Uwe Tigges
innogy Fiscal 2017 Press Conference
Essen, 12 March 2018
10:00 a.m. CET/9:00 a.m. UK time

Check against delivery.

Embargoed until 12 March 2018
10:00 a.m. CET/9:00 a.m. UK time

[Uwe Tigges]

Ladies and Gentlemen,

The dreadful attack on Bernhard Günther has shocked us to the core. I speak for the entire Executive Board when I say that we enjoy a collegial and friendly working atmosphere. Bernhard Günther is an important part of this company, not only as a finance expert but also as a person. What has happened to him is simply beyond belief. Our hearts are with him and his family.

Two things are now vital: a quick recovery for Bernhard, and a resolution of the case by the authorities. At innogy, we will do everything in our power to assist with both of these processes. But above all, it must be ensured that Bernhard and his family have their privacy. Here, I can only repeat what Peter Heinacher already said: In this regard, I would like to expressly thank all media representatives who have adhered with such a sense of responsibility to the press code.

At this juncture – and I'd like to emphasise this – we would like to ask you to continue to respect the privacy of Bernhard Günther and his family.

Ladies and Gentlemen,

While acknowledging that there are more important things in life, I will now move on to the main reason we are all here today. Welcome to our Fiscal 2017 press conference.

It is quite clear to us that our business figures and outlook are not the focal point of your interest today. However, unfortunately I must disappoint you: as much as I understand that you would like to know our position on the latest announcements by RWE AG and E.ON SE today, we will comment appropriately at a later point in time. Accordingly, I ask for your understanding that I will neither comment on this matter in my speech nor in the question and answer round.

Ladies and Gentlemen,

Our task on the Executive Board is clearly defined. It is essential to manage innogy in a sound strategic and financial manner.

We want to further reinforce the solid substance of innogy – based on the strength of our core business.

I would like to outline this challenge now and put our business figures for 2017 in context.

Ladies and Gentlemen,

Amid the crisis affecting conventional electricity generation, you and many others considered the establishment of innogy to be the right step to take. And there are good reasons for this: the global expansion of renewables, innovations in the areas of grids and retail, digitisation and also new business areas like electric mobility.

The road to the energy world of the future is a challenging one. But it offers huge potential.

In December, the Supervisory Board had given us two strategic guidelines. One is cost discipline. The other is to implement our growth strategy with sound financial judgement. The Executive Board also fully supports these two points!

The key message at this point is that we achieved both our original earnings target for adjusted net income in 2017 as well as the slightly amended earnings forecasts announced in

December for adjusted EBITDA and adjusted EBIT. Furthermore we confirm our outlook for 2018.

The rumours that are circulating about further, significant deviations from target figures for the next years are entirely groundless. I would like to make it quite clear that innogy is, and will remain, a company on a solid foundation. As I will show in a moment, we are on a firm financial footing.

3.9 gigawatts of generation capacity based on renewables and a development pipeline of more than 7 gigawatts, more than 22 million customers and about 570,000 kilometres of electricity and gas grids in Europe speak for themselves. That gives us a strong foundation for our business that brings in reliable returns.

And this also applies to fiscal 2017. Our adjusted net income increased year on year by about 9 per cent to more than EUR 1.2 billion. This once again confirms the position of the Grid & Infrastructure division as the strong backbone of our company.

Ladies and Gentlemen,

To maintain our strong competitive position, we need to invest in a lasting basis for our business. And we need to continue to work on ourselves – on our corporate culture, on our ideas, and on our workflows. We have been doing just that ever since the company was established. One example is the many digital initiatives to both defend and expand our leading market position on the German retail market. This is a consistent continuation of the changes that we have been introducing since RWE days.

In recent months, we have created many new initiatives that will benefit our business in the long run. The greater focus on digitisation and innovation, on a new and agile work culture, on customer-centred solutions and products – all these are developments in the right direction.

We are also satisfied with the national and international acceptance of innogy as a brand. Brand recognition in our home region between the Rhine and the Ruhr at the end of 2017 was already an impressive 80 per cent.

innogy is perceived as particularly sustainable, innovative and customer-oriented – with good reason.

We are one of a very few entities that are driving the energy transition forward on all levels. Our portfolio ranges from smart grids and storage systems to digital solutions for our end customers. And we assume responsibility for developing the entire future system, as in the Designetz pilot project.

Ladies and Gentlemen,

Dealing with the energy transition is a constant process of weighing up opportunities and risks – even in the context of constantly growing competition.

Competitive pressure is a known factor in retail. But with growing market maturity and the accompanying adjustment of the support schemes, the same now applies to the expansion of renewables. In addition – I just mentioned the example of electric mobility – there is substantial competition for new business areas.

innogy is aware of this development. That is why we further refined our corporate strategy during the year under report. We set the bar high for our business.

The example of npower shows that we are rigorously implementing this strategy.

Our UK subsidiary is well on track to leave behind the problems caused by its billing system. However, market conditions continue to tighten, not least due to legislative measures.

The UK Government intends to extend the current price caps for prepaid tariffs to standard tariffs. The original price cap was extended to about one million additional households in February. And a bill has just been introduced into the House of Commons to extend price caps for all customers on standard or default tariffs, planned to take effect around the end of the year. In short: conditions in the highly competitive UK electricity market will become even tighter.

In this situation, it will be difficult to achieve our desired market position through our own efforts alone in the foreseeable future. That is why we agreed in November to merge npower with SSE’s British retail activities in the area of household energy and “Energy+”. That was an important and logical decision in a difficult situation.

Now let me turn to the question of value-added growth.

As part of our adjusted strategy, we identified three central growth fields in addition to our core business – electric mobility, broadband and solar. But our investments focus on our core business.

For the years 2018 to 2020, we have identified investment potential totalling up to EUR 10 billion in our core business and growth fields. We will continue to be decisively guided by a leverage factor, in other words the ratio of net debt to adjusted EBITDA, of about 4. We are relying on value-added growth, and on cost discipline. In this way, we are also taking the expectations of the capital market into account.

Against this backdrop, the bottom line is that we currently plan net investment of EUR 2 to 2.5 billion per year. Income from planned sales of shareholdings has already been accounted for here.

Ladies and Gentlemen,

Following the IPO, some were concerned that there would not be enough investment projects. The truth is that we have identified so many attractive options that we are spoiled for choice. We are in the lucky position of being able to concentrate on the best projects. And that is exactly what we are doing.

The pace is fast. Today, for example, we are announcing the acquisition of the Italian onshore wind farm Deliceto – an investment in an attractive European wind location that fits perfectly into our existing portfolio in Italy. But as I noted: we are also putting our money into strategic investments outside our traditional business that we expect will provide a sustained contribution to earnings.

Most recently, for example, we made quite a major entry into the utility-scale photovoltaic business in Australia – an important investment in one of our growth fields. And we are also making massive strides in driving electric mobility forward.

In 2017, we were awarded a record contract by the Federal Government to construct a good 1,200 new public charging points. The latest development in this area is that we have just passed the figure of 1,500 charging points, which we have been installing at 22 plant locations for Daimler AG. We are also particularly proud of the fact that we are now equipping the logistics centres of DHL with charging infrastructure as well.

But even so, our three new growth fields all have to compete for the available financial resources. The selection is based on stringent, clearly defined profitability criteria. These include a sober assessment of opportunities and risks, and structuring our portfolio strategically.

We rely greatly on project and financing models on a partnership basis, in line with the motto: pool your expertise, spread your risk. We have had good experience in this regard with major offshore projects in particular: Nordsee One, Galloper and Gwynt y Môr.

A slightly smaller example from the year under report is the "indeland" wind farm Eschweiler. We rely on strong municipal partners there, in the form of EWV and RURENERGIE. With projects like this, innogy is helping to make a regional, citizen-oriented energy transition a reality. This enables us to bring our successful partnership with the municipalities into the future.

Triton Knoll however is a project of a quite different order of magnitude. This wind farm represents a total investment volume of around GBP 2 billion and a generation capacity of 860 megawatts. In the truest sense of the expression, this offers huge potential to drive our business forward with attractive returns. The success of Triton Knoll at auction demonstrates our competitive strength in major offshore projects.

We now intend to develop the wind farm further, through to the final investment decision. At the same time, we are examining a range of options for the future ownership structure. The current plan is to issue shares to co-investors. The objective is to achieve the greatest possible value for our business and our shareholders.

The same applies to our project pipeline in the US. Subject to official approval, we will take over an onshore wind project pipeline there, amounting to more than 2 gigawatts. This involves projects with an installed generation capacity of about 500 megawatts that are already at an advanced stage of development. Execution of the projects will be realised step-by-step in line with our principle of financial discipline.

innogy is not only penetrating attractive new markets – it is also expanding its presence in its core markets. Most recently, for example, we took over an onshore project pipeline in Thuringia. This consists of 23 development projects with a total capacity of up to 400 megawatts that we want to make ready for construction with our current project developer. With projects like these, innogy is making the energy transition happen in Germany!

I am sure I am telling you nothing new, but the distribution system is the most important foundation for a decentralised and sustainable energy system. Activities aimed at expanding and modernising the distribution system are on the agenda at innogy, and we give high priority to the investments that are needed in this area.

In fiscal 2017, we made some important contributions towards boosting the long-term value of our grid business. In Germany, we secured our mandate to supply more than 690,000 citizens – via the renewal of concession contracts, investment solutions or consolidation of partnerships with municipalities.

Our strategic partnership approach is thus, to a certain extent, the stable foundation in the regions. In close cooperation with municipal authorities, we often find solutions to equip rural regions in particular with broadband Internet. Ultimately, that is the prerequisite for digital infrastructure upgrades, such as the expansion of eMobility for example. This consolidates the link between our strong core business and new growth fields.

Rhineland-Palatinate offers a good example of our partnership-based approach in the broadband business. We have already equipped about 250 municipalities in the state with high-speed Internet. As a partner in the Network Alliance of Rhineland-Palatinate, we want to help to create a comprehensive gigabit network by 2030.

High-speed surfing has become an important factor for locations both nationally and internationally. We are driving forward glass fibre expansion and want to play a leading role in this market. The market is attractive to us as the penetration rate is still low and broadband expansion is subsidised by the government. Grid-supporting broadband expansion also benefits our existing grid business as broadband infrastructure creates the prerequisites for the digitisation of our energy grids. And this is essential for the intelligent energy supply of the future.

innogy is currently focussing on the expansion of the glass fibre grid in rural regions, such as the Eifel, the administrative district of Osnabrück, and Emsland. Here, it also becomes clear that the glass fibre business is a very regional one. There are regionally specific opportunities and approaches in each case – for our German regional companies but also for our companies in Central and Eastern Europe.

The electricity distribution networks are the lynchpins of the energy transition in Germany. Over 95 per cent of all wind turbines and photovoltaic systems are connected up to them. A total of 1.6 million systems feed in their fluctuating energy volumes – and the trend continues upwards.

At the same time, the distribution networks are the basis for the expansion of electric mobility. All charging stations are connected up to them. A lot of work is therefore required to equip the distribution networks for sharply increasing volatility in generation and consumption. For an economically efficient solution, we need to focus on digitisation and intelligent grids. The future is not only copper, but smart.

Internationally, too, we are expanding our grid business. Take Croatia, for example, where innogy acquired two municipal gas suppliers in a short timeframe. As a result, we now occupy a leading position in the privatisation of the country’s gas network, with the goal of increasing our market share there to 10 per cent in the next two years. We already have an established position as the second-largest supplier in Croatia’s electricity market.

Ladies and Gentlemen,

Our strategy is aimed at bolstering innogy's value base for the long term, through a process of continuously reviewing and adapting our portfolio and driving expansion in growth areas. At the same time, it is important to make constant improvements to processes and structures to ensure strong performance compared to our competitors.

In autumn, we set up performance initiatives in all business segments. These include numerous activities to expand our customer base, improve our revenue situation and curb costs. In parallel, we followed the mandate to review discretionary expenditure. This involves higher-level supplementary and project costs associated with innogy's launch into the new energy world, from its brand positioning to digitisation and innovation projects.

Overall, this means that we are factoring savings of a total of roughly EUR 400 million into our current planning through to 2020 – across all company divisions. These are gross savings, i.e. we will use most of them to offset inflation-driven cost increases. But we are also using them to compensate for increased expenditure on growth projects, as well as negative margin effects in the retail business in particular. In addition, even though we are growing, we will reduce our cost base – here we focus on the "controllable costs" – from around EUR 4.2 billion to around EUR 4.1 billion by the year 2020.

As there has been a lot of reporting in recent weeks in this regard, let me make one more point: Between 2012 and 2015, the company divisions that are now part of innogy contributed around 25 per cent of the EUR 1.6 billion in efficiency improvements achieved at the RWE Group. Cost discipline is nothing new for innogy.

Ladies and Gentlemen,

You may have noticed: I am now coming to the part of the presentation that would normally be reserved for Bernhard Günther. And I will say exactly what Bernhard would have said at this point. Because all of us on the Board stand behind our strategy.

To pick up the thread: The fiscal year just ended was certainly not one we could call quiet but it was quite presentable at an operational level. That is clear from the key financial indicator for us and our investors: innogy increased its adjusted net income in 2017 by 9 per cent compared to the previous year, to more than EUR 1.2 billion. That means we achieved the return we forecast at the beginning of the year.

Our outlook for adjusted EBITDA and adjusted EBIT in 2017, in turn, had to be corrected slightly downward during the year. This was, among other things, due to the persistently difficult market conditions in the British retail business. In spite of successful internal restructuring measures, the regulatory and market environment there remains difficult, and this situation has lasted longer than we previously expected.

As I already mentioned, we achieved the figures that were communicated in December. Specifically, that means about EUR 4.3 billion in adjusted EBITDA and about EUR 2.8 billion in adjusted EBIT. These both represent increases of 3 per cent compared to the previous year.

We have our Grid & Infrastructure division to thank for the positive development in our operational business compared to the previous year. This was influenced mainly by lower costs to operate and maintain our networks in Germany. In addition to the factors already mentioned, the decline in earnings in our German retail business in particular had the opposite effect. In the previous year, we still had the benefit of some positive extraordinary effects in this area. Higher costs for the expansion of our e-mobility business also made themselves felt.

Our adjusted financial result improved significantly year on year. The result for the previous year still included higher negative extraordinary items resulting from the transfer of debt and restructuring of companies. We also recorded lower costs from interest accretion to provisions. The main reason was the adjustment of discount interest rates.

Our adjusted effective tax rate was 25 per cent, which was thus at the lower end of our forecast range of 25 to 30 per cent.

As at 31 December 2017, our net debt amounted to EUR 15.6 billion, which was slightly lower than at the balance-sheet date for 2016. This was likewise driven mainly by the adjustment of interest rates for pension provisions.

The bottom line is that our leverage factor at 3.6 is below last year's level of 3.7 in this context. This supports our strategy to build on our financial stability and provides us with financial headroom for the planned increase in capital expenditure in the next few years.

Ladies and Gentlemen,

I noted earlier that financial stability is the principle underlying all of our business efforts.

In turn, that means there are quite a lot of good ideas that we do not pursue simply because we do not have the necessary financial resources available. Because even though we need to keep on growing, financial stability is always the basis for our success.

I have already mentioned the fact that we apply strict criteria of economic efficiency and profitability to every investment project – and likewise that our financial room for manoeuvre is clearly defined. Our targeted leverage factor of around 4 is our yardstick here.

In consideration of these criteria, the Executive Board has approved a net investment budget of about EUR 2.5 billion for the current fiscal year. That means we intend to increase our capital expenditure quite substantially compared to the previous year, particularly to finance our growth projects in the area of renewables. It also means that we will sell shareholdings in projects. As I said, we will be guided mainly by our financial targets in this regard.

Ladies and Gentlemen,

Our shareholders expect a reasonable and stable dividend. At the same time, the dividend payment must fit within our financial framework.

At this point, I can repeat word-for-word what Bernhard Günther said last year: "Our dividend policy is in line with our earnings, and is oriented towards economic sustainability and continuity. We intend to pay 70 to 80 per cent of our adjusted net income as a dividend to our shareholders."

Based on our adjusted net income, the Executive Board and Supervisory Board have decided to propose to the Annual General Meeting a dividend of EUR 1.60 per share for fiscal 2017.

This corresponds to a dividend pay-out ratio of about 73 per cent of our adjusted net income.

innogy is not only established on the stock exchange, but also on the debt market. In the year under report we issued a first senior bond for EUR 750 million. This was followed in October by Germany's first benchmark-sized corporate "green" bond, and a further bond of EUR 1 billion in January this year and furthermore the setting up of a stand-alone credit line as a liquidity reserve.

Our ratings also speak for themselves: innogy is rated as Investment Grade, and Fitch and Standard & Poor's have given us BBB+ and BBB ratings with a stable outlook, respectively.

And so, Ladies and Gentlemen, I come to the outlook.

I had already firmly denied the rumours that have been circulating about significant deviations from our target figures.

Accordingly, we confirm our outlook for the current fiscal year. We forecast about EUR 2.7 billion in adjusted EBIT and adjusted net income of more than EUR 1.1 billion. We confirm our intention to pay out 70 to 80 per cent of this as dividends to our shareholders.

Our short-term outlook shows that innogy cannot rest on its laurels following a good start and a strong level of existing business. It is even more important to have a clearly focused course for growth based on financial discipline!

We will all be available to answer any questions now. Thank you very much!