RWE

Interim statement on the first quarter of 2020

Despite corona crisis, RWE confirms earnings forecast for 2020 // Q1 adjusted EBITDA of €1.3 billion markedly up year on year // Strong growth in electricity generation from renewables // Annual General Meeting postponed: virtual AGM on 26 June 2020

At a glance

RWE Group – key figures		Jan – Mar 2020	Jan – Mar 2019	+/–	Jan – Dec 2019
Power generation	billion kWh	37.5	41.4	-3.9	153.2
External revenue (excluding natural gas tax/ electricity tax)[1]	€ million	3,803	3,716	87	13,125
Adjusted EBITDA	€ million	1,312	824	488	2,489
Adjusted EBIT	€ million	955	570	385	1,267
Income from continuing operations before taxes	€ million	1,013	453	560	-752
Net income	€ million	728	961	-233	8,498
Adjusted net income	€ million	603	–	–	–
Earnings per share	€	1.18	1.56	-0.38	13.82
Adjusted net income per share	€	0.98	–	–	–
Cash flows from operating activities of continuing operations	€ million	-1,202	-1,777	575	-977
Capital expenditure[2]	€ million	592	194	398	1,771
Property, plant and equipment and intangible assets	€ million	466	188	278	1,767
Financial assets	€ million	126	6	120	4
Free cash flow	€ million	-1,753	-1,932	179	-2,053
		31 Mar 2020	31 Dec 2019		
Net debt of continuing operations	€ million	8,685	7,048	1,637	
Workforce[3]		19,780	19,792	-12	

1 Prior-year figures restated; see page 116 of the 2019 Annual Report for related commentary.
2 Only cash investments; prior-year figures restated accordingly.
3 Converted to full-time positions.

Contents

Major events

In the period under review

German Cabinet submits draft coal phaseout law

In late January 2020, the German Cabinet adopted a draft law on the reduction and end of electricity generation from coal. In the document, the government specifies how it intends to implement the recommendations of the Growth, Structural Change and Employment Commission regarding the German coal phaseout. As proposed by the Commission, it is envisaged that Germany gradually stop generating electricity from coal by 2038. The draft law contains a timeline for this. There is also a roadmap for shutting down lignite-fired power stations, which the government has agreed with the affected states and energy companies. It envisages an additional 3 GW of lignite-fired generation capacity being taken off the market by the end of 2022, with around 2.8 GW of this total figure being allocable to RWE.

According to the draft law, we have to decommission the first 300 MW block in the Rhenish lignite mining area as early as the end of 2020, followed by three additional 300 MW units next year, and, in 2022, another 300 MW facility as well as two 600 MW blocks. The power stations in Neurath and Niederaussem will be most heavily affected by these plans, along with Weisweiler, albeit to a lesser extent. We will also be ceasing production of lignite briquettes at the Frechen site, thus decommissioning 120 MW of generation capacity.

Thereafter, capacity at the Weisweiler power station will gradually be taken off the grid: a 300 MW block in 2025 and two 600 MW units in 2028 and 2029, respectively. The Inden opencast mine, which exclusively supplies Weisweiler with lignite, will then also be closed. We will shut down our two remaining 600 MW blocks at the end of 2029, one of which will be placed on a four-year security standby starting on 1 January 2030. This will only leave our three most modern lignite units at 1,000 MW apiece on the market from 2030 onwards. They will most likely remain operational until the end of 2038.

The closures will have considerable consequences for the opencast mines. More than half of the lignite reserves approved for mining will remain underground. In addition, at the behest of the Structural Change Commission and politicians, Hambach Forest will be preserved. Of our three opencast mines in the Rhenish lignite mining region – Inden, Hambach and Garzweiler – only the third will remain operational from 2030 onwards to supply the remaining assets with fuel. As a result, we will have to fundamentally revise the plans for our opencast mining operations and recultivation activities, especially in Hambach. We filed the first set of planning documents with the Economics Ministry of the State of North Rhine-Westphalia at the end of February 2020.

The lignite phaseout will place a considerable financial burden on our company. The draft law envisages RWE receiving €2.6 billion in compensation in equal instalments over the next 15 years. The federal government finds that this satisfies all our claims. However, the damage we will actually incur will clearly exceed €2.6 billion. The compensation claim and a large part of the expected burden were already reflected in last year's consolidated financial statements (see page 43 of the 2019 Annual Report). Intended recipients of state compensation in addition to RWE include the affected workforce. The current plan envisages over 3,000 of the approximately 10,000 jobs in our lignite business being cut in the short term. By 2030, this figure could increase to around 6,000. Among other things, the proposed legislation provides for an adjustment allowance and compensation for any disadvantages concerning statutory pensions. It is envisaged that these will be paid by the state.

The draft legislation also sets out the details of the hard coal phaseout. The federal government is of the opinion that auctions should decide which hard coal capacities are taken off the grid and how much their operators receive in compensation. The draft law envisages annual tender procedures from 2020 to 2026. However, operator bids will be subject to specific caps which are set to be lowered from €165,000/MW to €49,000/MW during the forementioned period. Thereafter, the proposed legislation provides for closures without compensation. If the tenders do not result in enough capacity being decommissioned, starting in 2024, power plant operators could be ordered to shut down stations without compensation. Company representatives, trade unions and the Upper House have levelled criticism at this and demand amendments, in particular with regard to hard coal-fired power stations using combined heat and power generation technology.

The legislative process for the coal phaseout is expected to last until the middle of the year. After that, we will conclude a public-law contract with the German government on the basis of the Act, which will protect our interests with regard to the regulations introduced. However, the compensation first has to be approved by the European Commission under state aid law.

RWE acquires state-of-the-art gas-fired power plant in the east of England

In mid-February 2020, we cemented our position as a leading generator of electricity from gas in the UK when we bought the King's Lynn gas-fired power station in Norfolk (eastern England) from the British energy utility Centrica for £101 million. The station has a net installed capacity of 382 MW and boasts a high efficiency of 57%. Its operating mode can be adapted flexibly in response to demand. A contract secures fixed capacity payments for King's Lynn from October 2020 to September 2035. Recently, the power plant was modernised extensively and equipped with a new gas turbine.

Official closure of RWE's last hard coal power station in the UK

Located in Wales, our last UK hard coal-fired power plant Aberthaw B was officially decommissioned on 31 March 2020. The station had three units with a total net capacity of 1,560 MW. Its obligations from the British capacity market through to the end of September 2021 were transferred to third-party stations or other units within RWE's power plant fleet. Aberthaw B was commissioned in 1971 and has thus contributed to security of supply in the United Kingdom for nearly half a century.

RWE successful in capacity market auctions in Great Britain

The UK government held three capacity market auctions in the first quarter of 2020. The first round of bids, which took place at the end of January, related to the delivery period from 1 October 2022 to 30 September 2023. With the exception of some small generation assets, all RWE power plants represented in the auction qualified for a capacity payment. Together, they have a secured capacity of 6.5 GW. These stations will be remunerated for being online during the aforementioned period and thereby contributing to power supply. However, at £6.44/kW (before being adjusted for inflation), the capacity payment established in the auction was lower than expected by most market observers.

At the beginning of February, a second auction was held, which related to the delivery period from 1 October 2020 to 30 September 2021. An earlier auction for this period had already taken place in December 2016, at which RWE stations with a total capacity of 8.0 GW (including Aberthaw) qualified for a payment of £22.50/kW. The recent auction was held to close remaining capacity gaps. Contracts for an additional 1.0 GW in generation capacity for a payment of £1.00/kW were won at the recent auction. RWE entered a small asset, which did not submit a successful bid.

In the third auction, which was held in early March, we again secured a payment for 6.5 GW of capacity. The power plants in question will receive a payment of £15.97/kW (before being adjusted for inflation) for the period from 1 October 2023 to 30 September 2024. Only some small assets we entered were not successful.

Capacity auctions have been held in Great Britain since 2014. The government's objective is to ensure that a sufficient amount of generation capacity is available to the national market. In November 2018, the British capacity market was suspended for about a year, because the Court of the European Union declared the approval granted by the European Commission null and void. After renewed clearance under state aid law from Brussels in October 2019, capacity payments were resumed and the postponed auctions were held. In January 2020, we received approximately €50 million in retroactive payments for 2018 and about €180 million for 2019. We already recognised these cash inflows with an effect on profit or loss in fiscal 2019.

Peyton Creek wind farm in Texas starts commercial operation

In March 2020, our new onshore wind farm located in the US state of Texas, Peyton Creek, went into commercial operation. It consists of 48 wind turbines with a combined capacity of 151 MW. Although construction work was curtailed by Tropical Storm Imelda, Peyton Creek managed to go online without any delay. We are building two more large-scale onshore wind farms in Texas: Cranell, with a capacity of 220 MW, and Big Raymond (440 MW). We intend to complete both of them this year.

innogy gives go-ahead for construction of North Sea wind farm Kaskasi

Also in March, innogy made the final investment decision to build the German North Sea wind farm Kaskasi. It will be located 35 kilometres north of the island of Heligoland. Altogether, its 38 turbines will have an installed capacity of 342 MW, enough to power approximately 400,000 homes. Offshore construction work is scheduled to start in 2021. If the project progresses as planned, Kaskasi could be fully operational by as early as 2022. A novel vibration technique will be used to drive the foundations into the seabed 18 to 25 metres below the surface of the water. It substantially reduces noise emissions compared to the customary method of hammering monopiles into the seabed (known as 'percussion piling') and shortens construction time. Another advantage is that Kaskasi will be located near our Nordsee Ost and Amrumbank wind farms, enabling operation and maintenance synergies to be leveraged.

After the period under review

RWE virtual AGM on 26 June – dividend proposal of €0.80 per share unchanged
In light of the corona pandemic, the Executive Board of RWE AG passed a resolution to postpone this year's Annual General Meeting from 28 April to 26 June and conduct the entire AGM online. The RWE Supervisory Board gave the go-ahead for this in late April. In doing so, we are applying German emergency corona legislation, which enables companies to hold entirely virtual shareholder meetings. We will convene the Annual General Meeting and publish the invitation to it on 20 May. The event will begin at 10 a.m. CEST and be simulcast on RWE's website from start to finish. Shareholders will be able to submit questions relating to agenda items until two days prior to the Annual General Meeting. In addition, they can exercise their voting rights via absentee ballot in advance or delegate these rights to the voting proxies appointed by the company. Both options can also be exercised electronically during the AGM.

The agenda of the Annual General Meeting will remain unchanged. The same applies to the dividend proposal: the Supervisory Board and the Executive Board of RWE AG will propose to the shareholders that distributable profit for fiscal 2019 be appropriated to pay a dividend of €0.80 per share. This is in line with our announcement in March. Despite the corona crisis and its economic effects, we confirm the forecast for 2020, which we published on pages 94 et seq. of the 2019 Annual Report. Detailed information can be found on pages 16 et seq. of this interim statement.

Supervisory Board establishes succession plan: Markus Krebber set to become CEO of RWE AG in mid-2021
At its meeting on 28 April, the Supervisory Board of RWE AG decided to appoint Markus Krebber (47) CEO of RWE AG with effect from 1 July 2021. The corporate body will pass the formal resolution for his appointment in due course. Markus Krebber will take over from Rolf Martin Schmitz (62), who joined the company's Executive Board in 2009 and has chaired it since 2016. Mr. Schmitz's contract will expire in the middle of 2021. With this early succession plan, the Supervisory Board wants to ensure that RWE maintains its new strategic course. On completion of a degree in economics, Markus Krebber started his career in business consulting and the financial services sector. In 2012, he joined the RWE Group on the Board of Directors of RWE Supply & Trading. Markus Krebber has been the CFO of RWE AG since 2016. Together with Rolf Martin Schmitz, he was a driving force behind the asset swap with E.ON, which turned RWE into a leading renewable energy company.

Commentary on reporting

RWE Group realigned due to asset swap with E.ON

Last year, the RWE Group repositioned itself fundamentally by way of a major asset swap with E.ON. In September 2019, we sold our 76.8 % interest in innogy and received E.ON's renewable energy business, a 16.7 % stake in E.ON, and the minority interests in our nuclear power plants Gundremmingen (25 %) and Emsland (12.5 %) from the E.ON subsidiary PreussenElektra in return. The asset swap will be fully implemented once E.ON transfers back to us the parts of the innogy portfolio which are already assigned to our operations commercially and are recognised in our Group figures: the renewable energy business, the German and Czech gas storage facilities, and a 37.9 % stake in the Austrian energy utility Kelag. This transfer shall take place as soon as possible in the current year.

New Group structure featuring five segments

We have given the RWE Group a new reporting structure effective from the beginning of 2020. We eliminated the provisional 'innogy – continuing operations' and 'acquired E.ON operations' segments and reassigned the generation activities based on energy source. We now distribute our business among the following five segments: (1) Offshore Wind, (2) Onshore Wind / Solar, (3) Hydro / Biomass / Gas, (4) Supply & Trading and (5) Coal / Nuclear. Segments (1) to (4) represent our core business. In (5), we have pooled our German electricity generation from lignite, hard coal and nuclear fuel. These technologies follow exit paths established by the government, as a result of which plant decommissioning and opencast mine recultivation will gain importance relative to power production. Figures for 2019 have been adapted to the new segment structure to enable comparability.

The segments are made up of the following activities:

- Offshore Wind: Our Group company RWE Renewables is responsible for our offshore wind farm activities. However, in strictly legal terms, part of this business still belongs to innogy and will be overseen by our former subsidiary until it has been transferred to RWE.

- Onshore Wind / Solar: This is the segment in which we subsume our onshore wind, photovoltaic and battery activities. Here again, operating responsibility lies with RWE Renewables or will be assigned to this Group company as soon as the asset swap with E.ON has been completed.

- Hydro / Biomass / Gas: This segment encompasses our run-of-river, pumped storage, biomass and gas power stations. It also includes the Dutch Amer 9 and Eemshaven hard coal power plants, which we are increasingly co-firing with biomass, and the project management and engineering services specialist RWE Technology International. Most of these activities are overseen by RWE Generation, which will assume responsibility for all of them in the future. The 37.9 % stake in the Austrian energy utility Kelag, which is still held by innogy, is now also assigned to Hydro / Biomass / Gas.

- Supply & Trading: This is where we report proprietary trading of energy commodities. The segment is managed by RWE Supply & Trading, which also acts as an intermediary for gas, supplies key accounts with energy, and undertakes a number of additional trading-related activities. Starting this year, we are also assigning innogy's German and Czech gas storage facilities to the Supply & Trading segment.

- Coal / Nuclear: Our German electricity generation from lignite, hard coal, and nuclear fuel as well as our lignite production in the Rhenish mining region are subsumed here. This segment also includes our investments in the Dutch nuclear power plant operator EPZ (30 %) and URANIT (50 %), which holds a 33 % stake in Urenco, a uranium enrichment specialist. These activities and shareholdings are assigned to our Group companies RWE Power (lignite and nuclear power) and RWE Generation (hard coal).

Group companies with cross-segment tasks such as the Group holding company RWE AG are stated as part of the core business under 'other, consolidation'. This item also includes our 25.1 % stake in the German transmission system operator Amprion and consolidation effects.

Forward-looking statements

This interim statement contains forward-looking statements regarding the future development of the RWE Group and its companies as well as economic and political developments. These statements are assessments that we have made based on information available to us at the time this document was prepared. In the event that the underlying assumptions do not materialise or unforeseen risks arise, actual developments can deviate from the developments expected at present. Therefore, we cannot assume responsibility for the correctness of forward-looking statements.

Business performance

Power generation January – March	Renewables		Pumped storage, batteries		Gas		Lignite		Hard coal		Nuclear		Total[1]	
Billion kWh	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Offshore Wind	2.5	0.8	–	–	–	–	–	–	–	–	–	–	2.5	0.8
Onshore Wind / Solar	5.1	1.6	–	–	–	–	–	–	–	–	–	–	5.1	1.6
Hydro / Biomass / Gas	1.6	1.0	0.5	0.6	11.6	12.6	–	–	1.2	3.4	–	–	15.0	17.6
of which:														
Germany[2]	0.6	0.7	0.5	0.6	1.9	1.7	–	–	–	–	–	–	3.1	3.0
United Kingdom	0.2	0.1	–	–	6.1	9.2	–	–	–	0.4	–	–	6.3	9.7
Netherlands	0.8	0.2	–	–	2.6	1.5	–	–	1.2	3.0	–	–	4.6	4.7
Turkey	–	–	–	–	1.0	0.2	–	–	–	–	–	–	1.0	0.2
Coal / Nuclear[2]	–	–	–	–	0.1	–	8.6	13.5	0.8	2.0	5.6	5.9	14.9	21.4
RWE Group	**9.2**	**3.4**	**0.5**	**0.6**	**11.7**	**12.6**	**8.6**	**13.5**	**2.0**	**5.4**	**5.6**	**5.9**	**37.5**	**41.4**

1 Including generation volumes not attributable to any of the energy sources mentioned (e.g. electricity from oil-fired power stations).
2 Including power procured from generation facilities not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. Purchases amounted to 0.6 billion kWh (previous year: 0.5 billion kWh) In the Hydro/Biomass/Gas segment and 0.2 billion kWh (previous year: 0.6 billion kWh) in the Coal/Nuclear segment.

Significant decline in electricity generation from coal-fired power plants

In the first quarter of 2020, the RWE Group produced 37.5 billion kWh of electricity, 9 % less than in the same period in 2019. This decrease is predominantly attributable to our lignite and hard coal-fired power stations, which have been subject to deteriorating market conditions. One contributing factor was the substantial amount of electricity put on the system by wind turbines, which benefited from favourable weather conditions. Moreover, the sharp drop in electricity consumption in March due to the corona crisis came to bear. This is why our UK gas-fired power plants were also utilised less than in 2019. In contrast, we were able to substantially increase power generation from renewables. This was primarily attributable to the first-time inclusion of the operations we acquired from E.ON in September 2019. In addition, we benefited from high wind speeds. The commissioning of new wind farms (e. g. the Peyton Creek wind farm in Texas; for more information see page 3) and the fact that our Dutch hard coal-fired power plants Amer 9 and Eemshaven are now increasingly run on biomass, also had a positive impact.

External revenue[1] € million	Jan – Mar 2020	Jan – Mar 2019	+/–	Jan – Dec 2019
Offshore Wind	118	–	118	85
Onshore Wind / Solar	628	301	327	1,265
Hydro / Biomass / Gas	312	252	60	1,200
Supply & Trading	2,522	2,904	-382	9,554
Other, consolidation	2	6	-4	6
Core business	**3,582**	**3,463**	**119**	**12,110**
Coal / Nuclear	221	253	-32	1,015
RWE Group (excluding natural gas tax/electricity tax)	**3,803**	**3,716**	**87**	**13,125**
Natural gas tax/electricity tax	55	39	16	152
RWE Group	**3,858**	**3,755**	**103**	**13,277**

1 Prior-year figures restated due to change in application of International Financial Reporting Standards (IFRS); see page 116 of the 2019 Annual Report for related commentary.

External revenue 2 % up year on year

Our external revenue rose by 2 % to €3,803 million (excluding natural gas tax/electricity tax). We achieved €3,393 million in revenue with our main product, electricity. This is an increase of 19 % compared to 2019. The acquisition of E.ON's renewable energy business came to bear here, which had not yet contributed to the Group's revenue in the same period last year. Conversely, at around €148 million, our gas revenue only accounted for about a quarter of the income achieved in this segment in 2019. This was primarily due to an exceptional effect: since 1 July 2019, gas sales made by RWE Supply & Trading in the Czech Republic have been recognised as pure trading transactions and are therefore no longer considered in revenue. One indicator, which is increasingly attracting the attention of sustainable investors, is the percentage of the Group revenue accounted for by coal-fired generation and other coal products. At 21 % in the first quarter of 2020, this share was below the comparable figure in 2019 (26 %).

Internal revenue € million	Jan – Mar 2020	Jan – Mar 2019	+/–	Jan – Dec 2019
Offshore Wind	343	169	174	682
Onshore Wind / Solar	86	49	37	271
Hydro / Biomass / Gas	881	947	-66	3,409
Supply & Trading	1,032	1,402	-370	3,266
Other, consolidation	-2,115	-1,953	-162	-6,900
Core business	**227**	**614**	**-387**	**728**
Coal / Nuclear	779	733	46	2,385

Adjusted EBITDA € million	Jan – Mar 2020	Jan – Mar 2019	+/–	Jan – Dec 2019
Offshore Wind	431	164	267	614
Onshore Wind / Solar	209	88	121	295
Hydro / Biomass / Gas	217	112	105	672
Supply & Trading	170	271	- 101	731
Other, consolidation	3	5	- 2	- 129
Core business	**1,030**	**640**	**390**	**2,183**
Coal / Nuclear	282	184	98	306
RWE Group	**1,312**	**824**	**488**	**2,489**

Adjusted EBITDA rises to €1.3 billion

In the period under review, our adjusted earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA) amounted to €1,312 million. Of this, €1,030 million was attributable to our core business, with the remaining €282 million coming from the Coal / Nuclear segment. Our adjusted EBITDA surpassed the figure recorded in the same period in 2019 by €488 million, or 59 %, in part due to the first-time inclusion of the renewables business that we acquired from E.ON. The considerable increase in the utilisation of our wind farms and the reinstatement of the British capacity market also made a significant contribution to the rise in earnings. By contrast, we were unable to match the exceptional earnings of our trading business in 2019, despite a strong performance.

Earnings developed as follows by segment:

- Offshore Wind: We recorded €431 million in adjusted EBITDA in this segment. This represents a significant increase over last year's figure (€164 million), which did not yet contain the operations acquired from E.ON. Favourable wind conditions also had a major impact.

- Onshore Wind / Solar: Here too, we were able to increase our adjusted EBITDA substantially, by €121 million to €209 million, with the same factors coming into play as in the offshore wind business. The commissioning of new generation capacity also contributed to the rise in earnings.

- Hydro / Biomass / Gas: This segment's adjusted EBITDA rose by €105 million to €217 million, in part due to the increase in income from the commercial optimisation of our power plant dispatch. The reinstatement of the British capacity market also came to bear. Capacity payments of €42 million were received for the first quarter of 2020, whereas these payments were still suspended during the same period last year.

- Supply & Trading: Despite the sudden fall in commodity prices as a result of the corona crisis, our trading activities posted an extremely satisfactory result. However, we were unable to match the exceptional performance achieved last year. Adjusted EBITDA recorded by this segment therefore decreased by €101 million to €170 million.

- Coal / Nuclear: At €282 million, adjusted EBITDA improved by €98 million in this segment. The main reason for this development was that we realised higher wholesale prices for electricity generated by our lignite-fired and nuclear power plants than in 2019. We had already sold forward nearly all of the production of these plants in earlier years. Another positive effect stemmed from our acquisition in September 2019 of the minority interests in the Gundremmingen and Emsland nuclear power plants previously held by E.ON.

Adjusted EBIT € million	Jan – Mar 2020	Jan – Mar 2019	+/–	Jan – Dec 2019
Offshore Wind	336	123	213	377
Onshore Wind / Solar	116	47	69	59
Hydro / Biomass / Gas	135	34	101	342
Supply & Trading	160	261	-101	691
Other, consolidation	2	5	-3	-128
Core business	**749**	**470**	**279**	**1,341**
Coal / Nuclear	206	100	106	-74
RWE Group	**955**	**570**	**385**	**1,267**

Our adjusted EBIT in the first quarter of 2020 totalled €955 million, surpassing the figure recorded in the same period in 2019 by €385 million, or 68 %. It differs from adjusted EBITDA by way of operating depreciation and amortisation, which amounted to €357 million in the period being reviewed (previous year: €254 million).

Non-operating result € million	Jan – Mar 2020	Jan – Mar 2019	+/–	Jan – Dec 2019
Disposal result	-1	21	-22	48
Effects on income from the valuation of derivatives and inventories[1]	430	-47	477	81
Other	-4	8	-12	-1,210
Non-operating result	**425**	**-18**	**443**	**-1,081**

1 Changed item designation (previously: 'impact of derivatives on earnings').

The non-operating result, in which we recognise certain factors which are not related to operations or the period being reviewed, amounted to €425 million, which was much more than in the first quarter of 2019 (-€18 million). This is essentially attributable to the item 'effects on income from the valuation of derivatives and inventories'. Here, we report temporary gains or losses that arise from the fact that IFRS stipulates that financial instruments used to hedge price risks be recognised at fair value as of the cut-off date, whereas the hedged underlying transactions may only be recognised with an effect on earnings once they are realised. In the period under review, this resulted in a strong contribution to earnings. Last year, we reported losses under this item. However, these were largely attributable to adverse effects of stored gas: although the gas had already been sold forward, we had to value our inventory at the lower spot prices as of the balance-sheet date.

Financial result € million	Jan – Mar 2020	Jan – Mar 2019	+/–	Jan – Dec 2019
Interest income	35	37	-2	185
Interest expenses	-86	-52	-34	-258
Net interest	**-51**	**-15**	**-36**	**-73**
Interest accretion to non-current provisions	-114	-136	22	-881
of which: Interest accretion to mining provisions	-100	-30	-70	-581
Other financial result	-202	52	-254	16
Financial result	**-367**	**-99**	**-268**	**-938**

Compared to 2019, our financial result deteriorated by €268 million to -€367 million. Its components changed as follows:

- Net interest declined by €36 million to -€51 million because interest expenses rose. The acquisition of E.ON's renewable energy business played a role. Consequently, we are stating interest expenses for the first time, which were incurred to finance onshore wind farms in the US.

- The interest accretion to non-current provisions curtailed the result by €114 million (previous year: €136 million). In the period under review, we took a one-off charge due to the reduction of the discount rate we use to calculate our mining provisions. The rise in the present value of the obligations, caused by the interest adjustment, was partly considered as an expense in the interest accretion. A similar effect came to bear on our nuclear provisions last year.

- The 'other financial result' deteriorated by €254 million to -€202 million. We suffered losses on our portfolio of securities due to the negative impact of the corona crisis on the capital markets, having achieved gains in the same quarter last year. In addition, unfavourable interest and exchange rate developments weighed on income from financial transactions.

Owing to the aforementioned developments, income before taxes from our continuing operations amounted to €1,013 million (previous year: €453 million). Taxes on income amounted to €290 million, which corresponds to an effective tax rate of 29 %. The increase in this rate compared to 2019 (17 %) is due to the fact that greater losses were incurred in the RWE AG tax group, for which we were not able to capitalise deferred taxes. Deferred tax assets are an entitlement to future tax reductions resulting from differences in the recognition and/or measurement of assets and liabilities between the tax and IFRS balance sheets. The capitalisation of deferred taxes is subject to the prerequisite that taxable profits arise in future fiscal periods which allow the tax reduction to be used. This is currently not foreseeable for RWE AG's tax group. After taxes, income achieved by our continuing operations totalled €723 million (previous year: €375 million).

Income from discontinued operations amounted to €30 million. This is attributable to our stake in Slovakian energy provider VSE, which we intend to divest as part of the asset swap with E.ON. In the same period last year (€1,013 million), this income still contained the contribution of all the discontinued innogy operations which were sold, with the exception of VSE, in September 2019 (see page 45 of the 2019 Annual Report).

Reconciliation to net income € million	Jan – Mar 2020	Jan – Mar 2019	+/–	Jan – Dec 2019
Adjusted EBITDA	**1,312**	**824**	**488**	**2,489**
Operating depreciation, amortisation and impairment losses	-357	-254	-103	-1,222
Adjusted EBIT	**955**	**570**	**385**	**1,267**
Non-operating result	425	-18	443	-1,081
Financial result	-367	-99	-268	-938
Income from continuing operations before taxes	**1,013**	**453**	**560**	**-752**
Taxes on income	-290	-78	-212	92
Income from continuing operations	**723**	**375**	**348**	**-660**
Income from discontinued operations	30	1,013	-983	9,816
Income	**753**	**1,388**	**-635**	**9,156**
of which:				
Non-controlling interests	25	412	-387	643
RWE AG hybrid capital investors' interest	–	15	-15	15
Net income/income attributable to RWE AG shareholders	**728**	**961**	**-233**	**8,498**
Adjusted net income	**603**	**–**	**–**	**–**

Non-controlling interests in income decreased by €387 million to €25 million because we sold our 76.8 % stake in innogy in September 2019.

In the first quarter of 2020, there were no more outstanding hybrid bonds which would be classified as equity pursuant to IFRS. Accordingly, the portion of earnings attributable to hybrid capital investors was zero. Last year, it amounted to €15 million, which related to our £750 million hybrid bond, which was called on 20 March 2019.

The RWE Group's net income amounted to €728 million (previous year: €961 million). Based on the 614.7 million RWE shares outstanding, this corresponded to earnings per share of €1.18 (previous year: €1.56).

Adjusted net income totalled €603 million. This figure differs from net income according to IFRS in that the non-operating result, which reflects exceptional items, and other major non-recurrent effects are deducted from it. We did not calculate adjusted net income for 2019 because this figure would have been of limited informational value due to the significant one-off effects of the asset swap with E.ON.

Capital expenditure on property, plant and equipment and on intangible assets[1] € million	Jan – Mar 2020	Jan – Mar 2019	+/–	Jan – Dec 2019
Offshore Wind	159	63	96	492
Onshore Wind / Solar	220	34	186	752
Hydro / Biomass / Gas	37	39	-2	212
Supply & Trading	10	3	7	29
Other, consolidation	1	-1	2	-3
Core business	**427**	**138**	**289**	**1,482**
Coal / Nuclear	39	50	-11	281
RWE Group	**466**	**188**	**278**	**1,767[2]**

1 Table only shows cash investments. Prior-year figures restated accordingly.
2 Including a €4 million consolidation effect between the core business and the Coal / Nuclear segment.

Capital expenditure on financial assets[1] € million	Jan – Mar 2020	Jan – Mar 2019	+/–	Jan – Dec 2019
Offshore Wind	–	–	–	–
Onshore Wind / Solar	6	5	1	46
Hydro / Biomass / Gas	118	1	117	2
Supply & Trading	1	–	1	68
Other, consolidation	1	–	1	-112
Core business	**126**	**6**	**120**	**4**
Coal / Nuclear	–	–	–	–
RWE Group	**126**	**6**	**120**	**4**

1 Table only shows cash investments. Prior-year figures restated accordingly.

Capital expenditure three times as high as in prior-year period

In the first quarter of 2020, capital expenditure amounted to €592 million (previous year: €194 million). Unlike in the past, we now only focus on capital expenditure with an effect on cash in our financial reporting. We spent €466 million on property, plant and equipment. This is a notable increase compared to 2019 (€188 million). The first-time inclusion of investments in the renewable energy business received from E.ON came to bear here. However, capital expenditure on property, plant and equipment in our core business increased even without this effect, in part because we are currently building the Triton Knoll wind farm in the UK North Sea. Our capital spending on financial assets amounted to €126 million, which was also well above the prior-year figure (€6 million). The acquisition of the King's Lynn gas-fired power plant came to bear here. Please see page 2 for more information on this transaction.

Cash flow statement[1] € million	Jan – Mar 2020	Jan – Mar 2019	+/–	Jan – Dec 2019
Funds from operations	1,075	386	689	1,809
Change in working capital	-2,277	-2,163	-114	-2,786
Cash flows from operating activities of continuing operations	**-1,202**	**-1,777**	**575**	**-977**
Cash flows from investing activities of continuing operations	**538**	**2,047**	**-1,509**	**474**
Cash flows from financing activities of continuing operations	**275**	**1,277**	**-1,002**	**189**
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	-10	15	-25	13
Total net changes in cash and cash equivalents	**-399**	**1,562**	**-1,961**	**-301**
Cash flows from operating activities of continuing operations	-1,202	-1,777	575	-977
Minus capital expenditure	-592	-194	-398	-1,771
Plus proceeds from divestitures/asset disposals	41	39	2	695
Free cash flow	**-1,753**	**-1,932**	**179**	**-2,053**

1 All items solely relate to continuing operations.

Operating cash flow: significant charges from collateral for commodity forward transactions

Our continuing operations generated cash flows from operating activities of -€1,202 million (previous year: -€1,777 million). This was mainly due to transactions reflected in the change in net working capital. Cash outflows related to variation margins concerning forward transactions in electricity, commodities and CO_2 certificates had a substantial impact in this regard. Variation margins are payments with which transaction partners offset profit and loss positions resulting from the daily revaluation of active contracts. However, their influence on cash flows is temporary and reverses once the transactions are realised. Compensation payments for active contracts and the maturing of contracts for which we previously received variation margins put a strain on our liquidity in the first quarter of 2020.

Investing activities of continuing operations generated a cash flow of €538 million (previous year: €2,047 million). Proceeds from sales of securities were the main contributing factor, whereas the capital expenditure on property, plant and equipment and on financial assets presented earlier had an opposite effect.

Financing activities of our continuing operations led to cash flows of €275 million (previous year: €1,277 million). In the period under review, financial debt issuances exceeded redemptions, resulting in net cash inflows of €284 million. This was contrasted by dividend payments to co-owners of fully consolidated RWE companies amounting to €9 million.

On balance, the aforementioned cash flows from operating, investing and financing activities decreased our cash and cash equivalents by €399 million.

Our free cash flow amounted to -€1,753 million (previous year: -€1,932 million). It reflected the cash outflow resulting from operating activities as well as from capital expenditure on property, plant and equipment and financial assets.

Net debt[1] € million	31 Mar 2020	31 Dec 2019	+/–
Cash and cash equivalents	2,793	3,192	-399
Marketable securities	2,123	3,523	-1,400
Other financial assets	2,945	2,383	562
Financial assets	**7,861**	**9,098**	**-1,237**
Bonds, other notes payable, bank debt, commercial paper	3,181	2,466	715
Hedging of bond currency risk	–	7	-7
Other financial liabilities	3,543	3,268	275
Financial liabilities	**6,724**	**5,741**	**983**
Minus 50 % of the hybrid capital recognised as debt	-562	-562	–
Net financial assets (including correction of hybrid capital)	**1,699**	**3,919**	**-2,220**
Provisions for pensions and similar obligations	3,406	3,446	-40
Minus surplus of plan assets over benefit obligations	-712	-153	-559
Provisions for nuclear waste management	6,658	6,723	-65
Provisions for dismantling wind farms	1,032	951	81
Net debt of continuing operations	**8,685**	**7,048**	**1,637**
Net debt of discontinued operations	**261**	**232**	**29**
Net debt	**8,946**	**7,280**	**1,666**

1 New definition of net debt: see commentary in the text.

Higher net debt due to negative free cash flow

As of 31 March 2020, our net debt amounted to €8,946 million. Of this total, €8,685 million was attributable to our continuing operations, with €261 million being related to the stake in the Slovakian energy provider VSE, which is for sale. We have redefined net debt in our financial reporting on the current fiscal year. It no longer contains our mining provisions, which essentially cover our obligations to recultivate opencast mining areas. The assets we use to cover these provisions are also disregarded, in particular our €2.6 billion claim for damages from the lignite phaseout against the state. Our net debt rose by €1,666 million compared to last year's figure, which was adjusted accordingly. This was primarily due to negative free cash flow. The reduction in the net present values of our pension obligations caused by a rise in discount rates had a debt-reducing effect. This led to an increase in the surplus of plan assets over benefit obligations of €559 million despite the negative effects of the corona crisis on the plan assets.

Outlook for 2020

Due to corona crisis, IMF anticipates substantial decline in economic output

In view of the corona crisis, economic experts have made major downward adjustments to their growth expectations for 2020. As it remains uncertain how successfully the virus can be controlled and how long public life will be limited, current forecasts have an unusually wide range of fluctuation. Estimates regarding world economic output run the gamut from – 0.5 % to – 7 %. The prognosis of the International Monetary Fund (IMF) is – 3 %. The IMF's economists believe that German gross domestic product will decline by 7 %. They have similar forecasts for the Netherlands (– 7.5 %), the United Kingdom (– 6.5 %) and the USA (– 6 %).

Power consumption much lower than in 2019

Demand for electricity will track the drop in economic output. Based on the above economic forecast by the IMF, we expect declines of between 5 % and 6 % for the aforementioned RWE core markets. The dampening effect of the corona crisis on demand for energy is already reflected in the steep drop in wholesale electricity prices. It is uncertain when prices will recover.

RWE risk exposure limited thanks to early electricity forward sales

The development outlined above will have little influence on our earnings this year, as we have sold forward nearly all of our electricity production for 2020 at firm conditions. These transactions were conducted up to three years in advance. We see minor risks resulting from volume reductions and payment defaults only in connection with direct supplies to key accounts of RWE Supply & Trading. The considerable share of our earnings from the regulated renewable energy business will have a stabilising effect. Furthermore, this fiscal year we will benefit from the very high load factors of our wind turbines so far.

Forecast € million	2019 actual	Outlook for 2020
Adjusted EBITDA	2,489	2,700 – 3,000
of which:		
Core business	2,183	2,150 – 2,450
of which:		
Offshore Wind	614	900 – 1,100
Onshore Wind / Solar	295	500 – 600
Hydro / Biomass / Gas	672	550 – 650
Supply & Trading	731	150 – 350
Coal / Nuclear	306	500 – 600
Adjusted EBIT	1,267	1,200 – 1,500
Adjusted net income	–	850 – 1,150

RWE confirms earnings forecast for 2020

We uphold the earnings outlook for the current fiscal year which we published on pages 94 et seq. of our 2019 Annual Report and is presented in the table on the previous page. We expect adjusted EBITDA for 2020 of €2,700 million to €3,000 million (previous year: €2,489 million), with €2,150 million to €2,450 million coming from the core business. Assuming operating depreciation and amortisation of about €1,500 million, the Group's adjusted EBIT is estimated to total between €1,200 million and €1,500 million (previous year: €1,267 million). We continue to anticipate adjusted net income of €850 million to €1,150 million. We also confirm the earnings forecast for the segments.

Capital expenditure on property, plant and equipment markedly up on previous year

Our outlook in respect of capital spending is also unchanged. Our capital expenditure on property, plant and equipment and intangible assets will be much higher than in 2019 (€2,090 million). The full-year inclusion of the renewable energy business received from E.ON in our consolidated figures will come to bear here. However, capital expenditure on property, plant and equipment in our core business will probably increase even without this effect, because we are building several large-scale wind farms, for example Triton Knoll in the British North Sea. We plan to spend €200 million to €300 million outside of the core business in the Coal / Nuclear segment. These funds are primarily being used to maintain our power plants and opencast mines.

Ratio of net debt to adjusted EBITDA: probably below upper limit of 3.0

One of our main management parameters is the ratio of net debt to adjusted EBITDA of the core business, also referred to as the leverage factor. We calculate this key performance indicator based on a new definition of net debt, which has been provided on page 15. We set the long-term upper limit for the leverage factor at 3.0 and are confident of being able to comply with it in the current fiscal year. However, if commodity prices develop unfavourably, leading to substantial cash outflows from variation margins, we cannot rule out slightly exceeding the 3.0 mark temporarily.

Dividend for fiscal 2020

Our dividend policy is in line with the principle of economic sustainability. Irrespective of the development of the corona crisis, the Executive Board intends to pay a dividend of €0.85 per share for fiscal 2020, which is slightly higher than for 2019. It is envisaged that the dividend payment will continue rising steadily in line with the development of our core business in the following years.

Interim consolidated financial statements (condensed)

Income statement

€ million	Jan – Mar 2020	Jan – Mar 2019[1]
Revenue (including natural gas tax/electricity tax)	**3,858**	**3,755**
Natural gas tax/electricity tax	-55	-39
Revenue	**3,803**	**3,716**
Cost of materials	-2,064	-2,666
Staff costs	-571	-523
Depreciation, amortisation and impairment losses	-358	-254
Other operating result	460	188
Income from investments accounted for using the equity method	109	62
Other income from investments	1	29
Financial income	439	200
Finance costs	-806	-299
Income from continuing operations before tax	**1,013**	**453**
Taxes on income	-290	-78
Income from continuing operations	**723**	**375**
Income from discontinued operations	30	1,013
Income	**753**	**1,388**
of which: non-controlling interests	25	412
of which: RWE AG hybrid capital investors' interest		15
of which: net income/income attributable to RWE AG shareholders	**728**	**961**
Basic and diluted earnings per share in €	**1.18**	**1.56**
of which: from continuing operations in €	1.15	0.52
of which: from discontinued operations in €	0.03	1.04

1 Figures restated: in the first quarter of 2019, the implementation of the failed own use IFRS IC agenda decision drove down revenue and the cost of materials by €153 million each; see page 116 of the 2019 Annual Report for related commentary.

Statement of comprehensive income

Amounts after tax – € million	Jan – Mar 2020	Jan – Mar 2019
Income	**753**	**1,388**
Actuarial gains and losses of defined benefit pension plans and similar obligations	441	-82
Fair valuation of equity instruments	-165	104
Income and expenses recognised in equity, not to be reclassified through profit or loss	**276**	**22**
Currency translation adjustment	-358	105
Fair valuation of debt instruments	-35	34
Fair valuation of financial instruments used for hedging purposes	117	-1,344
Income and expenses of investments accounted for using the equity method (pro rata)	-2	
Income and expenses recognised in equity, to be reclassified through profit or loss in the future	**-278**	**-1,205**
Other comprehensive income	**-2**	**-1,183**
Total comprehensive income	**751**	**205**
of which: attributable to RWE AG shareholders	738	-158
of which: attributable to RWE AG hybrid capital investors		15
of which: attributable to non-controlling interests	13	348

Balance sheet

Assets € million	31 Mar 2020	31 Dec 2019
Non-current assets		
Intangible assets	4,699	4,809
Property, plant and equipment	19,297	19,097
Investments accounted for using the equity method	3,187	3,236
Other non-current financial assets	4,314	4,391
Receivables and other assets	4,574	3,712
Deferred taxes	543	706
	36,614	**35,951**
Current assets		
Inventories	1,065	1,585
Trade accounts receivable	3,272	3,621
Receivables and other assets	21,582	15,311
Marketable securities	1,867	3,258
Cash and cash equivalents	2,793	3,192
Assets held for sale	1,347	1,274
	31,926	**28,241**
	68,540	**64,192**

Equity and liabilities € million	31 Mar 2020	31 Dec 2019
Equity		
RWE AG shareholders' interest	16,745	16,945
Non-controlling interests	506	503
	17,251	**17,448**
Non-current liabilities		
Provisions	18,965	18,936
Financial liabilities	4,091	3,924
Other liabilities	2,144	1,899
Deferred taxes	2,060	2,259
	27,260	**27,018**
Current liabilities		
Provisions	2,655	2,638
Financial liabilities	2,633	1,810
Trade accounts payable	2,286	2,987
Other liabilities	15,948	11,781
Liabilities held for sale	507	510
	24,029	**19,726**
	68,540	**64,192**

Cash flow statement

€ million	Jan – Mar 2020	Jan – Mar 2019
Income from continuing operations	723	375
Depreciation, amortisation and impairment losses/write-backs	304	255
Changes in provisions	35	-97
Deferred taxes/non-cash income and expenses/income from disposal of non-current assets and marketable securities	13	-147
Changes in working capital	-2,277	-2,163
Cash flows from operating activities of continuing operations	**-1,202**	**-1,777**
Cash flows from operating activities of discontinued operations	-11	-1,278
Cash flows from operating activities	**-1,213**	**-3,055**
Cash flows from investing activities of continuing operations[1]	**538**	**2,047**
Cash flows from investing activities of discontinued operations	-9	-200
Cash flows from investing activities	**529**	**1,847**
Cash flows from financing activities of continuing operations	**275**	**1,277**
Cash flows from financing activities of discontinued operations	8	200
Cash flows from financing activities	**283**	**1,477**
Net cash change in cash and cash equivalents	-401	269
Effect of changes in foreign exchange rates and other changes in value on cash and cash equivalents	-10	15
Net change in cash and cash equivalents	**-411**	**284**
Cash and cash equivalents at beginning of reporting period	3,212	5,225
of which: reported as 'Assets held for sale'	20	1,702
Cash and cash equivalents at beginning of reporting period as per the consolidated balance sheet	3,192	3,523
Cash and cash equivalents at end of reporting period	**2,801**	**5,509**
of which: reported as 'Assets held for sale'	8	1,125
Cash and cash equivalents at end of reporting period as per the consolidated balance sheet	**2,793**	**4,384**

1 After the initial/subsequent transfer to plan assets in the amount of €100 million (prior-year period: €42 million).

Financial Calendar 2020/2021

26 June 2020	Virtual Annual General Meeting
29 June 2020	Ex-dividend date
1 July 2020	Dividend payment
13 August 2020	Interim report on the first half of 2020
12 November 2020	Interim statement on the first three quarters of 2020
16 March 2021	Annual report for fiscal 2020
28 April 2021	Annual General Meeting
29 April 2021	Ex-dividend date
3 May 2021	Dividend payment
12 May 2021	Interim statement on the first quarter of 2021
12 August 2021	Interim report on the first half of 2021
11 November 2021	Interim statement on the first three quarters of 2021

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