Peter Terium / Dr Bernhard Günther
RWE AG mid-year press conference
Essen, 14 August 2014, 10.00 a.m. CEST

**Check against delivery.**

**Peter Terium**

**Ladies and Gentlemen,**

**Good morning to you all 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.**

**Let us start by taking stock – in other words, by taking a look at where we stand right now.**

**I will lead off with the key indicators, following which Bernhard Günther will provide more details on our business performance in the first half of 2014.**

**The Group operating result was down 40% year on year, to €2.3 billion. The main reason is that the figures for 2013 still included the substantial one-off gain from the arbitral decision that was taken in the price revision proceedings with Gazprom. Worsening margins in**

conventional electricity generation and weather-induced declines in gas supply revenue also made themselves felt.

As you are aware, all energy providers in Europe are affected by this development, not just RWE.

Our recurrent net income fell 62% to €749 million, reflecting our worsened operational situation. The financial statements for the first half of 2014 also no longer include a contribution to the Group's recurrent net income from RWE Dea, the sale of which is currently pending. The interest on the price obtained for Dea will show in recurrent net income only once the transaction is completed.

RWE's headcount at the end of June was 62,693, or 2,203 less than at the end of 2013. This decrease applied across all divisions, with rationalisation measures being a main contributing factor.

Because of the significant deterioration in prices on the wholesale electricity market, RWE Generation currently plans to decommission additional generation capacity of about 1,000 megawatts.
In the second half of 2015, this will affect 110 megawatts at the lignite-fired Goldenberg plant in Hürth, and in early 2016, 285 megawatts at Unit C of the hard coal-

fired Westfalen power station in Hamm. The German Federal Network Agency has already been advised of our intention to decommission this generating capacity.

If there is no improvement in market conditions, Unit K of the Gersteinwerk hard coal-fired power station in Werne, with a net capacity of 610 megawatts, will also cease operations in the first quarter of 2017. The capital investment earmarked for overhauling the power station at that point in time would not be worthwhile.

In addition, there are further supply agreements expiring at the end of this year representing about 470 megawatts.

As early as August 2013, and in March 2014, we announced the intention to remove gas and hard coal-fired power stations with a total capacity of 5,275 megawatts from the market in both Germany and the Netherlands, either permanently or temporarily. In addition, we already announced that we are letting contracts for the use of hard coal-fired power stations totalling 2,195 megawatts run out. Here, too, the reason was the strong deterioration in the electricity generation market.

In the UK, too, about 5,000 megawatts of power station capacity will be decommissioned by 2015 as a

**consequence of regulatory framework conditions. About 4,000 megawatts of this total was already taken off the grid during the previous year.**

**The full extent of the miserable situation conventional electricity generation finds itself in became clear in the latest figures from the German Federal Network Agency at the end of July. These show that power station operators plan to definitively shut down generation capacity of more than 11,000 megawatts by 2018. As a result, more secured power station capacity will be taken offline than is added through capital investment. This does not bode well for security of supply. Time is of the essence. The BDEW (German Association of Energy and Water Industries) and the VKU (German Association of Local Utilities representing the interests of the municipal utilities) have proposed a solution with a model of a decentralised capacity market, which we support.**

**The focus of discussions on energy policy during the coming months will be on "new market design", as Economics and Energy Minister Sigmar Gabriel has already announced.**

**I do not need to emphasise that this will be an extremely important debate for us. A lot will depend on its outcome. We need a market design that will meet the**

**new challenges of the energy market transformation and also guarantee security of supply for the future. I am hoping for a rapid political decision on the capacity market that was agreed upon in the coalition agreement – one that is competitive, is open to all technologies and is "European", in harmony with the principles set down in that agreement.**

**I therefore strongly welcome the fact that Minister Gabriel is pursuing the topic of "new market design" as the most urgent element in his "ten-point energy agenda" and is discussing it with the various stakeholders on the "Electricity Market Design" platform. The press interpreted the expert reports published in this connection as proof that Germany has no need for a capacity market. I found this interpretation of the results very surprising.**

**After all, the expert reports confirmed that the decentralised option is the best design for a capacity market and that it offers much greater security of supply than could be achieved by revising the existing market design, and at only very modest cost. In specific terms, the experts compared the two future concepts for the energy market – i.e. the Energy Only Market 2.0 and the decentralised capacity market.**

They say that a well designed capacity market would cost around €100 million more per year. To be more specific: the guarantee of receiving sufficient electricity at all times will cost the average household customer much less than €1 per year. For me this would be definitely worth it.

In other parts of Europe where similar problems have arisen, action has already been taken: the UK, for instance, recently paved the way for a comprehensive capacity market. In future, most power station operators there will receive compensation for keeping secured generation capacity available for the market, in addition to their regular electricity revenues. The European Commission gave the green light for this approach in July.

France also wants to introduce a capacity market, one that is non-discriminatory and open to all technologies. This would also be a way for Germany to create the economic basis for constructing new, essential generation facilities or continuing to operate existing systems, and thus supplement the expansion of renewables. That concludes what I have to say on this subject.

Our efficiency enhancement programme – RWE 2015 – is on track. We are very confident of being able to reach

**our savings goal of €1.5 billion by the end of 2016. We will tell you in March of next year what we have planned for beyond that time.**

**On 1 January this year, RWE Retail began its operations. RWE Retail is the platform for international control of our supply activities on all of our markets, and it enables us to take account of the growing importance of the supply business for the Group as a whole. RWE Retail was established as a virtual unit. All of the members of the Board are simultaneously members of the Executive Board of one of our national supply companies in Germany, the Netherlands, the UK or in Central or South-Eastern Europe. This ensures efficient communication and fast best-practice transfer between the national organisations. The focal points for the RWE Retail Board are to improve efficiency, growth and innovation. Initial pilot projects are already in progress. These include, for instance, a joint customer loyalty programme that takes account of different knowledge and experience gained in Germany, the Netherlands and the UK. This forms the base for country-specific measures to improve customer loyalty, which are also to be rolled out in other countries, in which it would be both practical and technically possible to do so.**

**What are the future political framework conditions for our business activity?**

**Let me begin with the Renewable Energy Act. This year's reform of the Act is a step in the right direction. Aspects we consider positive include the mandatory direct marketing of electricity from renewables with effect from January 2015 and the tender process set out in the Act for facilities regulated by the Renewable Energy Act from 2017. This will bolster both market integration and system integration of renewables. The deciding factor will now be the specific terms and conditions of the tender process.**

**There is, however, one change to the Renewable Energy Act that is definitely not in our favour. New burdens on open-cast mines would have substantial negative effects for RWE. The open-cast mine systems are electrically operated. The associated electricity consumption is sourced from our own power stations and is not currently subject to the levy under the Renewable Energy Act, in line with common practice for self-produced electricity: just as you do not have to pay VAT when you eat potatoes that you dig out of your own garden.**

**There is a risk that the levy under the Renewable Energy Act will become payable on the electricity**

**consumed by these open-cast mines starting in 2017, which would mean an additional financial burden for us – possibly in the hundreds of millions of euros. That is something that we could not absorb. Our economic situation is already precarious enough.**

**Something that is of great importance for the energy sector as a whole will be the outcome of the German Environment Ministry's "Climate Protection 2020" action programme. We believe that the current paper describing the key points is heading in the wrong direction. Further burdening the energy sector with additional climate protection measures at a national level will not lead to any reduction in greenhouse gases. It would simply be a double regulation on emissions trading.**

**At the same time, it also puts security of supply, added value and German jobs on the line. Instead of seeking to readjust at a national level, the focus should be on setting a goal to reduce greenhouse gases by 2030 and reforming emissions trading in Europe.**

**Further-reaching national measures should be limited to sectors that are not subject to the European Emissions Trading System. That would be the only way to make a contribution toward reducing emissions.**

**That concludes my summary of the current economic and political situation.**

**I will now hand over to Bernhard Günther, who will give you the latest business figures.**

| **Bernhard Günther** |
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**Thank you, Peter.**

**Ladies and Gentlemen,**

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

**The RWE Group achieved an EBITDA of €3.4 billion and an operating result of €2.3 billion. These figures are down 32% and 40% respectively year on year, which was in line with our expectations.**

**Net of any consolidation and currency effects, EBITDA and the operating result were down 29% and 37% respectively.**

**As in previous years, due to time constraints, I would like to refer you to our interim report for details of the performance of individual companies within the Group.**

**I will therefore move on directly to explain the reconciliation of the operating result to net income.**

**The non-operating result of €138 million was a substantial improvement on the previous year's negative value. The previous year was constrained by impairment losses in connection with our Dutch generation portfolio, in the order of €800 million, and the formation of risk provisioning for shareholdings. During the current year, it has primarily been divestment proceeds that have had a positive effect.**

**At minus €907 million, our financial result improved slightly.**

**As a result of the sale of RWE Dea, we will distinguish in future between continuing operations and discontinued operations. The latter item includes RWE Dea.**

**Income from continuing operations before tax came to €1.5 billion, 18% less than in the previous year.**

**Our effective tax rate decreased to 27%, a decline of 17 percentage points from the high level of the previous year. This was influenced in the previous year by high write-offs of latent taxes in the Netherlands.**

**The net income of the RWE Group increased 5% to slightly over €1.0 billion.**

**As Peter already mentioned, recurrent net income, adjusted for one-off effects, was down 62% to €749 million, reflecting our worsened operational situation. In addition, RWE Dea now makes no further contribution to the Group's recurrent net income. Only once the sale is completed will the interest on the sale price be included under this item.**

**Capital expenditure on property, plant and equipment and intangible assets remained largely unchanged at €1.5 billion. The expansion and modernisation of our electricity generation capacity are still the main focus of our investment activities.**

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

| **Peter Terium** |
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**Thank you, Bernhard.**

**Ladies and Gentlemen,**

**So, what steps are we taking?**

**To begin with: one thing we are not doing is waiting for more favourable political framework conditions.**

**We are doing what we have to do, and what we are able to do.**

**We are staying on track, and we are delivering:**

**Anyone who wants to make the transformation of the energy sector a success – and we do – needs one thing above all else: innovations.**

**We are driving the energy sector transformation forward with state-of-the-art products and services and innovative solutions that involve a manageable level of investment. At the same time, we are promoting organic growth.**

**Intelligent products such as Smart Meter, SmartHome or HomePower Solar highlight our innovative strength in the area of supply. The same goes for our charging infrastructure for electric vehicles.**

**Incidentally, RWE SmartHome recently came out top in an independent data security test performed on a range of household control systems to measure domestic energy use.**

**Our UK subsidiary npower has been working in conjunction with Nest since spring, as you are aware. In combination with a smart tariff, npower is offering its electricity customers the Nest thermostat, which is generating a strong response. We have already sold just under 1,000 of these packages. We are taking a close look at other European markets to see if they might also be of interest for offers of this nature.**

**On the grid as well, projects such as the inner-city superconducting cable Ampacity, Smart Country and Smart Operator are helping us achieve our aim of becoming an innovation leader. We are making the distribution grids fit for the energy market transformation. This transformation cannot succeed without massive investment in the grids. The risk of failure is precisely what we want to prevent.**

**That is why we are investing in smart grids, to successfully integrate renewables into the system.**

**We are investing in state-of-the-art grids, to enable smart technology at the customer's end to communicate with smart technology in the grid and with the smart technology of our supply services. This is the precondition for being able to offer our customers novel, "smart" products in the first place.**

**Up to 2016, we are investing around €1 billion annually in the expansion, modernisation and maintenance of our electricity and gas distribution networks. These are investments in the transformation of the energy sector! There is an international project that shows how state-of-the-art power station technology and creative thinking lead to innovative solutions. This project is a way for us to bring the energy sectors of Belgium and the Netherlands closer together.**

**As you know, on 1 July we had to indefinitely remove our state-of-the-art gas-fired power plant Claus C, in the Netherlands from the grid. As part of a tender for the Belgian government, we want to use this plant to make secured power station capacity of more than 800 megawatts available to the Belgian electricity market. The reason for this tender is Belgium's plan to phase out nuclear energy.**

**To be able to supply the electricity, Claus C would have to be connected to the Belgian electricity grid across a distance of only 13 kilometres. This solution would not only be low-cost, it would also be a flagship project for the European electricity market. The decision on whether this tender will be awarded to us is likely to be made by the end of the year.**

We are also making progress with the expansion of renewables. In onshore wind, we are currently building the Dutch Zuidwester wind farm directly on the Ijsselmeer, with a capacity of 90 megawatts. Twelve of the world's largest wind turbines in the 7.5 megawatt class will be deployed there.

In the Rhenish region, the Königshovener Höhe wind farm is taking shape on recultivated land. The city of Bedburg has a 49% stake in the project. By the end of the year, the 12 plants should go into operation, with a total capacity of 37 megawatts.

Green GECCO – a joint venture between 29 municipal utilities and RWE Innogy – is also growing. The 26-megawatt Düshorner Heide wind farm in Lower Saxony was completed in spring and handed over to the company. Green GECCO now has a portfolio of more than 80 megawatts – consisting of five wind farms, all designed and built by RWE. In the UK, we will have over 100 megawatts of new capacity on the grid from on-shore wind farms by the end of this year.

With regard to our offshore projects: At Nordsee Ost – north-east of Heligoland – all of the foundations are in place, the internal wiring is ready, the transformer substation is in place in the water, and the work of assembling the turbines is running at full speed. We are

**planning to have the wind farm in full operation in the first half of the coming year. The same goes for our UK Gwynt y Môr wind farm, where all 160 turbines have already been installed. That means that we will have about 1,000 megawatts of offshore capacity on the grid in 2015. That will make us the third-largest operator of offshore wind farms in Europe.**

**We are working at full pace to develop two further projects: for Nordsee 1 we are currently talking with potential partners about creating a consortium. We are expecting a final investment decision by the end of 2014 or early 2015. The same is also true of the UK offshore project Galloper. We want to limit our participation to minority shareholdings in both projects.**

**We have always said that lignite is an essential partner to renewable energy in the transformation of the energy sector. This was made fully clear on 11 May 2014, when feed-in of electricity from wind power and photovoltaics was particularly high: just under 35,000 megawatts at its peak. The ability of our power stations to adjust flexibly made it possible to stabilise the grid: in the middle of the day, capacity was reduced to less than 5,000 megawatts; it was increased to 8,000 megawatts in the evening and again the next day to about 10,000 megawatts. This rapid ability to adjust output, which is every bit as good as state-of-the-art gas-fired power**

**plants, enables us to compensate for the uneven feed-in provided by almost 200,000 photovoltaic panels.**

**And with regard to solar power: other companies made a fairly rapid exit from Desertec. We did not. We have the courage and determination to continue working in this area. RWE Innogy, for instance, is planning to construct a combined wind power and photovoltaic system in Morocco with a total generating capacity of 100 megawatts. Morocco's outstanding wind and sun conditions make it an ideal location for the use of renewables. We are currently negotiating a project development agreement with our partner in Morocco. At the same time, Innogy is talking with RWE Supply & Trading and RWE Vertrieb about various sales channels for proofs of origin and models for participation for interested customers or partner entities.**

**It is clear, of course, that the project is still at a very early stage. No-one can currently say whether it will prove successful in the end. But what is most important to me is that we are accepting the challenge, and we are determined to succeed – including with projects that involve less financial expenditure than previous undertakings.**

**We are laying the ground for a new departure. This is what counts for us, and not only with this project.**

**It also applies to Eastern Europe, where we are intensifying our supply activities. In Bucharest we recently opened an office that will be responsible for our electricity supply activities in Romania. The focus is on industrial and commercial customers. Eastern Europe, and Romania in particular, is a growth region that offers good sales opportunities involving low capital expenditure and a manageable risk.**
**We are adopting a similarly lean approach to expanding our global trading activities. Our new offices in Singapore, Jakarta and Mumbai apply our expertise to these markets, which are characterised by strong growth. At the same time, we are learning more and expanding the range of our knowledge about these markets. RWE Supply & Trading is starting with small steps and a manageable level of capital investment. And even if we are looking at energy trading in global terms, this does not affect our strategic focus on Europe and Turkey.**

**At the same time, our concentration on our core business continues. Following the outsourcing agreement with T-Systems, we sold RWE IT Slovakia, based in Kosice, to the Vietnamese software company FPT at the end of June. RWE remains tied to FPT via a long-term contract and can buy in qualified IT services on more favourable terms. No jobs will be lost in the**

process. On the contrary, FPT wants to expand its European business using Kosice as its base, and will create 200 new jobs – in other words, a classic win-win situation.

FPT will also continue to foster the long-established positive relationship between RWE IT and the universities in Kosice. FPT itself has its own university in Vietnam, with 16,000 students. This gives FPT access to the latest technical developments, from which RWE can also benefit via exchange programmes between these universities.

Ladies and Gentlemen,

Let me repeat at this point:

We want the transformation of the energy market to be a success.

But the transformation must not cause any lasting imbalance in the energy sector's triple goal of economic efficiency, security of supply and environmental and climate protection. We can see this trend happening right now. To prevent it from continuing any further, we need to talk with one another, openly and honestly, at all levels: government, NGOs, industry, trade and professional associations, and citizens.

**Good quality, intensive discussions, talking with each other instead of about each other; listening instead of formulating maximum demands; and exchanging arguments – we believe that all of these elements are the precondition for positive results. This applies especially to the transformation of the energy sector. It will succeed only with a show of collective strength, in a spirit of partnership, between everyone involved. This is why I am pleading for a culture of dialogue.**

**Our motto here is, "Achieving success together through dialogue".**

**This brings me to our outlook for the 2014 fiscal year. I will keep it short, since our outlook for 2014 is unchanged compared to the most recent outlook that we released in May.**

**From today's perspective, we expect RWE to achieve an EBITDA of €6.4 to €6.8 billion, an operating result of €3.9 to €4.3 billion and recurrent net income of €1.2 to €1.4 billion for the current year.**

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

**Thank you very much.**