innogy SE: Interim report January to March 2017
Conference call for journalists
Essen, 12 May 2017, 10:00 a.m. CEST
Speech notes for Bernhard Günther, CFO of innogy SE

**Check against delivery.**

Ladies and Gentlemen,

Good morning to you all from Essen, and welcome to the release of our business figures for the first quarter of 2017.

We have been through a year of change. And I also adopted a different approach for our conference call on the first three quarters of 2016: instead of repeating our interim statement, I concentrated on putting our earnings in context, and on making a number of key statements.

I have the impression that you as journalists were able to work with this. That’s why I am staying with that format this time. And I will be available to take any questions afterwards, as always.

Our quarterly figures underline what we emphasised at our Annual General Meeting: we have got a successful company off the ground that is fit for the future.

Expressing that in numbers: in the first three months of the year, innogy achieved an adjusted net income of €684 million.

We increased our adjusted EBITDA by four per cent year on year, to about €1.6 billion. Adjusted EBIT was just under €1.3 billion. This was up about six per cent compared to the previous year. The year of financial transition is now behind us, and things are looking up!

The grid business in Germany was the key element in these positive developments. On the one hand, we had to accrue provisions for partial retirement measures in 2016.

And on the other, we are now benefiting quite substantially from lower expenses for operating and maintaining our grids.

This brings me to the first point I would like to highlight: making our grids fit for the energy transition is something we view as an ongoing task. But the major component in our increased capital expenditure during the first quarter was the purchase of Belectric. This shows that innogy is investing in long-term growth.

We have pointed out on numerous occasions: our IPO gives us financial headroom for capital investment in our future business. By acquiring the solar and battery specialist we have closed a strategic gap in the area of renewables. We are focusing on low-cost, utility-scale photovoltaic plants and battery storage systems; we are developing what is, for us, a new business area, and we are helping to make the energy transition affordable.

Integrating Belectric into innogy SE is bolstering our operational structures. And at the same time, we have gained a well-known and self-contained brand.

In our new business area, we are striving to achieve a strong market position in Germany – as a springboard for a strong presence, also in other countries. We firmly believe that the time has come for utility-scale photovoltaic plants in Germany, too. Bavaria and Baden-Württemberg are becoming more flexible in expanding the permissible areas available for tender. Other German federal states must and will follow.

Ladies and Gentlemen,

innogy is focusing on stability and growth based on sound decisions. Further confirmation that we are on the right track came with our first senior bond issue at the beginning of April, which was oversubscribed many times.

We have set out on a clear and promising course aimed at adding value. The important thing now is to guide innogy through its day-to-day business.

Without doubt: we will encounter challenges along the way. The first quarter of 2017 in our UK retail business demonstrates this.

As you know, our subsidiary npower experienced massive problems. In March 2016, we presented an extensive recovery plan to improve the business and we are paying very close attention to npower's recovery.

The interim result is that npower is fully in line with implementing these measures, is clearly getting a grip on its operational problems, has simplified processes and reduced costs. To give you an indication of what we are talking about, cost savings of 200 million British pounds have been planned so far, and we have already put efficiency measures in place that will save 100 million pounds.

Even so, the fact is that the business environment in the UK is deteriorating noticeably. There is fierce competition for customers, wholesale costs have increased, and so have regulatory policy costs. As a result of all this, margins are eroding – we have seen the impact already on Scottish Power and Centrica. On the other hand, our increase in price at standard tariffs has not yet had a noticeable impact on our result for the first quarter, as it has only been in place since 16 March.

All of this is overshadowed by the threat of further regulatory intervention by the UK government in terms of a price cap on the basic tariff.

All this affects not only npower, but all UK energy suppliers. That means npower has to run faster than its competitors. Therefore, in this changing market environment, we are examining which measures we have to initiate for further reducing npower's cost base.

Ladies and Gentlemen,

innogy is starting its second fiscal year with good prospects. We face a number of challenges. But we are making good progress.

Take our German retail business, for example, where we have driven forward a number of measures to increase efficiency and curb costs. And that is how we will continue. For fiscal 2017, we expect further efficiency improvements in Germany, and also in the Netherlands and Belgium.

All this shows that innogy is doing its homework. We are setting ourselves the ongoing task of getting the company into even better shape to perform. And in the process we are rigorously working to increase our level of digitalisation.

One example is the increased use of automation software for customer service in our B2C business – especially for standardised, recurring processes. This lets us do two things at once: we are making our good customer service even better, and are making ourselves more efficient at the same time.

Establishing innogy created a number of expectations. And now we're delivering on them.

Here is a second example: with Energy Plus products, we hope to improve customer loyalty and make a substantial contribution to earnings. The figures for the first quarter are pointing in the right direction. Now we want to further increase the share represented by these products in our adjusted EBITDA – to more than €150 million by 2018.

But 2018 is in the future. We need to look at 2017 first. That brings me to the outlook.

We confirm the positive outlook that we provided in March. The growth in adjusted net income that we are aiming for will certainly be of particular significance to our shareholders. We want to implement further efficiency measures to counteract difficult market developments such as those affecting our retail business in the UK.

All in all, we cannot say that there are no challenges, but we're on the right track! And that track is one that more and more people in Germany are recognising. After all, nearly half the German population knows about innogy – and that's just three quarters of a year after the brand was introduced.

You may be a little surprised that, as a numbers man, I am finishing on such a soft note. But innogy is a new company. A strong identity and customer loyalty form the solid base we need for our business to grow. And that will also be reflected in our balance sheets over time.

But now I'm looking forward to taking your questions. Thank you.