Report on the first quarter of 2014
Conference call for journalists
14 May 2014, 10.00 a.m. CEST
Speech notes for Dr. Bernhard Günther

Check against delivery.

Ladies and Gentlemen,

Good morning to you all from Essen.

Welcome to our conference call.

You will be familiar with the routine: I will start by outlining the business performance of RWE in the first quarter of 2014.

Afterwards, I will be happy to answer any questions.

As expected, our results for the quarter reflect the difficult environment the energy industry is currently in.

Our Group operating result was down 18% year on year, to **€1.9 billion**.

The crisis in conventional electricity generation in particular caused further earnings shortfalls. This was compounded by an unusually mild winter, following the extreme cold experienced in the previous year. This resulted in a decline in earnings from our gas business. The Czech long-distance gas network operator NET4GAS, which was sold in August last year, also no longer contributed to earnings.

Recurrent net income – which as you know is the basis for our dividend policy – was down 36% year on year, at **€838 million**.

But there is also good news.

One example is the success we achieved at the end of March, when the contract to sell RWE Dea to the LetterOne Group was signed.

Another is the successful conclusion to the recent price revision for our gas purchasing agreement with Gazprom.

Our current estimate of how operational performance will turn out this year is largely as we expected at the beginning of the year.

However, the progress made with the sale of RWE Dea means we have to adjust our outlook for 2014.

As things stand, we will recognise the upstream business under “discontinued operations” from the financial statements for the first half of 2014 onwards, with retroactive effect from 1 January. We will adjust the financial statements for 2013 accordingly. RWE Dea will no longer be included in the consolidated figures for revenue, EBITDA, operating result, non-operating result, financial result, income taxes and capital expenditure.

However, figures for the upstream activities will continue to be considered in our net income. The same applies to recurrent net income, but this year only the interest on the sale price we receive from the buyer for the period from 1 January 2014 to the closing of the transaction will be included in this figure. Our outlook is based on the assumption that RWE Dea will be deconsolidated by the end of 2014.

Excluding RWE Dea, we anticipate EBITDA of **between €6.4 and 6.8 billion** and a Group operating result of **between €3.9 and 4.3 billion** for fiscal 2014. 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**.

I would now like to give you more details of RWE's business performance during the first quarter of this year.

Firstly, **electricity generation:**
With a total of **52 billion** kilowatt hours, we produced 17% less electricity than in the same period last year (**62.5 billion** kilowatt hours).

The most pronounced decline was in electricity generation from hard coal. One of the main reasons was that we had to close the Didcot A power station in the UK, which had a net installed capacity of just under **2,000 megawatts,** at the end of March 2013. The plant was subject to a lifetime limitation arising from EU targets for pollutant emissions.

In Germany, declining electricity prices led to reduced capacity utilisation of hard coal units.

Market conditions also deteriorated for our gas-fired power plants, which were also being used less.

Electricity production from lignite and nuclear power also declined as a result of unscheduled plant outages.

The contribution of renewables to RWE's electricity generation was also down on the previous year. This is due to the fact that we closed the Tilbury power station in the UK, with a capacity of **742 megawatts**, in August 2013. Despite converting from hard coal to biomass, Tilbury was also subject to a lifetime limitation due to emissions legislation.

Expansion of our wind power capacity had a positive influence on electricity production. For example, step by step we are connecting the turbines at the Gwynt y Môr offshore wind farm in Wales to the grid.

Electricity sales volumes:

At **67 billion** kilowatt hours, our electricity sales volumes were down 6% on the previous year's period (**70.9 billion** kilowatt hours).

This is mainly a consequence of the decline in our electricity generation. This meant that RWE Supply & Trading sold less electricity from RWE's power stations on the wholesale market.

The extremely mild winter in 2013-14 made itself felt in the residential and commercial customer segment. This contrasted with the unusually cold winter in the previous year. We have also observed a trend toward saving energy for some time now.

New supply arrangements with a number of industrial and corporate customers had a positive influence on sales. There was also stronger demand for our electricity from a number of major existing customers – especially in the Trading/Gas Midstream division.

This brings me to **gas sales volumes:**
Our gas sales volumes fell by 19% to **103.1 billion** kilowatt hours.

The unusually mild winter mainly had repercussions for business with residential and commercial customers. We suffered a substantial decline in sales in this segment. The trend toward energy saving which I already mentioned also contributed in this regard, although to a lesser extent.

In the industrial and corporate customers segment, we felt the increase in competitive pressure – especially and most recently in the Netherlands, where a number of the companies that we supplied changed providers.

And so to **developments in sales:**
External revenue for the RWE Group amounted to **€14.7 billion** in the first quarter of 2014, 9% down on the first three months of 2013 (**€16 billion**).

This marked reduction can be attributed to our gas business: the predominantly weather-related declines in sales volumes caused revenues to collapse by 20% to **€4.6 billion**.

Conversely, revenue from our electricity business was virtually unchanged at just under **€9 billion**, despite lower sales volumes. The main reason for this was price adjustments in the German and UK end customer business.

To a limited extent, the changes in Group revenue were also influenced by the sale of business activities and exchange rate fluctuations. Net of major deconsolidation and foreign exchange effects, external revenue fell by 7%.

This brings me to our **operating result**:

In the first quarter of 2014, RWE achieved an EBITDA of **€2.6 billion** and an operating result of **€1.9 billion**, down 16% and 18%, respectively, on the same period last year. I have already mentioned the main reasons for this decline.

The individual divisions performed as follows:

I'll start with **conventional electricity generation**.
The operating result from conventional electricity generation fell by 25%, to **€559 million**.

The main reason for this is that we achieved much lower market prices for our German and Dutch electricity generation this year and therefore lower generation margins compared to 2013.

The closures of Didcot A and Tilbury during the previous year also meant that these plants no longer contributed to our result.

Continued cost-cutting measures helped us to limit the decline in earnings in the conventional power generation business. In addition, depreciation was lower. This is in part due to the substantial impairments for our Dutch generation portfolio which we recognised in the financial statements for fiscal 2013.

I believe the importance of conventional power generation for security of supply is undisputed. If we then look at the dramatic earnings situation that our power stations find themselves in, we can see how urgently the design of the market needs to be reformed. Suggestions by the German Association of Energy and Water Industries (BDEW) and the German Association of Local Utilities representing the interests of the municipal utilities (VKU) are on the table.

Supply/Distribution Networks Germany:
The operating result of the Supply/Distribution Networks Germany division increased by 10% to **€656 million**, despite lower gas revenues caused by the weather conditions. Our efficiency-enhancement programme contributed to this outcome.

Although the framework conditions in the 2014-2018 regulatory period have become more demanding, the result for our network business remained stable. As with supply, we benefited from measures to cut costs in the network business. We also achieved higher revenues from the sale of networks.

Business is therefore doing well in this area.

Supply Netherlands/Belgium:
Essent achieved an operating result of **€70 million**, which is less than half of the figure for the previous year.

This decrease is mainly attributable to the gas supply business, where the weather-induced declines in revenue made themselves felt. Increasing competitive pressure also caused margins to deteriorate.

A positive influence on our earnings, on the other hand, came from our efficiency-enhancement programme.

The next area is: **Supply United Kingdom**
At RWE npower, the operating result also declined by more than half, to **€128 million**. There are a number of reasons for this:

There were major increases in expenditure to promote energy-saving measures at a household level, which we were required to do as part of the ECO state programme. In the first quarter of 2013, ECO was still in its startup phase and therefore did not generate any noteworthy costs.

Expenditure on network usage and the purchase of electricity and gas was also substantially higher. Further earnings shortfalls resulted from the fact that we were no longer directly supplying the customers of the supply companies Electricity Plus Supply and Gas Plus Supply, which were sold at the end of 2013. We now supply these customers indirectly via the new owner, Telecom Plus, and our margins are lower as a result.

Measures to increase efficiency and adjustments to residential tariffs for electricity and gas only partly absorbed the decline in earnings.

This brings me to **Central Eastern and South Eastern Europe:**
The operating result for this division declined by 25% to **€286 million**.

This reflects the sale of NET4GAS in particular. In the same period the previous year, NET4GAS contributed earnings of **€74 million**. Net of the effects from the sale of NET4GAS and currency translation, the result for the Central Eastern and South Eastern Europe Division was down about 3% year on year.

One of the reasons is that we now post certain transactions aimed at hedging currency risks under the non-operating result, whereas these had a positive influence on the operating result in 2013.

The **Renewables** Division:
The operating result of RWE Innogy increased by 9% to **€97 million.**

This is mainly attributable to the fact that our electricity generation from wind power depends on the weather and has increased substantially following the completion of new facilities.

The Spanish government's reduction of green energy subsidies had a counteracting effect.

In addition, German biomass activities no longer contributed to RWE Innogy's earnings in 2014, because these were, for the most part, transferred to the Supply/Distribution Networks Germany division.

And now to **Upstream Gas and Oil.**
The result for RWE Dea remained largely unchanged at **€192 million**, despite an increase in gas and oil production. The main reason is that the realised oil and gas prices were lower than in the previous year.

The weaker dollar also played a part in the case of oil.

There was also an increase in expenditure on exploration activities. The reason for this is that RWE Dea was unsuccessful with a number of exploration wells so that the costs involved therefore had to be recorded directly as an expense, rather than being capitalised.

The **Trading/Gas Midstream** Division:
The Trading/Gas Midstream division achieved an operating result of **€6 million** – a substantial improvement compared to the **minus €47 million** the previous year.

The settlement reached in the price revision proceedings with Gazprom in February 2014 benefited us in this regard. The outcome is that our gas procurement contract with the Russian gas group will have no further negative effects on our earnings until the next scheduled price review in June 2016.

The decline in wholesale gas prices caused by the weather had negative consequences for us: we had to adjust the valuation of the gas that we had stored in Germany and the Netherlands downwards as at the reporting date.

Our trading performance was better than in 2013. But a large portion of the earnings could not yet be recognised pursuant to IFRS and have therefore not yet been reflected in the operating result.

That concludes my report on the performance of the divisions.

As at 31 March 2014, the Group had a total of **65,378 employees**. This figure includes part-time positions counted on a pro-rata basis. Since the end of 2013, a net total of **963 employees** have left the Group, the majority (**820**) from our locations outside Germany. Rationalisation programmes in our UK supply business and among our in-house suppliers contributed substantially to this reduction in our headcount.

Capital expenditure by the RWE Group amounted to **€898 million** in the first quarter of this year, an increase of **€131 million** or 17% compared to the previous year. Investment in property, plant and equipment and intangible assets amounted to **€875 million**, up **€115 million** on 2013.

The expansion and modernisation of our electricity generation capacity remain the main focus here.

This has seen a lot of money flow into renewables. The most important individual projects here are the offshore wind farms Gwynt y Môr off the north coast of Wales, with a total capacity of **576 megawatts,** and Nordsee Ost with **295 megawatts**. These wind farms are expected to be on the grid with all turbines by the end of 2014 and mid-2015, respectively.

Our **Cash Flows** from operating activities were comparatively low at **€157 million**, as in the previous year.

This is mainly the result of seasonal influences that are reflected in changes in working capital. The fact that electricity and gas sales are higher than average in the first quarter of any given year plays a part in this. Customer payments, on the other hand, are spread evenly throughout the year. This results in a high build-up of receivables in the supply business and correspondingly low cash flows from operating activities.

Cash flows from operating activities, minus capital expenditure on property, plant and equipment and intangible assets, results in free cash flow. At **minus €716**

million, our free cash flow was in the same order of magnitude as last year (**minus €697 million**).

Our **net debt** amounted to **€31.5 billion** as at 31 March this year. This was slightly above the level at the end of 2013 (**€30.7 billion**). A key influencing factor here is the negative free cash flow.

The forthcoming sale of RWE Dea will bring about a sharp drop in the net debt of the RWE Group. We are expecting net debt in the order of **€26 billion** at the end of 2014. The leverage factor, i.e. the ratio of net debt to EBITDA, will probably, however, be higher than the previous year's figure of 3.5, as we forecast at the start of the year.

In the medium term we want to bring the leverage factor back down and maintain our self-imposed upper limit of 3.0. To achieve this, we have undertaken to finance capital investments and dividend payouts from 2015 entirely from the cash flows from operating activities.

Now that I've finished talking about the key figures of the first quarter, I'd like to give you some news about Eemshaven, which we had to publish on our transparency page yesterday evening: After a boiler in Block A was damaged during a test run, we have decided to postpone commissioning of both identical units by six months. Commissioning had been scheduled for mid- to end of this year. We have launched a comprehensive investigation.

However, detailed conclusions together with a repair concept will not be possible until after the investigation has been completed. The same applies to an estimation of the costs.

I now look forward to taking your questions.