

Uwe Tigges, Bernhard Günther
innogy Annual Year Report of Fiscal 2018
Essen, 13 March 2019
09:00 a.m. CET/08:00 a.m. UK time

[Uwe Tigges]

Ladies and Gentlemen,

We have a lot of things to deal with right now. In particular of course the planned transaction between E.ON and RWE, which I will discuss in more detail later. But first we would like to focus on our results for 2018. And after the dreadful acid attack a year ago, I am very pleased to have Bernhard Günther here with us today.

[Bernhard Günther]

I'm happy to be here too, of course. And as usual I'll be looking at the figures for fiscal 2018 in more detail later on. So for the moment, a big welcome from me, too! Now I'll hand you back to Uwe Tigges.

[Uwe Tigges]

Ladies and Gentlemen,

I don't need to tell you that 2018 was not a regular year for innogy. In view of this, the efforts put in by our employees are all the more remarkable. In what was an unusual situation, our employees managed to keep a clear head and concentrate on their business. That also involved some major challenges. And we made progress in many areas.

We can look back on a fiscal year that was quite presentable in many respects. But it was overshadowed by a difficult market environment – especially for our UK Retail business. As I will explain in more detail in a moment, the failure of the transaction with SSE meant that we had to revise our overall outlook for fiscal 2018 downwards in December. Adjusted EBIT therefore amounts to EUR 2.6 billion. Adjusted net income is just over EUR 1 billion, which represents a year-on-year decline of about 7 and 16 per cent respectively.

Against this backdrop, the Executive Board and the Supervisory Board of innogy SE will propose to the Annual General Meeting a dividend pay-out for the last fiscal year of EUR 1.40 per share. That lies almost exactly in the middle of the forecast range of 70 to 80 per cent of our adjusted net income.

Ladies and Gentlemen,

As you know, the market environment in the United Kingdom has been difficult for some years now. The huge pressure on margins is due to political will, or is at least accepted. We have not closed our eyes to this fact. We therefore looked for new and positive prospects for our UK retail subsidiary, npower. And at the end of 2017, we had actually found one.

We hoped to create a strong new company by combining innogy's UK Retail business with SSE's household energy and energy-plus business. And the UK Competition & Markets Authority had already given the project the green light.

Our plans, however, were thwarted by a further, significant worsening of the market environment – mainly on account of regulatory intervention and more intense competition. The drastically worsened outlook for the new company that resulted would have made substantial extra financing necessary. Negotiations to that end with SSE were stopped with no result.

npower responded with a new programme to reduce costs. We expect about 900 jobs to be cut; natural staff turnover will account for many of these.

The introduction of a price cap this year will have a significant impact. UK regulatory authority Ofgem expects that five of the “big six” energy retailers will post losses in 2019 or generate lower profits. npower hopes to counter the substantial pressure on its result by reducing costs further.

But let's stay with fiscal 2018. As I noted at the beginning, the difficult situation our UK retail subsidiary finds itself in will be reflected in the overall result for innogy.

As early as November, we made a minor adjustment to our expectations at a divisional level. There were a number of reasons for this, and it had no impact on the overall outlook, which no longer included npower at that point. But when the transaction failed in December, we added the retail activities of npower back into the books of innogy SE in full. In the process, we also had to change the outlook for adjusted EBIT and adjusted net income for innogy at Group level.

Ladies and Gentlemen,

However unsatisfactory the situation at npower may be, our business performance in 2018 was gratifying in other respects. That's remarkable – and not only because of the unusual circumstances brought about by the planned transaction. It's also remarkable because the market conditions facing innogy in 2018 were not easy, outside of the United Kingdom as well.

We know that competition in the retail business has been intense on many markets for a number of years. The UK is an extreme case. But other markets in which we are involved are also experiencing difficulties – including our core market, Germany. The way our German retail business held its head up in this market environment in 2018 is therefore all the more gratifying.

We achieved a lot in 2018: we rigorously drove down our sales costs and made the company even more efficient. We also developed new sales channels and are engaging for this purpose in collaborative activities with prominent partners. Customers of MediaMarkt and Saturn, for example, can now take out a new electricity or gas contract with innogy or our subsidiary eprimo at the point of purchase. This alone brought us about 20,000 customer orders in 2018.

We also made great progress in digitising our customer acquisition process. In 2018, we sold four times as many electricity and gas contracts via our digital channels as in the previous year. The online channel now accounts for a substantial 15 per cent of all customer acquisitions in our direct B2C business.

The huge efforts we are making are paying off. innogy's eprimo brand, for example, has broken through the barrier of 1.5 million customers for the first time. And our German retail business overall is also well positioned in a difficult market environment. Following initial customer losses in 2018, innogy started making gains in this area once more from the second quarter onwards, thanks to a market strategy with lasting added value.

Unlike many competitors, we have not bought any customers for a high price. In spite of this, we can confirm our position as the number one in Germany with almost 7.9 million electricity and gas customers¹.

We are also striving to achieve a leading position in the growth market of e-mobility. We took a further step in that direction in the US in 2018. In addition to the software provider Recargo we also took over technology company BTC Power. By doing so, we have secured ourselves a complete fast-charging portfolio for the US market.

In Europe, in turn, innogy is already a leading supplier of charging infrastructure. And it continued to receive major new orders in 2018. For our customer BeCharge, for example, we have already installed the first 175 charging points, and 500 more are already being planned. We have concluded a framework agreement for the sale and operation of 1,000 charging stations with Power Station, a subsidiary of Italy's Unico Energia. And in Germany we have for example entered into an agreement with Aldi Süd to equip branches close to the motorways with powerful fast-charging stations².

In total, innogy has now installed more than 25,000 charging points around the world. And in Germany alone, our grid colleagues connected 2,000 new charging points to the electricity

¹ 7.868 million

² 28 branches, 50 kW each

grid last year. Many municipalities are taking further steps toward completing the mobility transformation with our assistance. And that brings me to our Grid & Infrastructure division.

In fiscal 2018, we secured our mandate to supply more than 730,000 citizens in Germany, via the renewal of concession contracts, partnership arrangements, or by waiving special termination options. We have cultivated the confidence of municipalities by working closely with them over many years.

As a partner to the municipalities, innogy has also been driving forward the expansion of broadband with gigabit-capable networks, in rural areas in particular. In many regions we are implementing subsidised broadband projects. Our subsidiary innogy Telnet, together with our regional investments³, has hooked up more than one million households in more than 300 communities to high-speed internet. In 2018, we doubled our investment in our strategic growth area of broadband to about EUR 200 million per year.

Our broadband business is growing not only in Germany but in Eastern Europe, too. We now have a presence in six regions in the Czech Republic, for example. And we came a good step closer to reaching our goal of gaining a significant market position by acquiring three broadband companies.

To us, the expansion of broadband means more than just laying cables. The high-speed internet offered by innogy Telnet GmbH is being well received. And starting this year we are also taking digital television to our customers' homes via fibre-optic cable.

Examples like these show just how broad and innovative our portfolio of products and services has become. And our Grid & Infrastructure division is playing an increasingly important role here.

Our smart poles are a good example of an innovative new product: these intelligent street lamps not only give light, they also charge electric vehicles, provide Wi-Fi and measure

³ enviaTel; LEW.Telnet and VSENet

environmental data. To assure its further strategic development and for marketing purposes, innogy established the “Smart Pole Factory”.

Bochum is the first large German city that is joining us in turning the idea of developing a digital infrastructure using smart poles into reality. Further cities have joined in since.

Another product developed in the Grid & Infrastructure division is e-prognosis. This solution can visualise demand for e-mobility at a particular location with high accuracy. In this way, it helps grid operators to identify potential overloads in the electricity grid.

innogy also developed the website stromausfall.de. This provides users with information about current interruptions to supply in their region, and they can also use it themselves to report electricity outages. The portal already covers a considerable part of Germany’s electricity grid, and helps to ensure security of supply.

Ladies and Gentlemen,

My intention today is not to give you a complete run-down of all our products and services. I simply wanted to show you, taking our Grid & Infrastructure division as an example, that the ‘Pioniergeist’ (the pioneering spirit) we talk about at innogy is something we also put into practice.

In the first instance, we are, and will remain, a reliable operator of electricity and gas grids. And we place particular emphasis on ensuring that the grids are ready for the energy transition and that they are both future-proof and high-performing. We are, however, also increasingly supplementing our core business in the Grid & Infrastructure division with products and services that extend beyond traditional grid operation. In view of the continued transformation of the energy industry, we are therefore expanding our portfolio and creating new business opportunities.

In 2018, our Grid & Infrastructure division once again provided the firm backbone of our business.

And when you look closely, 2018 was also a good year for Renewables. It was a year of growth and operational excellence, even if the loss of one-off effects and poor wind conditions had an impact.

You could say we got everything out of the renewable energy sources that there was to be had. If the wind was blowing, our wind turbines were usually turning. Considering the weather conditions, the fact that our systems were in operation for a good proportion of the time overall is a reflection of our top-level servicing and maintenance.

Perhaps the most important milestone during the last fiscal year was the sale of shares in the planned Triton Knoll offshore wind farm to two Japanese partners⁴. That was a financial success for the Group as a whole, even though it was reflected only in our equity and liquidity, not in our actual result. Following the sale, innogy still holds a stake of 59 per cent, equating to about 500 megawatts.

Since March 2018, the 353 MW offshore wind farm Galloper, off the south-east coast of the United Kingdom, has been on the grid. innogy has a 25-per cent stake and is responsible for both construction and operational management. In 2018 we also expanded our onshore capacity: with two sizeable wind farms, Brechfa Forest West in Wales and Deliceto in Italy, in addition to a number of smaller plants. We also succeeded in entering into a new market with our first wind farm in Ireland⁵.

Our Renewables division is thus clearly on track for growth. And important steps for our future course have been put in place. Particularly gratifying in this connection was the success of our auction bid for the German offshore wind project Kaskasi, with a generation capacity of 325 MW. The investment decision is expected in the near future.

One international success was our entry into the Australian solar market. Australia's largest solar power station to date, Limondale, is currently taking shape, with capacity of 349 MW.

⁴ J Power and Kansai Electric Power

⁵ Dromadda Beg

In our target region of North America, we are also driving our expansion strategy forward: at the end of 2018, the investment decision was made for our 242 MW wind farm Scioto Ridge in the US, with more to follow in 2019. In the solar area, too, we have secured two development pipelines in the US and Canada with a total generation capacity of up to 1,440 MW.

innogy is pursuing its strategic course in the Renewables division: we are counting on value-added growth in selected markets. With that thought in mind, I will now hand you over to Bernhard Günther.

[Bernhard Günther]

As you said, development in our operational business, if we don't count the United Kingdom, is quite positive, and is in line with our expectations. In 2018, we made good money in all three divisions. Comparing year on year, however, in addition to the difficult market environment, poor weather conditions had a particularly strong impact on our Renewables business.

Our result for Renewables declined by 16 per cent year on year, to just under EUR 300 million. This was mainly the result of exceptionally weak wind levels, even compared with the already poor weather conditions of the previous year. Furthermore, in 2017 we had posted a non-recurring income item, as we increased our stake in the UK offshore wind farm Triton Knoll to an initial 100 per cent. Additional factors reducing our result compared to the previous year are higher development and up-front costs for new projects, and declining revenues from procurement and construction in our solar business. This was only partly offset by higher prices for electricity and for green certificates as well as the expansion of our generation capacities. As Uwe mentioned earlier, the sale of shares in Triton Knoll had no effect on our result.

In the Grid & Infrastructure division, our result was slightly above that for 2017, at EUR 1.96 billion. In Germany, this was brought about by higher results from one-off effects, efficiency

enhancement and improved earnings at our minority shareholdings. This helped to offset the burdens from the new regulatory period for gas⁶ and the slightly poorer result in Eastern Europe.

In our Retail business, we recorded a significant decline in earnings, by about 21 per cent, to a good EUR 650 million. This was partly attributable to an unexpected rise in commodity costs in the Netherlands as a consequence of the cold weather in the first quarter of 2018. The second key reason was a decline in positive one-off effects compared to the previous year, for Germany in particular.

This also masked the reduction in sales costs that Uwe mentioned. The digitalisation of our business and the creation of new business models also generated costs. Just like the reduction of sales costs, however, these are a reflection of the successful realignment of our retail business in a highly competitive market environment.

The result for our UK Retail business, in turn, was slightly below the already poor level for the previous year, on account of a difficult regulatory and competitive environment. After the transaction with SSE was stopped with no result – as Uwe already mentioned – the UK Retail business is once again being included in our adjusted Group result.

I do not need to explain to you that the above-described decline in our adjusted EBIT also has an impact on our net income. And a declining financial result also had an effect here, which was predominately due to lower earnings from securities compared to the previous year.

The non-operating result once again amounted to about –EUR 1.7 billion in 2018. This was caused by significant impairment recognised on goodwill in our UK Retail business due to worsened market conditions and the failed transaction with SSE. That is why we are posting a negative net income of –EUR 653 million for fiscal 2018. However, these special effects on

⁶ With effect from 1 January 2018

earnings do not impact our adjusted net income, which demonstrates the sustainable earnings power of our business.

Now I would like to look at our capital expenditure in a little more detail.

Compared to 2017, our capital expenditure last year was up by about half a billion euros. This was mainly attributable to higher growth investments in the Renewables division. This relates mainly to our investments in the Triton Knoll offshore wind farm in the United Kingdom as well as onshore wind projects in the UK and the US.

In absolute terms, the bulk of our capital expenditure, about EUR 1.6 billion, continues to go towards expanding and upgrading our grid infrastructure. Here, too, we invested more in 2018 than in the previous year.

In addition to our investments in our Grid business and in Renewables, much higher capital expenditure in eMobility underlines our growth ambitions.

On the other hand, our net investment – in other words, our level of investment after deduction of income from the full or partial divestment of plant or companies – fell slightly last year. The increases in capital expenditure were more than compensated for in this area by higher sales revenues, particularly from the sale of shares in Triton Knoll.

Ladies and Gentlemen,

The three leading rating agencies give innogy an Investment Grade rating. That is confirmation of our good creditworthiness. In 2018, we redeemed a bond with a value of EUR 980 million, and issued a total of three new bonds representing an overall volume of EUR 2.25 billion.

We were able to benefit from the relatively low interest rate and thus reduce our average cost of debt from 4.1 per cent to 3.6 per cent.

Nevertheless, innogy's net debt grew last year by about EUR 1.3 billion. The principal factors included our budget deficit, in other words, our free cash flow less dividend pay-outs, a negative development in our plan assets, and an increase in our provisions for pensions. The latter is the result of a decline in the discount rate in Germany.

Our employee numbers remained stable during the last year. As at 31 December 2018, innogy and its subsidiaries employed a total of around 43,000 people (converted to full-time positions). We are pleased to see that innogy continues to be perceived as an attractive employer, even in the context of the planned transaction.

Ladies and Gentlemen,

This brings me to our outlook for the current fiscal year. Two key events lead us to expect a noticeable decline in adjusted EBIT compared to 2018: first, we sold our Czech gas grid business in February 2019, and so it will make no further contribution to the Group operating result for the balance of the year. And second, as we announced in December, we expect a much greater burden in 2019 due to the collapse of the transaction with SSE. The price cap for standard tariffs introduced on 1 January 2019, and higher regulatory costs, mean we expect a further decline in earnings for our UK Retail business.

Against this background, we expect adjusted EBIT for the Group as a whole of about EUR 2.3 billion and adjusted net income of about EUR 850 million for the current year. On this basis we will maintain a pay-out ratio of 70 to 80 per cent of adjusted net income as a dividend.

[Uwe Tigges]

Thank you, Bernhard, for that review of our business figures and the outlook for 2019. If 2018 was not a normal business year for innogy, it's clear that 2019 will not be, either. That's something we can be sure of.

Something else that is clear is that we are continuing to focus on taking innogy further. And we are still concentrating on our day-to-day business. In the Renewables division alone, for example, we have three major projects in progress this year: Triton Knoll in the UK, the Limondale solar farm in Australia, and our first onshore wind farm in the US. We will do all we can to ensure these projects are a success. And, of course, we will also make every effort to drive forward the many good initiatives in our Retail and Grid business.

On the other hand, of course, it's also clear that this year will be defined by the planned transaction between E.ON and RWE. In the first stage, the majority shareholding in innogy will pass from RWE to E.ON; and then the entire renewables segment of E.ON will be transferred to RWE. This process will entail important decisions for the future of innogy and its employees.

We on the Executive Board have always said that we want to take as much of innogy as we can into the new E.ON and RWE. And that's what we will continue to fight for in 2019.

Ladies and Gentlemen,

We firmly believe we have created lasting value with this company.

innogy identified the major energy industry trends – decarbonisation, decentralisation and digitalisation – at an early stage, and organised its business more rigorously along those lines than others. The latest political developments – relating to the recommendations by the Coal Commission here in Germany – confirm that our approach was the right one. The consequences of the proposed coal phase-out would provide further impetus for the expansion of renewables, decentralised power generation, greater input by other sectors toward protecting our climate, smart distribution systems, and digital innovations. That boosts the value of the many activities and projects that we have developed in this regard in every one of our divisions.

innogy takes a systemic view of all these elements, unlike virtually any other company. In Duisburg, for example, we have just created the first semi-autonomous fast-charging station for electric vehicles – a trail-blazing solution to combine customer needs and grid stability. As

head of the consortium for the Designetz project, in turn, we are simulating the way individual elements work together to create a blueprint for the energy system of the future.

And I believe that the energy industry of the future, which will probably be even more highly specialised, must assume responsibility for the entire system.

innogy has set business precedents in this area as well. We have developed new business areas and new markets. And we have invested in the expansion of our core business. In all these ways, we have smoothed the way for future growth, even if that is likely to happen under a new company banner.

Last but not least, we have also created something fundamental with innogy: we have established a new employment and corporate culture for the energy industry – away from rigid hierarchies and responsibilities, and towards more communicative and dynamic structures of working with each other. And we are relying more strictly than others on customer focus and an innovative spirit. We are pioneers, not only in terms of the energy industry, but from a cultural perspective too.

Encouraging this culture is not born just of human sympathy, but is also a response to the challenges of a new world of energy and employment. And because these challenges will continue, I firmly believe that this mindset will remain a driver of the energy industry.

Ladies and Gentlemen,

When I stood here in front of you a year ago, the news of the planned transaction involving our company was still quite fresh. A lot has happened in the meantime, even if the final approvals under anti-trust legislation have not yet been received:

- The basic collective bargaining declaration, released in May, represented an initial step toward protecting our employees.
- In November, the Group Works Council and the SE Works Council at innogy joined the E.ON framework agreement on “Project Sunrise”, which governs key principles of social protection for the employees.
- And in July we already reached agreements with RWE and E.ON on fair integration processes. Since then, we have been working in teams with members from each party respectively to prepare for possible integration with E.ON and RWE.

For us at innogy, that means being both a negotiation partner and a competitor:

- As a negotiation partner, we actively represent the interests of innogy and all its employees as part of the integration processes.
- As a competitor, we concentrated in 2018 as before on driving our own business forward. And we will continue to do so with commitment in 2019.

We are working with a clear focus on making the best out of our situation. Thank you.