Press Conference innogy SE

on fiscal year 2016
Essen, 13 March 2017
Start at 10:00 a.m. CET/9:00 a.m. UK time

Check against delivery.

Peter Terium

Ladies and Gentlemen,

Sometimes I need to pinch myself.

You know what I mean. We all do it sometimes.

But these last few days in particular, I have had to pinch myself a few times. There is a simple reason for this: a year ago, today's innogy did not exist, and now here we are presenting our first Annual Report.

I have always been a firm believer in our success. But when I look back on what we have achieved as a team during the past year, in a sense it is quite unbelievable.

- We built up innogy SE, implanted its DNA, and gave it its strategic direction.
- We successfully launched it on the stock market and gave it more financial room to manoeuvre with an increase in capital.
- We made the company known in the media and among the wider public: in our home region we now enjoy a brand awareness of more than 70 per cent, and in the Czech market, for example, we have already passed the 50 per cent level.
- We have achieved all this without neglecting our core business. As a result, the business figures that we are presenting today match our expectations perfectly.

I would like to thank our more than 40,000 employees for the part they played here. We talk a lot about what's "new". But innovations and new ways forward would not be conceivable without everyone who worked so hard last year to ensure a return for us. A functioning day-to-day business in Grid & Infrastructure, Retail and Renewables – that is our stable base. This base holds firm, even in times of upheaval. That means we can continue to develop, in order to ensure a positive outlook for our day-to-day business.

Most of our employees learned their trade in the old energy world. They must surely find innogy to be a challenge. But they have taken this challenge on board. The spirit of optimism is something you can really feel.

The mood is not one of jubilation, but there has been a change of key. A shift from minor to major.

We all understand that innogy is an opportunity. An opportunity for the company and its employees, an opportunity for RWE as the main shareholder, an opportunity for the German energy industry, and an opportunity for modernisation and structural change – not least here in the Rhine/Ruhr area.

Ladies and Gentlemen,

There is one basic thing I try to do in my work. Stay on course and keep my word.

One of the reasons for restructuring our Group the way we did lay in the difficult situation facing conventional electricity generation, but it did not come out of the blue. It was built around earlier measures to promote cultural change within the Group, to improve efficiency and reduce debt.

Last year we went on the offensive and brought innogy into being. We follow our words with actions.

No sooner said than done: we built the energy company of the future.

Hardly any company in Germany or possibly anywhere in Europe is contributing as consistently as innogy to the trends of decarbonisation, decentralisation and digitalisation. We are not the only ones to say this – I hear it in similar form from policy-makers, opinion leaders and other energy industry experts.

innogy is a reflection of the energy system of the future, and addresses the tasks this will involve. It earns us money. And we are putting our ideas into service for the common good – for state-supported energy transition projects like Designetz, for example.

innogy is part of the social mainstream. And that feels good.

Ladies and Gentlemen,

No sooner said than done: we have shown that we are rigorously implementing our new beginning. With innogy, we created an attractive stock.

Our IPO in October was the second-largest in the world last year, and the largest in Germany since 2000. The key financial indicators are there to be seen:

The placement price for our share was at the upper end of the price range that was set; the opening price was higher still. Since then, the price development has been based mainly on an expectation of rising interest rates on the capital market in response to the US elections.

Regardless, the majority of analysts rate our prospects positively. Seven out of 17 financial analysts from prominent institutes recommend buying innogy shares, while ten recommend holding them.

No sooner said than done: we created prospects for investment and growth – for Renewables, for Grids and Infrastructure, and for our Retail business.

The capital increase in the course of the IPO brought around EUR 2 billion to innogy. Not even a month later we received our first independent rating. The BBB+ rating from rating agency Fitch confirms innogy as being a good and safe investment grade. Now we want to back up this appraisal with prudent and focused investment behaviour.

No sooner said than done – and this brings me to our company balance sheet: innogy is earning profits for its investors!

For fiscal 2016 we show adjusted net income of around EUR 1.1 billion. In April, the Executive and Supervisory Boards will propose to the Annual General Meeting that a dividend of EUR 1.60 per share be paid to our investors, which is at the upper end of our dividend payout ratio of 70 to 80 per cent of adjusted net income. I would not want this to be misunderstood as a forecast for future years – but for 2016 we are giving our investors the maximum possible.

No sooner said than done: fiscal 2016 is entirely in line with our earnings forecast.

For us, 2016 was a year of calculated transition. That is what we have said all along. In specific terms, the decline in adjusted EBITDA to EUR 4.2 billion during the previous fiscal year was in the range that we budgeted for. And we communicated that fact.

We all know about the psychological component of stock market trading. Different rules often apply in the short term. But what really matters for our investors is the stable outlook we offer.

innogy is a strong dividend stock with growth potential. And we reaffirm the confidence shown by our investors by clearly communicating our goals – and reliably achieving them.

Ladies and Gentlemen,

I am happy with last year. But it is time now to close that chapter, by our Annual General Meeting in April at the latest. Complacency and competitiveness do not go together. And competitiveness will count more than ever in the years to come. The goal is for innogy to build on its good starting position in the competition between energy providers. We are working to achieve this, step by step and day by day.

The competition has become much tougher, and the situation will only intensify. The introduction of auctions as part of the expansion of renewables in Germany is one example, disruptive trends as part of the digitalisation process another.

That is why we constantly ask ourselves questions, even uncomfortable ones: Are we really good enough? Where can we make improvements? What has to change?

One current example is eMobility.

innogy is a pioneer in the area of charging infrastructure. We are helping electric mobility to make its breakthrough, we firmly believe that the breakthrough will come, and we want to benefit from it. This is what we are positioning ourselves for now.

Since January, a dedicated business unit for eMobility has brought the many Group activities in this area together. That means that when electric mobility really takes off, we will be able to get our collective power out onto the streets!

Ladies and Gentlemen,

Profitability and efficiency are the yardsticks that we measure our business against.

In 2016 we brought together everything needed to make a state-of-the-art energy company: Grid & Infrastructure, Renewables and Retail. Now, however, we want to shift up a gear in the individual divisions, and become even more effective and efficient overall. innogy has to be more than just the sum of its parts. Overall performance is what counts.

We are facing a long-term task that we will approach with common sense and sound judgement. One thing has already become clear: the individual projects will have to compete more at an intra-company level for investment funding. We want to invest where we will realise the best returns. Or looking at it another way: anyone seeking to invest must bring in returns. Our divisional heads all sit around a table when we make investment decisions – this is a clear advantage of our new operational holding structure.

There can be no doubt: room for free thinking and testing out ideas is likewise called for here – in a protected space and with manageable risk. This applies to our innovations business in particular. We launch many projects. But then we make a selection, since not every good idea is necessarily a good business model.

And in turn, that means that our innovations business is no playground, but the real thing: tough, uncompromising business. Innovation will need to assert itself as a new, fourth division in the same way as all the others.

Ladies and Gentlemen,

In the energy transition business, money does not fall from trees, either. Now, and in future, the important thing is to objectively analyse market developments, the strengths and weaknesses of our company, as well as opportunities and challenges.

So how do we rate the development of our divisions during the past fiscal year? And what does that mean for the future?

Bernhard Günther will discuss our business performance in detail in a moment. But in the meantime, I would like to put it into perspective.

In the area of Renewables, our adjusted EBITDA was well down year on year, at EUR 671 million.

Like other market players, innogy also suffered from low wind volumes in northern and central Europe compared to 2015. A key factor here was what is known as the North Atlantic Oscillation, which results in very little wind in north-western Europe and stronger winds in the Mediterranean area.

The nub of the matter for Renewables in 2016 is that weather fluctuations are part of the business, just like traffic jams on the A40 motorway. But in operating terms we are fully on track.

The outlook is good: globally, renewables are already recording the highest growth levels among all generation technologies. Current growth rates are not enough, however, to actually achieve the new global targets for reducing CO_2 levels. There is still room for improvement, in other words. The full effect of the Paris Climate Change Agreement is yet to come.

Our strategy for renewables is clearly oriented toward growth with long-term value. Competition is intensifying right now. But as a listed company, we do not pursue projects at any price. And we still have other irons in the fire, too: the first turbines have just been installed at our Nordsee One offshore wind farm. And at the Kaskasi offshore wind farm near Heligoland we are looking at a further large-scale project. The application phase with the German Federal Network Agency is currently in progress.

You will see that we are not throwing money away – rather, we want to earn it. That is what our investors expect. And our actions are structured accordingly.

This is also true for our retail activities. Our aim is to look at things from the customer's perspective, even more than supplying electricity and gas. To do this, innogy has introduced many Energy+ products for residential and corporate customers – with smart technology, fair prices and good service. We want to grow in this area. And we are working on it.

According to a study by the newspaper “Die Welt”, our eprimo brand was the “service champion” among Germany’s electricity providers in 2016. That was just one of several awards for innogy last year. This, of course, is the curse of getting things right: we have set a high level of service to measure our retail activities against.

But the fact is also that the market situation is still tense in many European countries. However, customer losses, like those in the Netherlands, were offset in 2016 by gains in other countries. Central and Eastern Europe in particular are developing positively overall for innogy in the area of retail.

On the whole – and I would like to emphasise that aspect – I am happy with our results in the Retail business for 2016. We increased our adjusted EBITDA in this segment to just under EUR 1.1 billion. But market developments are not uniform. And we must not stop striving to improve.

This applies in particular to npower in the UK. npower intends to continue diligently with its restructuring programme in 2017. This programme already helped to improve the operating result for our UK retail business by 20 per cent in 2016 to minus EUR 109 million.

In an extremely difficult market environment in the UK, there are encouraging signs: progress has been made on reducing costs, customer numbers were maintained in 2016 better than any other large energy company, and the number of complaints has been sharply reduced.

Nevertheless, the strong depreciation of the British pound following the Brexit vote and the difficult market environment for the entire sector are factors that are not under our control and mean our challenges in the UK retail market have not gone away. But that does not free us from the obligation to continue working hard on making improvements.

Now let me move from Retail to our third area of business.

The Grid & Infrastructure division is the firm backbone our business is built around. And the distribution system operators in the innogy Group are investing rigorously in the quality and future viability of their networks. This involved a high level of expenditure in 2016. And it is one of the reasons why our adjusted EBITDA in Grid & Infrastructure fell to EUR 2.6 billion.

In the medium term, however, I foresee obstacles of a quite different nature: more and more reliance is being placed on transmission system operators at a political level in Berlin. I cannot see any other reason why these system operators with their electricity highways have enjoyed so much attention recently.

We are not talking about smart technology here, for the most part – concrete, copper and high costs are the key elements. And the contribution to the energy transition is only limited, since about 90 per cent of the generation capacity from renewables is linked to the distribution system rather than the transmission system. A decentralised electricity supply also needs decentralised control.

For the energy transition to be intelligent, citizen-oriented and cost-efficient, the framework conditions for capital expenditure on the distribution systems have to be right!

But for innogy, infrastructure means more than just electricity and gas networks.

Take the expansion of broadband as an example: there is nothing new in the fact that innogy also lays fibre-optic cables. But as a business area this is growing in relevance. This is also underlined by our partnership with Deutsche Telekom as the leader in the sector. innogy is helping to guarantee fast Internet!

No sooner said than done – we are making innogy the master builder of a state-of-the-art, digital and electric-powered world! And we can permit ourselves to be bold: innogy is a Europe-wide player in the expansion of renewables. In Germany and in several countries in Eastern Europe, innogy is a leading distribution system operator. And with around 23 million customers, innogy is a European heavyweight in the electricity and gas retail sector.

That is why the first pillar of our strategy is to make use of our competitive advantages. We have aligned ourselves according to the energy transition, and have placed our assets in growth fields. That is something we want to profit from for the long term, and we will.

Thanks to its IPO, innogy has a good starting position in both strategic and financial terms. In this situation, investments in new business form the second pillar of our strategy.

One thing this means is that we are building on technology diversification when it comes to electricity generation. The increase in our financial stake in solar film manufacturer Heliatek during 2016 is one example. Another is our acquisition of solar and battery company Belectric.

With Belectric, we want to produce more utility-scale photovoltaic power plants, and expand our geographical focus at the same time. We are looking increasingly to very sunny regions such as the Middle East and North Africa. But we are also trying to determine if large-scale projects of this type can be implemented profitably in Europe and North America.

In the area of wind power, we also want to grow in areas beyond our existing core markets. We intend to expand our activity to markets like Ireland and the USA. We have recently opened offices in both of these countries to this end. And it is only a matter of time before our first wind farm goes on the grid in the USA.

Moving from overseas locations to Croatia, innogy has just become the first private company to acquire a majority shareholding in a small urban gas supplier in that country. This acquisition has a definite symbolic power. After all, we would like to launch into new markets in the gas network business, too – in the form of minor acquisitions, especially in Eastern Europe, and especially in the early stages of privatisation. We have experience in this area, and we want to make use of it!

Ladies and Gentlemen,

The third pillar of our strategy is innovation.

innogy is always on the lookout for innovative trends and new business ideas. We have a presence in all the centres of innovation around the world. We operate in networks and draw on the vibrant power of innovation that start-ups possess.

KiwiGrid is a current example of this kind of cooperation that enriches our portfolio. Over a ten-year period we want to invest EUR 130 million in venture capital in new companies. This is a way for us to gain access to new ideas and technologies for a decentralised and digital energy world.

For us, innovation means new options and potentials for growth. Starting from our core business we develop new business models, preferably models that can be rapidly scaled. In the process we deal with technologies that bring potentials for change along the entire value chain – from Big Data to blockchain technology.

Our financial risk is manageable. But we have many irons in the fire. If an idea is sound, we are in a position to turn it into a profitable business model quickly and flexibly.

In short, innovation should be the driver on our way toward becoming the energy company of the 21st century.

Ladies and Gentlemen,

In 2016 we worked hard to get innogy started off on the right track – and we succeeded. Now we have to deliver. The financial room to manoeuvre that we have gained should pay off over time in the same way as our focus on innovation and future-related topics. That is what I expect from each individual division.

Keeping our word and staying on course. And with that thought in mind, I will hand you over to Bernhard Günther.

Bernhard Günther

Thank you, Peter.

Ladies and Gentlemen,

Peter has already outlined the key figures for our business performance. I will now go into them in a little more depth.

Just like at our previous press conferences, however, we need to make sure there is still time for your questions. So I will limit myself to the key aspects and recommend that you have a look at our Annual Report for further detail – with regard to the performance of individual divisions in particular.

Our key message: innogy has achieved all the objectives we announced as part of the IPO and the nine-month figures, and has concluded its first fiscal year successfully.

Adjusted EBITDA – earnings before interest, taxes, depreciation and amortisation – was at EUR 4.2 billion, within our forecast range of EUR 4.1 to 4.4 billion. Our adjusted EBITDA thus declined year on year as we expected. The additional costs incurred to maintain and upgrade our networks in Germany, in particular, had a negative effect. Furthermore, we were still benefiting from one-off items in the previous year – partly from the sale of shares in the Galloper wind farm and from the first-time consolidation of the Slovakian energy utility VSE. The fact that wind levels were much lower, especially during the second half of the year, also contributed to our decline in earnings. Earnings in our retail business, however, displayed a positive development. As Peter noted, this can be reduced to a common denominator: our UK retail unit is right on track, despite a very difficult market environment.

Ladies and Gentlemen,

Deducting operating depreciation and amortisation, innogy achieved an adjusted EBIT of EUR 2.7 billion, which represents a decline of 10 per cent year on year.

I would now like to briefly explain the reconciliation to adjusted net income, which is the basis for our dividend payment.

Our financial result dropped by EUR 487 million to minus EUR 789 million. The year-on-year figures in this regard are not comparable, however, mainly due to the reorganisation of the RWE Group and the transfer of participations of the three former RWE divisions to innogy in return for consideration. These measures contributed to creating the envisaged capital structure. But at the same time innogy's financial liabilities increased and as a result its interest expenditure.

At 19 per cent, the effective tax rate was relatively low. In this area we benefited from reassessments of the future usability of existing loss carryforwards in the Netherlands. To determine adjusted net income, we applied a normalised effective tax rate of 25 per cent. It is thus at the lower end of the 25 to 30 per cent target range we adopted for the normalised effective tax rate.

Deducting minority shareholdings, the adjusted net income comes to EUR 1,123 million. This is in line with our outlook of approximately EUR 1.1 billion.

Ladies and Gentlemen,

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.

As Peter Terium noted earlier, the Executive Board and Supervisory Board have decided in this context to propose to the Annual General Meeting to pay a dividend of EUR 1.60 per share. This corresponds to a payout ratio of about 80 per cent of our adjusted net income.

Now let me move on to capital expenditure. Capital spending fell by 3 per cent to EUR 2.1 billion, including EUR 1.8 billion for capital expenditure on property, plant and equipment and intangible assets.

Expenditure in the Renewables division decreased by 40 per cent, which was attributable mainly to the fact that we completed two large-scale projects in 2015, the Nordsee Ost and Gwynt y Môr offshore wind farms.

Capital expenditure in our Grid & Infrastructure segment was also slightly down. But as before, nearly two-thirds of total capital expenditure went to this division. Besides maintenance, the focus was on activities associated with the energy transition – namely, on the connection of distributed generation assets and network expansion that Peter mentioned.

The halving of capital expenditure to EUR 90 million in the UK retail business was due to reduced spending on IT projects, which have nearly been completed in the meantime. This brings me to net debt, which amounted to EUR 15.7 billion as at 31 December 2016. This represents an increase of EUR 9.1 billion compared to the end of 2015. The main reason here was the reorganisation I mentioned earlier, in other words, the establishment of innogy and the associated creation of the envisaged capital structure. As a consequence, the figures for the previous year are of only limited value for comparison.

The leverage factor, in other words the ratio of net debt to adjusted EBITDA, was a healthy 3.7 at the end of 2016, and thus below our envisaged leverage factor of about 4.0.

For us, innogy's financial strength is a high priority. And let me repeat: it is a good and pleasing sign that ratings agency Fitch has graded innogy as a strong "investment grade" and confirmed its high creditworthiness.

This brings me to the outlook.

innogy successfully completed its first financial year – we want to continue this success story in 2017. For the current fiscal year, we expect adjusted EBITDA of about EUR 4.4 billion, and adjusted EBIT of about EUR 2.9 billion.

We would also like to increase our adjusted net income for 2017, by at least 7 per cent to over EUR 1.2 billion. And as mentioned earlier, we once again intend to pay 70 to 80 per cent of adjusted net income as a dividend to our shareholders.

I will close on this positive outlook, and will now hand you back to Peter Terium.

Peter Terium

Thank you, Bernhard!

Ladies and Gentlemen,

innogy is already more than the sum of the three former RWE divisions Grid & Infrastructure, Renewables and Retail. innogy is developing an identity all of its own as a state-of-the-art energy company of the 21st century. It is a company that sees itself as international, with a focus on working together in partnership.

Our home is in Essen, and we are at home in the energy industry. We make money because our employees in the Grids, Renewables and Retail businesses have been doing a thorough job for years. But we don't simply rely on the expertise we already have. We want to keep on developing – to build on innovation, digitalisation, on new markets and cooperation with start-ups.

We do all this with a view to opening up new options and prospects for our existing business. However, our vision goes beyond this.

Take, for example, the “Free Electrons” initiative. Working alongside seven other international energy providers, we help to guide new and particularly promising companies to the market. “Free Electrons” is the first global “start-up ramp” in the energy industry.

Another example is “Designetz”: in collaboration with 45 partners from research and industry, we want to deliver the blueprint for the power grid of the future. The project has just been launched; innogy as the lead company is the driving force.

In spite of all this, Ladies and Gentlemen, we have a clear vision: we want to make the energy transition a success.

But one thing is clear: even if German electricity supply were 100 per cent renewable in 2050, Germany would still not come even close to meeting its climate policy targets!

Ladies and Gentlemen,

The federal government and the EU want to reduce CO_2 emissions by 80 to 95 per cent by 2050. But electricity generation is responsible for only 40 per cent of CO_2 emissions. In other words, at least 40 to 55 per cent of savings will have to come from other sectors – heating and transportation in particular.

Doubtless, the Federal Ministry for Economic Affairs and Energy has now realised this. But integrated energy now has to make the transition from political catchphrase to legislative reality.

In recent years, there has been a huge learning curve in renewables. The energy transition is no longer at risk of failing through lack of knowledge or ability. Electricity prices are a brake on progress.

Levies and apportionments that keep on rising are a burden for many households and companies. These can undermine the large-scale acceptance of the energy transition.

And more than that, electricity prices are hindering the necessary electrification of the transportation and heating sectors.

Compared to other energy sources, electricity is at a huge disadvantage. In the retail customer area, taxes, apportionments and levies make up a good 54 per cent of the price. The figure for mineral oil is only about half this amount. Quite honestly, which consumers would swap their oil heater for a heat pump if it did not pay?

That is precisely the problem. Oil was yesterday's fuel; it is no option for climate protection. And if there were no taxes and levies, oil would be unable to compete against electricity on price. Wind and sunshine are there, but oil has to be imported at a high price. We will feel it more when OPEC closes the taps further. That is one more reason why the price disadvantage for electricity has to be brought to an end.

Ladies and Gentlemen,

Gas is more appropriate to the energy transition than oil. Gas is already the conventional energy source with the lowest emissions, and there is room for further savings still. I believe policy-makers should create a framework that will give biomethane and green gas a chance.

In other countries we have not yet achieved the same level of progress with the expansion of renewables, but gas plays a different role there. But in Germany too, I can also see a future for these energy sources in the medium term. In a situation where loads must be made more flexible, gas has the potential to act as a bridging technology for the energy transition. The precondition, however, is that gas must be made to follow a green learning curve. For gas suppliers, that could hurt. But innogy wants to play its part in making gas more environmentally friendly.

I began today by emphasising the importance of distribution systems. Integrated energy is another argument in favour of bolstering the distribution systems. Electric cars, for example, can be used to buffer excess electricity from private generation facilities and also act as a reserve in the event of bottlenecks.

In the decentralised energy market, security of supply and cost-efficiency are ultimately a question of flexibility and intelligent management!

And that is one reason why we need smart and digital solutions for powerful distribution systems.

Distribution system operators need to be both able and allowed to exercise control. And they need to be given both the regulatory and economic leeway to invest in digitalisation and infrastructure.

Digitalisation is not just any trend that touches the energy transition here and there. Far from it: data and algorithms are the language of a state-of-the-art energy system. And Germany tends to shoot itself in the foot where regulations are concerned.

Think of the specifications for Smart Meter, which placed a regulatory impediment in the way of all progress for the next few years. That was a clear case of over-doing things.

There are no building instructions for the energy system of the future. Digital innovations in particular need space to be able to prove their worth in practice.

Ladies and Gentlemen,

We have made a start. But there is still a lot to do.

innogy now wants to carry on along its chosen path, step by step. We want to provide solutions to make a success of the energy transition, not only in Germany but throughout Europe. After all, success in the energy transition would mean success for innogy.

Thank you.