministry for Economic Affairs and Energy (BMWi) reveals a clear preference for further developing the Energy-Only-Market (EOM) plus a strategic reserve – in other words, no capacity market. This approach might be suitable as a transitional solution. But it is not a sustainable concept that will fix the functional shortcomings of the electricity market. The strategic reserve would become increasingly larger and more expensive. Hoping for occasional price spikes is no business model for a capital-intensive sector. Our neighbours are doing things the other way around. Starting in 2016, France will introduce a capacity market with a decentralised structure – and Belgium and the Netherlands are assessing whether to follow France’s example. Germany must not remain an EOM island in the middle of the Single European Market. The goal must be a design for a decentralised capacity market that is coordinated at a European level – a patchwork of different market models is not a meaningful alternative!

Let me now give you a few more details regarding the business performance of RWE in the first three quarters of 2014.

Firstly, **electricity generation**:
Between January and September this year, the RWE Group produced **151.2 billion** kilowatt hours of electricity, representing a decline of 6% year on year.

One of the reasons was that we had to shut down our almost **2,000-megawatt** hard coal-fired power station Didcot A at the end of March 2013. The facility was subject to a lifetime limitation resulting from EU pollutant emission regulations applicable to large combustion plants.

Margins forced us to make less use of our German hard coal units. In contrast, our generation from hard coal was up in the Netherlands, firstly because utilisation of the two units of the Amer power station rose following outages for maintenance last year and secondly due to the first trial runs of the power plant at Eemshaven, which is under construction.

Unscheduled outages were the main reason for curtailed production from our lignite-fired power plants.

We also experienced a decline in generation from renewable energy, as we were forced to shut down Tilbury biomass power station in the UK in the summer of 2013.

Conversely, generation from our gas-fired power stations rose marginally, in part due to the improvement in conditions on the UK market. Furthermore, utilisation of our

Staythorpe and Pembroke stations increased after having been offline temporarily last year for retrofits.

In contrast, capacity utilisation of our gas-fired power stations in Continental Europe worsened further. We took some stations off the market either temporarily or permanently in view of their extremely low margins and deployment.

Regarding electricity sales volumes:
Our electricity deliveries to external customers declined by 4% to **191.7 billion kWh**. This reflects the drop in our generation volumes, which resulted in RWE Supply & Trading selling less electricity produced by our power stations on the wholesale market.

In addition, the extremely mild winter in 2013-2014 resulted in lower demand for household electricity. We also had to absorb a small number of customer losses.

Another reason for the drop in sales volume in the residential customer business is that we sold our UK supply subsidiary Electricity Plus Supply at the end of last year. Instead of being supplied by us directly, its customers now obtain electricity from us indirectly via a supply agreement with the new owner Telecom Plus.

We now state volumes supplied to Telecom Plus in the distributors segment, where we posted a slight gain despite losing a Dutch key account. Sales to industrial and corporate customers also rose. New customer acquisitions played a major role here. There was also stronger demand for our electricity from a number of major existing customers.

And now for **gas sales:**
Our gas sales volume declined by 19% compared to the previous year's period, to **184.6 billion** kWh. The much milder weather compared to last year clearly left its mark, especially on the residential and commercial customer business. We suffered a substantial drop in sales volume in this supply segment.

Furthermore, the sale of the UK supply subsidiary Gas Plus Supply to Telecom Plus, which was completed at the end of 2013, caused sales volume to be shifted from the residential and commercial customer group to the distributor segment, as did the divestment of Electricity Plus Supply mentioned earlier.

The fact that we still sold less gas to distributors is partly due to weather influences and to the expiry of a supply agreement with a key account. This was contrasted by volume growth posted by companies belonging to RWE Deutschland, which won new buyers and stepped up their supply activities with existing customers.

In the industrial and corporate customers segment, we felt the increase in pressure from competitors – particularly in the Netherlands.

Now on to revenue developments:
In the first nine months of the year, our external revenue amounted to **€35.3 billion,** 9% down on the previous year's period.

The significant drop is attributable to the gas business, where revenue dropped by 23% to **€7.9 billion**, largely due to the weather-induced decrease in sales volume.

Electricity revenue declined by 3% to **€25.2 billion**. Drops in volume were again the main reason.

This brings me to our **operating result**:
As I mentioned earlier, our operating result was down 31% on the level of the previous year, at **€2.9 billion**. I have already mentioned the main reasons for this.

The picture for the individual divisions is as follows:

The operating result from **conventional electricity** generation fell by 7%, to **€782 million**.

The main reason for this is that we realised a lower market price for this year's German and Dutch electricity generation than in 2013. This was only somewhat cushioned by price-driven relief in the purchase of fuel (especially hard coal). Further earnings shortfalls resulted from the decommissioning of the Didcot A and Tilbury power stations.

A positive influence on the result came from our continuing cost-reduction programme. In addition, depreciation was lower because on the one hand the assumed lifetimes of our power stations changed, and on the other hand the carrying amounts of the Dutch generation portfolio dropped owing to the impairments which we recognised for it in 2013.

The operating result of the **Supply/Distribution Networks Germany** division improved by 11% to **€1.4 billion**, despite lower gas revenues caused by the weather conditions. Progress with our efficiency-enhancement programme contributed to this outcome.

The operating result posted by our distribution network activities was stable, although the framework conditions in the German electricity network business have become more challenging since the beginning of the new regulatory period, which runs from 2014 to 2018. We benefited from efficiency enhancements here as well. Furthermore, we achieved higher income from the sale of networks.

In **Supply Netherlands/Belgium,** the operating result of **€96 million** was well below the previous year's figure of

€244 million. The result in 2013 was still characterised by positive one-off effects from the release of provisions.

The extremely mild weather and competition-induced drop in margins also weighed on our gas supply business. However, we recorded additional income from the successful marketing of new supply offerings.

Supply United Kingdom suffered a 56% decrease in earnings to **€90 million**. This development can be attributed to factors such as increased expenditure on network usage and electricity and gas purchases. The milder weather conditions also made themselves felt. Additional costs were incurred for improvement measures in our customer service business and for the implementation of the Energy Companies Obligation (ECO) state programme.

The aforementioned sale of the supply subsidiaries Electricity Plus Supply and Gas Plus Supply also reduced earnings, because we now only serve their **770,000** customers indirectly via their new owner Telecom Plus, causing us to realise lower margins.

Although we expect a strong fourth quarter, we are now assuming that RWE npower's earnings will be much lower for 2014 as a whole. We had originally forecast a moderate decline.

This brings me to the **Central Eastern and South Eastern Europe** division. Our operating result here fell 36% to **€528 million** – mainly the result of the sale of Czech long-distance gas network operator NET4GAS on 2 August 2013. Last year, the Czech long-distance gas network operator contributed earnings of **€171 million** until it was deconsolidated. Net of the effects of the sale of NET4GAS and currency translation, the Central Eastern and South Eastern Europe Division closed the reporting period down 16% year on year. One of the reasons is that we now recognise certain transactions concluded to hedge currency risks, which had a positive impact on the operating result in 2013, in the non-operating result.

In the Czech Republic, the weather-induced drop in gas sales volumes led to earnings shortfalls. Moreover, we realised lower margins in the local gas storage business.

In our **Renewables** division, the operating result totalled **€29 million**, which was also well down on the previous year's figure of **€111 million**.

The main reason was the delay in the construction of our new biomass-fired power station near the Scottish town of Markinch and the increase in incurred costs. In consequence, we recognised an impairment loss for the project. We had to make a significant upward correction to the associated depreciation compared to the amount recognised in the financial statements for the first half of the year. The biomass facility with a rated electric capacity of **46 megawatts** has been in commercial operations since March 2014.

RWE Innogy's earnings were further curtailed by the reduction in subsidies for renewable energy plants by the Spanish government. In addition, utilisation of our German hydroelectric power stations fell short of the high level of the previous year due to weather conditions. In addition, our German biomass activities hardly contributed to RWE Innogy's operating result because we almost entirely transferred them to the Supply/Distribution Networks Germany Division with effect from 1 January 2014.

The commissioning of new wind turbines had a positive impact. Furthermore, the operating result achieved in the same period last year reflected one-off charges, including for example the impairment loss on our minority interest in the Spanish solar thermal power station Andasol 3 in the south of Spain.

The **Trading/Gas Midstream** division achieved an operating result of **€222 million**. We benefited here from the settlement reached in the most recent price revision with Gazprom at the end of February 2014. As a result, our gas procurement agreement with the Russian gas group will not curtail our earnings until the next regular price revision, which is scheduled for June 2016.

Burdens imposed by gas storage and transmission capacity contracted over the long term, the management and marketing of which do not cover their costs, had a negative effect. The performance of the trading business was much better than in 2013. Overall, however, as expected the operating result recorded by the division fell markedly short of the strong figure achieved a year before, which was unusually high because we were granted compensatory payments in the middle of 2013 by an arbitration court for losses incurred from our gas procurement contract with Gazprom.

That concludes my report on the performance of the individual divisions.

And now to **headcount:**
The RWE Group had **60,439** people on its payroll as of 30 September 2014 (excluding RWE Dea). Part-time positions were included in this figure on a prorated basis. Since the end of 2013, **4,457** employees have left the Group, **1,373** of whom worked at our German sites and **3,084** of whom worked at locations outside Germany. We recorded declines across all divisions. Efficiency measures played a central role. Furthermore, sales and acquisitions of companies took a net **1,046** people off the Group's payroll. The single-largest effect was the deconsolidation of the IT service provider GISA, which is domiciled in Halle, Germany.

With regard to our **capital investment:**
At **€2.3 billion**, this was 10% lower than in the previous year. Investment in property, plant and equipment and intangible assets amounted to **€2.2 billion**, down 11% on 2013. Capital expenditure on financial assets, at **€87 million** – previous year: **€68 million** – was of minor significance. The expansion and modernisation of our electricity generation capacity were the focal points of our investing activity. This holds true especially for the Conventional Power Generation Division, in other words the two hard coal-fired power stations in Hamm, Germany and in Eemshaven, in the Netherlands.

We have also invested capital in renewables. The most important individual projects are the offshore wind farms Gwynt y Môr **(576 megawatts)** off the coast of North Wales and Nordsee Ost **(295 megawatts)** near Heligoland. Both of these wind farms are expected to be fully commissioned during the first half of next year.

On **cash flow:**
As I mentioned right at the outset, cash flows from operating activities, achieved through our continuing operations, increased 6% to **€4.8 billion** despite the decline in our operating result.

The different developments in terms of operating result and cash flow arise in part from the fact that we received higher advance payments in our supply business.

In addition, pursuant to a ruling handed down by the Hamburg Fiscal Court, in May 2014 we were refunded the nuclear fuel taxes paid for the Emsland power station at Lingen since 2011. Since the decision on the legality of the levy is still pending, we accrued provisions commensurate with the tax refunds, which therefore do not have an impact on earnings for the time being.

Cash flows from operating activities, minus capital expenditure on property, plant and equipment and intangible assets, results in free cash flow. At **€2.6 billion**, this was 25% higher than in the previous year.

Our **net debt** remained unchanged compared to the end of the previous year, at **€30.7 billion** as at 30 September. This includes the net debt of RWE Dea, amounting to **€969 million**. Our net financial debt fell substantially, as I noted above, by **€2.3 billion** to **€8 billion**. This represents a drop of 22%. This was largely due to the high level of free cash flow and around €700 million in proceeds on the disposal of assets. Profit distributions and changes in currency exchange rates had a counteracting effect. The improvement of our net financial position was contrasted by a significant increase in provisions for pensions. This was primarily a result of our gradual reduction of the discount rates for pension commitments during the period under review.

Ladies and Gentlemen, that about covers the key financial indicators of RWE's business performance in the first three quarters of 2014.

I now look forward to taking your questions.