Reasoned statement and report on Q1 2018
Press conference for journalists
Essen, 14 May 2018, 9:30 a.m. (CEST) / 8:30 a.m. (UK time)
Speaking notes for Uwe Tigges / Bernhard Günther

Check against delivery.

[Uwe Tigges]

Ladies and gentlemen,

Welcome to the press conference.

We would normally start off with presenting the results of our first quarter, which we will come to shortly. First, however, it is my great pleasure to welcome my colleague, Bernhard Günther, beside me.

Bernhard, I and everyone at innogy are very happy that you could leave the hospital and are on the way to recovery. After such a difficult time, it is not to be taken for granted that you can be here today. We are very grateful for that. On behalf of all the innogy staff, I am delighted to welcome you back. We are pleased that you are standing with us in such turbulent times for innogy. We wish you continued recovery and we fully support you along the way.

Before Bernhard Günther gives you a summary of our first quarter, I would like to address two other topics. The first is our reasoned statement, which we published last Thursday in response to the takeover offer from E.ON. The second is the basic collective bargaining declaration from last Friday.

Let me start in chronological order. I can still remember very well how we were surprised by the announcement of a takeover offer on the weekend before our annual press conference. Since 27 April, the offer from E.ON has been public. Based on the offer document, the deadline for accepting the takeover offer ends on 6 July at the end of the day; the so called “additional acceptance period” is expected to run – according to E.ON – until 25 July 2018.

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Over the past months, and in particular since the offer document was published, the Executive Board has thoroughly reviewed E.ON's takeover offer, and the Supervisory Board has done the same. Both boards have come to the same conclusion jointly: We are not able to give our shareholders a recommendation as to whether they should accept E.ON's offer or not. We announced this publicly last Thursday in what is known as a reasoned statement.

Allow me to briefly explain to you how we came to our conclusion.

In order to assess the fairness of the offer price, among others, we drew on the expertise of investment banks. The Executive Board requested Goldman Sachs and Deutsche Bank to each provide a fairness opinion, and the Supervisory Board retained Lazard for the same.

On the basis of the information readily available to us and taking into account the fairness opinions of the banks, we regard the absolute price per innogy share offered by E.ON to be fair.

However, in the reasoned statement, we are required by law to assess the price offered not only in absolute terms, but also on a relative basis with regard to any so called pre-acquisitions.

This means that we must also take into account what conditions E.ON is offering, such as to our majority shareholder RWE for the sale of its block of shares.

To recap: Under the agreement between E.ON and RWE, E.ON is to take over RWE's 76.8 percent stake in innogy, whereas RWE is to obtain among other things all of E.ON's main renewable energy activities, innogy's renewable energy business, as well as a 16.7 percent minority stake in E.ON.

However, the conditions of these agreements between E.ON and RWE have not been made public. For this reason, it is not possible for us to ascertain objectively whether the agreed consideration for the innogy block of shares from RWE matches the offer price to our minority shareholders, or whether it is higher or lower. In other words, we cannot exclude the possibility that the public takeover offer might leave our minority shareholders in a worse position than RWE.

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As we aren't able to assess whether the offer price is altogether financially fair, we are unable to give a recommendation to our shareholders within the context of the reasoned statement.

The assessment of the offer price is *one* element. Just as important for us are the likely consequences of the planned transaction on innogy's development going forward. The Executive Board and the Supervisory Board are extremely concerned that innogy's employees might suffer structural disadvantages as part of a potential integration.

E.ON has announced that it will respect the rights of our employees and will work with us constructively, and we expressly welcome this position. Over the past weeks, several talks were held with E.ON and also RWE at our initiative to agree on legally binding commitments for the integration process. In our opinion, that is important because the long duration before completion of the overall transaction brings significant uncertainties for our employees. To recap: In any event, it is currently envisaged that innogy will continue to operate as an independent company well into the second half of 2019 – that is not coming from us, but from E.ON.

In recent days, there has been movement in the talks. This has led to the conclusion of a basic collective bargaining declaration on Friday.

This is a first step in the right direction, as it means general security for employees. As we already made clear in our reasoned statement, any job cuts shall be carried out in a socially responsible manner and with the involvement of the works councils and unions. However, that is not enough in our opinion. There are still many open questions.

We need binding commitments for an integration process that is fair and balanced.

For us that means:

- Firstly, we need, for example, the genuine opportunity and the resulting motivation for employees, especially our managers – to have a fair and transparent appointment process as part of the integration – irrespective of whether the respective employees are from E.ON or innogy – following the principle "best person for the job".

- Secondly, the strengths of both companies should be respected, the better business model should be applied in each case and the existing competitive advantages of innogy should be taken into account in the integration process. In short: We want the maxime "best of both worlds" to be applied. This includes retaining innogy as a brand. This makes sense economically because the innogy brand has been attested to have a sustainable, innovative and customer-oriented image as well as a high brand value that we aim to maintain. But it also makes sense for employees and customers as a sign of identification and recognition.
- Thirdly, adherence to the commitments should be monitored by an independent third party.

Only a framework agreement with binding commitments can ensure a fair and orderly integration process. And just as important, only in this way, we are able to provide innogy employees with a perspective for the future during the long period until an integration with E.ON. takes place. And only this way, we are able to ensure that in particular top performers and high potentials stay motivated and on board in this difficult transition period. And in our opinion, this should also be in E.ON's interest. Ultimately, a possible integration of innogy and E.ON will only be successful if all involved parties deal with one another fairly and at eye-level.

Of course, we are also aware that a share block is being sold and so the transaction is not a merger between equals, but a takeover from E.ON's perspective. That is also reflected towards us by RWE and E.ON. However, since E.ON and innogy are companies that have the same size, an integration at eye-level is vital to its success down the road.

We, as the Executive Board of innogy, are ready in any case to discuss these points over the coming weeks with all those involved and jointly develop legally binding solutions. As the Executive Board, we will continue to stand up for the interests of innogy and our employees, regardless of the division and site in which they work.

It will be a long time until a possible integration could start. The regulatory approvals are not envisaged to be concluded before mid-2019, and perhaps could drag on even longer. The transaction can only be completed once the authorities give the go-ahead. Furthermore,

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E.ON may implement further structural measures, which also include the second stage of the transaction pertaining to the renewables business.

This means we are talking about at least one and a half years until a possible integration can even begin. That makes it all the more important that, until then, we continue to do everything possible to ensure innogy continues to perform successfully and meet the needs of our customers and partners.

Once again, we have demonstrated this in the first quarter. In that vein, I'd like to now hand over to my colleague, Bernhard Günther who will walk you through how our business operations performed in the first quarter.

[Bernhard Günther]

Thank you, Uwe.

Ladies and gentlemen,

I also welcome you from Essen.

First, I would like to repeat what Uwe already said just a few weeks ago at the Annual General Meeting: innogy is a highly attractive company. And in the recent past, we have taken quite a number of major steps to further strengthen our business operations.

Of particular significance among these steps was our success in the auction with our offshore wind farm Triton Knoll in the UK. And another important milestone has now been reached at the end of April with our success in the most recent offshore auction in Germany. Here we have been awarded the contract for our Kaskasi project. Operations of the wind farm with planned installed capacity of 325 megawatts are expected to start as of 2022.

Our success in the auction with the Kaskasi project has once again demonstrated innogy's competitive strength in an increasingly competitive market for renewable energies. At the same time, this project shows that a strong position in the market enables us to leverage synergies. The Kaskasi project is in the immediate vicinity of our Nordsee Ost wind farm, which allows us to save on operating and maintenance costs.

Projects such as Triton Knoll and Kaskasi underline our prospects for favorable operational development. We have identified an overall gross investment potential of up to 10 billion euros by 2020, including more than 5 billion euros for potential growth projects. We intend to continue to work closely with our partners in these endeavors.

All in all, we want to deploy 7 to 7.5 billion euros by 2020, with the intention of having a positive impact on our Group earnings.

Now, ladies and gentlemen, let's turn to the business figures for the first quarter of 2018. Here I can be brief as there are no surprises. We are in line with our forecast.

Adjusted EBIT of 1.2 billion euros is slightly below the previous year's quarter. In turn, adjusted net income has declined 11 percent compared to the first three months of 2017, as expected. In addition to adjusted EBIT, this was mainly due to the weaker financial result, which was largely affected by the valuation of financial transactions and negative earnings from securities.

Allow me to take this opportunity to briefly look at our three divisions.

In the Renewables division, we've seen a positive performance. In addition to price effects, we also benefited from higher production volumes compared to the previous year. The main reason for this was favorable weather conditions. In addition, we have new power plants on the grid, which are contributing to our result. In concrete terms, these are:

- a number of onshore wind farms in the UK, Italy and Germany
- as well as the offshore wind farms Galloper in the UK and Nordsee One in Germany.

The operational situation of our Grid & Infrastructure division is stable. While our business performance in Eastern Europe remained unchanged compared to the prior year's quarter, earnings in the German grid business have risen slightly. In the first quarter 2018, we reported efficiency gains as well as higher positive extraordinary income from events such as the disposals of network infrastructure.

Adjusted EBIT of our Retail division, on the other hand, was significantly down year on year. On the one hand, this was related to competitive pressure and the loss of customers as a result in Germany and in the Netherlands/Belgium. And on the other hand, the cold weather generated an unexpectedly high demand. Our procurement costs rose, because we had to procure electricity at short notice and in some cases at high prices on the spot market.

In contrast, our adjusted EBIT in our UK Retail business rose by more than a quarter[1] compared to the previous year. In this market, the net loss of customers was cushioned by a gain in customers with higher consumption and the successful implementation of the restructuring program. Our Retail business in Eastern Europe also remained stable.

Overall, ladies and gentlemen, our business has performed as expected in the first quarter of 2018, so that we confirm our guidance for the full year.

And now in closing, a rather technical note: Due to the increasing relevance of our e-mobility business, it is now shown separately in the financial reporting under “Corporate/New businesses”, and is thus no longer included in the Retail division. The figures for the previous year and our forecast have been adjusted accordingly. However, this shift does not change anything in the aggregated figures.

Thank you.

[1] 26.5 percent

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