Peter Terium/Dr Bernhard Günther
RWE Fiscal 2014 Press Conference
Essen, 10 March 2015
09:30 a.m. CET/8:30 a.m. UK time

Check against delivery.

Peter Terium

Ladies and Gentlemen,

Good morning and welcome to our Fiscal 2014 press conference.

My colleagues Rolf Martin Schmitz, Bernhard Günther, Uwe Tigges and I would like to thank you for joining us. It is a pleasure to have you here and we appreciate your interest.

Looking back, our first comment is that Fiscal 2014 was not an easy year. Even so, we did quite well. We do what we promise, and if we announce something, we make sure it happens. In key areas we have delivered more and faster than forecast.

However, the situation in conventional electricity generation in particular is deteriorating too fast and too severely for us to counteract it effectively.

But we have done all in our power. One thing at a time. Step by step.

This applies to increasing our financial strength, and improving our competitiveness as well as our strategic focus on the transformation of the energy market.

We deliver – and often faster than expected.

We have made good progress in areas we are able to influence:

- **We brought the sale of RWE Dea to a successful conclusion a few days ago. We got a very good price, around €5.1 billion. In the past three years, we have made €5.3 billion through divestments. The revenues from the sale of RWE Dea will take our net debt to well below €30 billion this year. Some €20 billion of our net debt is in the form of long-term provisions. Only the balance has to be served on an ongoing basis. For an enterprise of our size and the corresponding cash flows, that sum is relatively small.**

- **Once again, we were faster than expected in our implementation of measures to improve efficiency. By the end of 2014 we achieved lasting efficiency improvements of €1.4 billion – €400 million of which were realised in 2014. That's €250 million more than planned. These contribute directly to our operating result. In this context we have raised our existing goal of €1.5 billion to €2 billion, which we hope to achieve from 2017 onwards.**

- **In 2014, we achieved our objective of financing capital expenditure and dividend payments entirely from cash flows from operating activities. This was one year earlier than expected. And what's more, we actually achieved a surplus of €1.1 billion, although this was helped by one-off effects that will not be repeated in 2015.**

- **Starting from Fiscal 2015, we are putting our dividend payments on a more solid footing. In future, our proposed dividend will be determined mainly on the basis of cash flows from operating activities, our debt situation and the earnings situation of the Group as a whole.**

- **Further evidence of our budget discipline is that we were able to reduce our capital expenditure on property, plant and equipment from €6.4 billion in**

2011 to €3.2 billion in 2014, without losing the focus on our growth fields.

- **Last year, we continued our investment in the expansion of renewables, to the tune of nearly three-quarters of a billion euros. RWE Innogy commissioned new facilities with a total generating capacity of 320 megawatts.**

- **We are making the grids fit for the energy market transformation, in other words, smart and intelligent. Last year we invested around €770 million in our German distribution networks alone.**

- **We are driving electric mobility forward with more than 3,700 charging points installed in more than 20 countries throughout Europe.**

- **We are also increasingly applying our expertise in energy trading in markets outside Europe. The extra cost is minimal but it more than pays off. Following New York and Singapore, we recently opened new trading offices in Mumbai and Jakarta.**

- **What other progress have we made? What exactly are we doing?**

With Innovation@RWE, we are developing entirely new energy-related business areas at our company. This is being done in close cooperation with external partners and goes beyond our established day-to-day business. The ability to innovate is the catalyst for our successful growth in the network and supply business. Among other things, the innovation team has made it its task to further develop our ongoing activities in the area of home automation. International teams of experts have already been assembled for this purpose. A milestone at the start of 2015 was the creation of the "German Tech Entrepreneurship Center" or GTEC initiative. We launched it in conjunction with the European School of Management and Technology (ESMT) and industry partners such as Henkel. The objective is to bring together new, innovative enterprises and established, international companies and research institutes. We hope that this will help create breakthroughs for new business models. At the same time, this partnership is also intended to improve the chances of success for our own ideas.

- We have also undertaken a lot in structural terms: back-office functions such as accounting, finance, purchasing and personnel have been pooled Group-wide within RWE Group Business

Services GmbH, achieving substantial synergies in the process. We bundle standard processes in Shared Service Centers and expert knowledge in Centers of Expertise.

- **This helps the operating companies to concentrate on their core tasks. Take RWE Generation, for example: within two years, we created one European electricity producer from what were originally three generation companies. RWE Generation is a role model in terms of efficiency and cost consciousness.**

- **Likewise, our supply companies, which serve 23 million customers, have been jointly managed since the beginning of last year, when we established RWE Retail. By pooling management of our supply companies at an international level, we want to become more efficient, bolster growth and accelerate our product innovations.**

- **We are the market leader in online supply. Our online brand, eprimo, is performing profitably and now has more than one million customers. This means we are not only No. 1 among German online electricity and gas providers, but also the market leader in terms of service and quality!**

- **What do all these changes mean for our employees? The fundamental change in our environment necessitates a radical transformation in the way we think, work and act – not only in terms of <u>what</u> we do, but also <u>how</u> we do it. This includes a new management style as well as faster decision-making processes.**

- **We made good progress last year on our way towards a new corporate culture. Our objective is to achieve a culture of openness and one that is accepting of criticism. A culture that focuses on performance, encourages innovation and is based on a flat hierarchical structure.**

- **Our "New Way of Working" project bolsters our employees' focus on both performance and customers, and involves them more in decision-making processes. At the same time, we are ensuring more efficient cooperation within the Group as a whole.**

- **With the unions, we have achieved a very moderate collective agreement appropriate to our economic situation. It was a tough job, but it paid off, and the result is one that is acceptable to both parties.**

- However, we must not fool ourselves: the structural change in the energy industry and the restructuring of our Group mean we cannot employ the same number of staff in future. On the other hand, there are growth areas that require qualified personnel. To match supply and demand quickly and effectively, we launched our in-house job market, “Switch”, in 2014. “Switch” is there for everyone who is looking for a change, not just for those whose jobs will cease to exist. I am particularly pleased that, on this project too, we cooperated closely with the employee representative bodies.

Our achievements last year cannot be credited to just a handful of managers. Rather, that credit goes to all of our employees, the employee representative bodies and the unions. And, it is not least the result of trusting and constructive cooperation with our Supervisory Board.

As they say, when things get tight, we pull together.

The successes of 2014 are the result of the “We are RWE” programme. The result of “one RWE”. And I would like to give special thanks to everyone who has been involved.

And so, ladies and gentlemen, we will continue to shape 2015 in the same way as we did 2014. Step by step.

As I mentioned, as part of our efficiency-enhancement programme we have set a new target of €2 billion from 2017 onwards.

When it comes to capital expenditure, the focus will remain on strict financial discipline. For 2015, we are budgeting for investment of €2.5 to €3.0 billion, and about €2 billion from 2016. The declining figures reflect the fact that our power station modernisation and replacement programme is winding down.

Despite all of this good progress, we remain in a difficult situation. The crisis in conventional electricity generation will continue to impact on our earnings situation. We will continue to look to the future, however, and will focus again more strongly on growth options: but with all due caution, as smartly as possible and without losing sight of the need for financial discipline. We have proven during the past two years that we are capable of maintaining financial discipline. In the future too, we will only launch those growth projects for which the business risk can be calculated.

Ladies and Gentlemen,

The energy world of the future will be characterised by electricity generation based on renewables, decentralised supply structures, highly flexible power stations, smart grids and customer requirements that involve more than merely purchasing electricity and gas.

What this means is that the transformation of the energy market is opening up new opportunities for us in the areas of supply, networks and renewables. We want to make use of them, and we will.

Our more than 23 million electricity and gas customers expect more from us than just fair prices and security of supply. They also expect products that suit their requirements precisely. We can see how our customers' behaviour is gradually changing – especially that of our residential customers: from simply being consumers to becoming what we call "prosumers", who also generate electricity themselves and increasingly store it too.

To assert ourselves in this market environment, we go much further than the mere supply of electricity and gas, developing new business models for our different customer groups. We have to combine our expertise in both energy supply and information technology. The

result takes the form of new products which set us apart from the competition as well as solutions tailored to individual needs. The combination of product innovation and state-of-the-art information technology is the key to growth. This is why we rate innovation so highly.

You will already be familiar with some of our products, such as Smart Meter, Home Power Storage and SmartHome. I should mention that RWE Smart Home is being very well received by our customers – we have sold several hundred thousand of these SmartHome devices so far. Since it was launched four years ago, we have developed SmartHome into a home automation platform that makes it possible to incorporate products from other manufacturers too. And on its fourth birthday, we established a new partnership arrangement with Samsung to supply high-performance SmartCams.

A more recent development is our cooperation with thermostat developer Nest, which belongs to Google. We have been selling its smart thermostat in the UK since April 2014 and since September of last year on an exclusive basis in the Netherlands too.

These efforts also include our sales of photovoltaic systems – both here in Germany and in the Netherlands.

In addition, we are marketing our energy efficiency expertise to commercial enterprises and medium-sized industrial businesses.

We are also well positioned in the area of decentralised energy supply. Currently, we operate about 1,300 power and heat generation systems in Germany, with a total thermal capacity of some 3,000 megawatts, which puts us in the No. 2 position in Germany. In many cases we do this in cooperation with municipal partners or industrial enterprises.

Our energy service packages are already generating annual revenues of half a billion euros. This puts us in the No. 1 position in Germany in this regard, and we are still aiming for more.

RWE also helps other industries successfully adapt to the energy market transformation. To achieve this, we have developed a series of innovative concepts and have already implemented some of them. Let me first give you an example that is of direct benefit to the consumer:

In Kreuztal, Germany, RWE worked with housing company LEG to create a “tenant’s electricity” model for an initial 710 residential units. In place of oil heating, a state-of-the-art cogeneration system has been installed that supplies the residential units not only with heat but also with electricity on an optional basis. Firstly, this reduces CO_2 emissions, and secondly, most residents opted for this new “tenant’s electricity” model because it is cheaper than the local tariff and eases the financial burden on households. Our company looks after installation and operation of these new systems.

This concept has proven so popular that LEG intends to extend it to all of its residential properties, 95,000 in total. The call for tenders has already been issued, and it goes without saying that we are in the running.

And my second example: RWE is working with the operator of Duisburg harbour and the University of Duisburg Essen to develop a sustainable logistics strategy for the world’s largest inland harbour, which will include the following elements:

Firstly, to supply the logistics infrastructure in the harbour – cranes, for instance – with locally generated energy, preferably CO_2-free.

Secondly, to supply offices and warehouses with photovoltaic power.

Thirdly, to consider the extent to which alternative fuels can be used to replace traditional drives. Electric vehicles are an obvious choice for transport on the

harbour premises. LNG is being tested for the drives powering the ships.

That's what I wanted to say about two current projects in which we are helping make the transformation of the energy market a success.

The electricity network plays a key part in the implementation of the energy transition. Increasing feed-in of electricity from weather-dependent, renewable sources and a growing number of small, decentralised generation systems create major challenges for us as distribution system operators – but also offer us potential for growth. And we can rely on the most powerful networks in Germany in the process.

More than 300,000 electricity generation systems based on renewable energy were connected to our grid by the end of 2014, and that number is growing every year. To be able to guarantee a reliable electricity supply under these framework conditions, we are investing in maintaining and expanding our German network infrastructure. We estimate that investment of around €2.5 billion will be required between 2015 and 2017 to achieve this.

I reported on the AmpaCity project last year. AmpaCity represents a clear step towards getting superconductor technology to the point where it can be marketed. For almost a year now, electricity has been flowing through the 10,000-volt superconductor cable that replaces a one-kilometre stretch of the traditional 110,000 volt cable in Essen’s city centre. An initial interim result was positive: the partners in the AmpaCity project worked together to overcome all the technical problems, gather important findings and guarantee operation of a test system with no major problems.

We are developing new instrumentation and control systems to enable grids to be used more efficiently and flexibly, and testing them in field trials.

Examples are our Smart Grid and Smart Operator projects, and our participation in the major EU-sponsored “Grid4EU” project in Reken, in Germany’s Münsterland region, where we are testing how medium-voltage grids can be improved to enable them to respond more flexibly to fluctuations in electricity feed-in from renewables.

The expansion of electricity generation from renewables remains a cornerstone of our growth strategy. New generation capacities will substantially improve the earnings situation of RWE Innogy. For the

period 2015 to 2017, we are expecting the annual average increase in results to lie in the high double-digit range.

This year alone, for example, we will work with our partners to fully commission capacity of just under 1,000 megawatts. This includes our two large offshore wind farms Gwynt y Môr (576 megawatts) off the north coast of Wales and Nordsee Ost (295 megawatts) near Heligoland.

Between 2015 and 2017 we are earmarking around €1 billion for the expansion of renewables.

Here, we are concentrating on the technologies that make a particular contribution to the transformation of the energy sector:

Firstly, offshore wind – a major technology whose high load factor helps ensure grid stability.

Secondly, onshore wind – a technology that is market-ready right now, depending on location.

The key regions are Germany, the UK, the Netherlands and Poland.

A few days ago, we received a "Contract for Difference" for three UK onshore wind farms,

representing a total capacity of about 170 megawatts, which will give us a fixed remuneration for these projects for 15 years. It also drives forward the expansion of our wind power portfolio in the UK.

Wherever possible, we would like to cooperate with partners on implementing the capital-intensive renewables projects in particular. This is a way of minimising our capital expenditure while spreading the risk of such large investments among several partners.

For instance, we entered into a partnership agreement with Norway's Statkraft for the Triton Knoll offshore wind farm in February this year. Statkraft will take a 50% shareholding. The wind farm lies off the east coast of the UK and will have a generating capacity of up to 900 megawatts. The required investment equates to about €4 to €5.4 billion. The final investment decision is expected in 2017.

We will also focus on the Nordsee one, Nordsee 2 and Nordsee 3 project pipeline, with a total volume in the order of 1,000 megawatts. We have a 15% shareholding in this project.

I should point out that our partnership approach to capital-intensive projects is not limited to our renewables business. For instance, just a few days ago

we sold further shares in the Czech gas distribution network to our finance partner, Macquarie.

That concludes my look at our growth prospects.

Without pre-empting what Bernhard Günther is going to say, I'd like to run through some of our key business performance figures.

We achieved all of our earnings targets, and EBITDA was much better than planned, at €7.1 billion for 2014. This is higher than our 2014 earnings forecast of between €6.4 and €6.8 billion.

The operating result of €4 billion was in the forecast range of €3.9 to €4.3 billion, which represents a decline of 25% year on year.

Recurrent net income fell 45% to €1.3 billion. This is also within the forecast range. Accordingly, on 23 April we will propose to the Annual General Meeting a dividend of €1 per share.

Cash flows from operating activities amounted to €5.6 billion, up 16% year on year.

One thing is certain: falling revenues are no reason to celebrate. But even so, in the face of declining margins from electricity generation and substantial losses of earnings due to weather conditions, we can still be happy with the annual accounts for 2014.

It would, however, be premature to say that we are over the worst. The dramatic situation in conventional electricity generation is too much of a burden in that regard. But our power stations are only one of our mainstays. I will return to this subject later.

For the moment, however, I will hand you over to Bernhard Günther, who will discuss our business performance.

Bernhard Günther

Thank you, Peter.

Ladies and Gentlemen,

Peter Terium has already given you a brief summary of the key financial indicators of our business performance: the figures for operating result and recurrent net income are in line with expectations. EBITDA was actually better than forecast.

Our operating earnings deteriorated considerably compared to the prior year, as previously announced. EBITDA and the operating result were 10% and 25%

lower than in 2013, respectively. This was partly due to the fact that the figures for the previous year contained substantial one-off income from compensatory payments awarded to us by an arbitration court in the price revision proceedings with Gazprom. Lower generation margins and weather-induced earnings shortfalls in the gas supply business also came to bear. Furthermore, NET4GAS, the Czech long-distance gas network operator that we sold the previous year, no longer contributed to earnings.

Disregarding major consolidation and currency effects, EBITDA and the operating result declined by 7% and 22%, respectively.
Due to time constraints, I would like to refer you to the Annual Report for details on the various divisions. However, as in previous years, I would like to briefly explain the reconciliation of the operating result to net income.

The non-operating result of €77 million was a substantial improvement on the previous year's negative value. Here, we posted an improvement of about €5.6 billion in the result. A key contributing factor is the fact that impairment losses from the previous year, relating largely to our electricity generation business, no longer applied.

In contrast, the financial result improved slightly, to minus €1.8 billion.

Income from continuing operations before tax amounted to €2.2 billion. It improved considerably compared to the negative year-earlier figure, which was characterised by the aforementioned impairments. At 25%, the effective tax rate was unusually low. The main reason was tax income not relating to the reporting period resulting from a tax audit that was completed in 2014.

After taxes, our continuing operations generated income of €1.7 billion.

Net of one-off effects, our recurrent net income was about €1.3 billion. This is the last year in which recurrent net income will be the sole basis for determining our dividend. As you know, we will propose a dividend of €1 per share to the Annual General Meeting this year.

Capital spending once again fell markedly this year compared to the previous year, to about €3.2 billion. We cut expenditure by about 16%. The bulk of this amount – as in previous years – was spent on completing our new-build projects for conventional power stations and renewables, while a further focal

point involved maintaining and modernising our grid infrastructure.

Cash flows from operating activities of continuing operations of approximately €5.6 billion were 16% above the previous year's level, which means our cash flows developed better than earnings. Positive changes in working capital made a substantial contribution in this regard, but had no impact on the result. Part of the improvement can also be attributed to one-off effects, which will either not be repeated or may even be reversed in 2015.

As at 31 December 2014, net debt, including provisions for pensions, nuclear energy and mining, amounted to €31.0 billion, representing only a slight increase compared to 2013. However, some €1.1 billion of this is attributable to RWE Dea.

Our net financial debt, i.e. the difference between financial debt and financial assets, amounted to €8.5 billion, a decrease of €1.8 billion. Our debt structure has improved with the sale of RWE Dea. Net financial debt, in particular, decreased considerably.

We have taken this as an opportunity to adjust the objectives we set to bolster our financial strength. Our top priority remains to ensure that we can raise the required amount of external capital at any time, even in

times of crisis on financial markets. Therefore, we aim to maintain a solid investment grade rating. In addition, we will earmark specific assets for provisions, aside from RWE's general earning power. We have already done this with more than 10% of our provisions. We are trail-blazers in this regard, and it shows how responsibly we are handling our newly gained financial assets. And lastly, we want to continue to fully finance our capital expenditure and dividend payments from cash flows from operating activities. We were very successful in this regard in 2014, with a surplus of more than €1.1 billion. Fluctuations in cash flows may keep us from accomplishing this every year, however. In view of the "reversal effects" in working capital for 2014 that I mentioned earlier, this will also very likely apply to the current year.

We no longer set an upper limit for the ratio of net debt to EBITDA. However, I'd like to inform you that the leverage factor for 2014, including the EBITDA of RWE Dea, was 3.8.

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

Peter Terium

Thank you, Bernhard.

Ladies and Gentlemen,

As I have already indicated, there are more difficult years ahead, which will be challenging for all of us.

This is mainly because there is one area that we cannot influence by our own actions, or where our ability to exercise any influence is limited, i.e. the market environment for conventional electricity generation. The economic conditions facing conventional electricity generation are extremely grave, and in the past year they got worse rather than better. Currently, 35 to 45% of our conventional power stations are no longer making any money under current market conditions. I am not talking about book values: these power stations are costing us real money.

We cannot avoid the sobering fact that conventional power generation is hardly viable any longer under current market conditions. What makes things even worse is the fact that we invested heavily to modernise our portfolio of power stations in recent years. Not a lot of people realise that this investment made us the

third-largest gas-fired power station operator in Europe, with gas-fired power station capacity of around 15,000 megawatts across the continent, and the largest in Germany.

It is now becoming more difficult every day to keep a gas or hard coal-fired power station commercially feasible. Considering how quickly the electricity wholesale price fell in recent years, it would be impossible to cut a power station's costs at the same rate to maintain margins or even make any profit at all.

If the current price level of around €32 per megawatt hour continues, RWE Generation will have to post an operating loss in the not too distant future.
At the same time, conventional power stations remain essential to maintain security of supply at all times. We saw in December how strongly electricity generation from renewables can fluctuate: sometimes wind and solar power contributed about two-thirds of electricity requirements, but at other times almost nothing.

The problem that has to be solved is: how can I keep conventional power stations on the market to be able to guarantee a secure electricity supply at all times? Everyone is agreed that the electricity market needs to be reformed. But the exact nature of the reform remains contentious.

An important option for policy-makers is to improve our existing “energy-only market”. Putting it simply, this should encourage competitors to respond to market signals and adapt more quickly and more flexibly to changes in feed-in from renewables. The core element of this concept is that it would allow extreme price spikes on the electricity spot market, which is currently not permitted under anti-trust legislation.

There can be no question: measures to improve the energy-only market are absolutely necessary. But even that will not be enough!

For me, at least, it is hard to imagine that companies will make an investment decision in favour of retrofitting or even a whole new-build power station just on the basis of increased price volatility. How would the industry respond if price extremes really did happen? What would policy-makers do then?

Faith that policy-makers would “tolerate” phases with high prices without intervening will not see us through the time it takes to amortise the investment in a power station.

As an alternative, our industry has proposed a decentralised market model for assured capacity. That

would assign an economic value to security of supply. Nothing more, nothing less.

This proposal expressly does not mean that excess capacity will be artificially maintained in the market and charged to electricity customers. Such excess capacity would obviously have to be taken off the market. When I look at the discussions that have taken place in recent weeks and months, it appears there has been a major misunderstanding on this point.

I also do not understand the fear of the supposedly high costs that a capacity market would imply. In the UK, contracts were entered into towards the end of last year for the first power stations to secure the country's future electricity supplies. All participating RWE power stations were able to secure a contract for themselves. Taken together, they account for an assured generating capacity of 8,000 megawatts.

The authorities in the UK estimate that the additional burden the capacity market will place on a residential household will amount to eleven pounds per year. In other words, less than 2% of their annual electricity costs – for guaranteed security of supply! And this does not take into account the fact that increased capacity will tend to bring prices down.

No-one believes that a decentralised capacity market can be created in the short term. And no-one is demanding one. But we need to have the legal framework in place in good time. After all, if we only start working on a project such as this when bottlenecks have already started happening, we could find ourselves facing a genuine shortage. Experience in other countries shows that introducing capacity markets needs a lead time of at least four years.

That, however, is a matter for the policy-makers. What <u>we</u> are concentrating on is further improving our competitive position, driving forward our growth areas of supply, networks and renewables, and bolstering the Group's financial position.

That brings me to the outlook.

Efficiency improvements and the effects of the Group's growth measures are unlikely to be enough to ensure a stable operating result in 2015. For the current fiscal year, we forecast EBITDA of between €6.1 and €6.4 billion and an operating result of between €3.6 and €3.9 billion. Recurrent net income will likely be in the range of €1.1 to €1.3 billion.

We are therefore not yet out of the woods. But together we can take courage. We are looking to the future – with confidence. Our primary objective is to bring RWE

back on course for growth. We can achieve this even without major investments. We want to grow again, and we will, without neglecting the need for financial discipline in the process. The progress that we have recently made has put us on a solid foundation.

We now look forward to your questions.