Telephone Conference on the Publication of E.ON SE's Interim Report for the First Half of 2019

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Statement by:

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Please check against delivery.

Good morning from Essen, everyone, and welcome to the teleconference for the presentation of our first-half results. I'll start by providing commentary and context for our key performance indicators. Then I'll give you a brief update on the status of our planned takeover of innogy. Afterward, I'll be happy to answer your questions.

I'd like to start by summarizing our Interim Report in four brief statements:

- Our first-half results are in line with our expectations. As I did three months ago, I can therefore reaffirm our earnings forecast for the current year.
- Earnings at our Energy Networks segments were roughly at the prior-year level. Our Renewables segment posted slightly higher earnings.
- The earnings decline at our Customer Solutions segment is primarily a result of the persistently difficult situation in the United Kingdom, where the new price cap set by the U.K. Competition and Markets Authority led to significantly lower earnings.
- The planned takeover of innogy is proceeding as planned. We expect this part of the transaction with RWE to close in September this year.

Turning now to our numbers, our first-half sales rose by about 5 percent year on year, from €15.4 billion to €16.1 billion. Compared with the strong first half of the prior year, our adjusted EBIT decreased by 12 percent, from roughly €1.9 billion to roughly €1.7 billion. As a result of the EBIT decline, which I'll talk about in greater detail in a moment, our adjusted net income fell by 16 percent, from €1.1 billion to €0.9 billion. As I just mentioned, we expected a change of this magnitude and factored it into our planning.

Now for our earnings performance by segment:

Energy Networks' adjusted EBIT of about €1 billion was slightly (€31 million) below the prior-year level. This segment's earnings in Germany declined, primarily because of the non-recurrence of positive one-off items recorded in the prior-year period. Earnings were also adversely affected by a reduction in the allowed return on equity coinciding with the beginning of the third regulatory period for power. However, these negative effects were offset by the expansion of our regional distribution networks and the resulting earnings streams. Adjusted EBIT in Sweden was higher, in particular because of an improved gross margin in the power business. However, this positive effect was largely offset by a number of factors, including the sale of the gas distribution business last year and adverse currency-translation effects.

As anticipated, adjusted EBIT at Customer Solutions decreased from €477 million in the first half of 2018 to €240 million this year. This segment's adjusted EBIT in Germany was significantly below the high prior-year level because higher grid fees couldn't be passed through to customers until a later time. This will largely balance itself out as the year moves forward owing to the price adjustments we've made. This segment's adjusted EBIT in the United Kingdom was again significantly lower than in the prior-year period, in particular because of the regulatory price cap that took effect in 2019. I spoke about this in detail three months ago and explained that we intend to tackle it as a business challenge by offering attractive products and services and by adjusting our cost structure to this tough competitive environment. Nevertheless, the U.K. market remains very difficult.

Renewables' adjusted EBIT rose by €39 million year on year to €275 million. The primary reason was an increase in output due to the commissioning of three large offshore and offshore wind farms. By contrast, earnings were adversely affected principally by lower energy prices in the United Kingdom and the expiration of incentive mechanisms in Italy. On balance, however, this segment delivered a clear earnings increase.

Earnings at our Non-Core Business segment rose by 9 percent, or €21million, to €245 million, primarily because of an increase at the generation business in Turkey. This business's hydroelectric stations, which considerably increased their output relative to the prior-year period, constituted the main factor.

This earnings performance is fully in line with our planning. In the remaining half of the year, particularly in the fourth quarter, we anticipate a significant earnings increase, especially at Energy Networks. We can therefore reaffirm our forecast for 2019. We continue to expect our 2019 adjusted EBIT to be between €2.9 and €3.1 billion and our 2019 adjusted net income to be between €1.4 and €1.6 billion. We also reaffirm our dividend proposal of 46 cents per share for the 2019 financial year.

I'll turn now to our balance sheet. Compared with the figure at year-end 2018, our economic net debt increased by about €3.6 billion to €20.2 billion. This was primarily due to the initial application of a new IFRS and a further significant decline in interest rate levels. The latter necessitated another increase in provisions for pensions despite the positive development of plan assets.

As I explained after the first quarter, the change in the accounting standard does not have a material impact on E.ON's debt-bearing capacity. This is because the lease relationships that had to be capitalized pursuant to IFRS 16 were already factored into the calculation of our debt-bearing capacity prior to our application of this standard.

Overall, our first-half investments in our core business of €1.3 billion were at the prior-year level. However, we significantly increased our investments in our growth businesses compared with the prior-year period: Energy Networks' investments rose by €78 million, Customer Solutions' by €131 million. Half of our investments—roughly €650 million—went toward our energy networks, which going forward will continue to provide growth and stable earnings. Our investments play a big part in enabling our networks to do an even better job of handling more and more green power and bringing it to people and businesses even more efficiently. Our networks business and our business of providing innovative customers solutions therefore make a direct contribution to the energy transition and to climate protection in Germany and Europe.

I'll conclude by updating you on the status of our planned takeover of innogy. The transaction is right on schedule. Filing the planned takeover with the European Commission in January marked an important milestone. In late February RWE received approval from Brussels and Bonn for the takeover of E.ON's and innogy's renewables businesses and for the planned acquisition of a stake in E.ON. As anticipated, in early March the Commission opened an in-depth investigation. We presented proposals to the European Commission to dispel its concerns regarding our planned takeover of innogy. On the basis of our assurances, we're confident that we'll obtain the necessary approvals in September this year. The internal preparations for the takeover of innogy are making good progress as well. This will enable us to proceed swiftly as soon as the European Commission gives us the green light.

I'm convinced that after the planned takeover of innogy E.ON will have great potential to become even more innovative and to partner with our customers to make a substantial contribution to the success of the energy transition and to do more to protect the earth's climate. The new, distributed energy world needs strong companies capable of making big investments in the future. Investments in smarter grids capable of handling more and more green power and connecting our customers efficiently. In innovations for more energy efficientcy—may it be in companies, communities, or households. In technologically advanced, climate-friendly heat solutions. In e-mobility and the associated charging infrastructure. Without investments, without innovations, without new solutions that reach customers quickly, the energy transition won't make progress.

Precisely this is the main idea behind our planned takeover of innogy. The new E.ON will be even more innovative, even more capable and even more creative. This will put us in an even better position to work with our customers to shape the energy business of tomorrow. Our focus is on the best solutions—for our customers and, in partnership with them, for climate protection. That's what the new E.ON will be about.

That concludes my commentary on our first-half numbers and the status of our planned takeover of innogy. I'd now be happy to take your questions.