Interim report on the first half of 2018

- Asset swap between RWE and E.ON: implementation on schedule
- Change in reporting as of H1 2018
- RWE Group adjusted EBITDA of €825 million in line with expectations
- Outlook for 2018 operating earnings unchanged; EBITDA of €1.5 billion to €1.8 billion forecast

RWE

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AT A GLANCE

RWE Group – key figures[1]		Jan – Jun 2018	Jan – Jun 2017	+/– %	Jan – Dec 2017
Power generation	billion kWh	87.9	105.1	–16.4	200.2
External revenue (excluding natural gas tax/electricity tax)	€ million	6,758	7,407	–8.8	13,822
Adjusted EBITDA	€ million	825	1,130	–27.0	2,149
Adjusted EBIT	€ million	385	660	–41.7	1,170
Income from continuing operations before taxes	€ million	68	2,354	–97.1	2,056
Net income	€ million	162	2,669	–93.9	1,900
Earnings per share	€	0.26	4.34	–94.0	3.09
Cash flows from operating activities of continuing operations	€ million	1,911	1,694	12.8	–3,771
Capital expenditure	€ million	380	330	15.2	902
Property, plant and equipment and intangible assets	€ million	280	233	20.2	706
Financial assets	€ million	100	97	3.1	196
Free cash flow	€ million	1,555	1,448	7.4	–4,439
		30 Jun 2018	31 Dec 2017		
Net debt from continuing operations	€ million	5,447	–	–	
Workforce[2]		17,558	19,106	–8.1	

1 Change in reporting; see commentary on page 11 et seq.
2 Converted to full-time positions.

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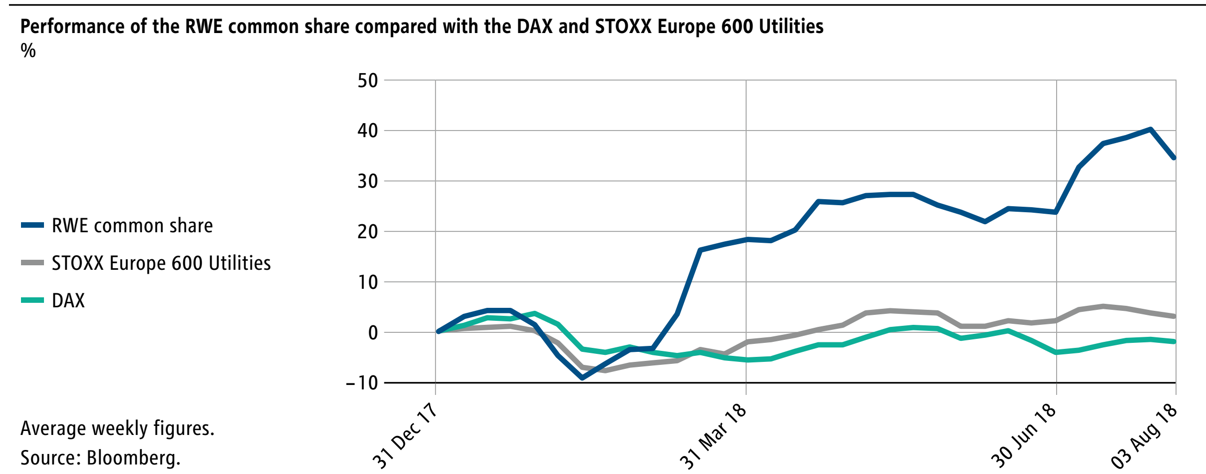
RWE SHARES: STRONG PERFORMANCE DUE TO ASSET SWAP WITH E.ON



Political risks weigh on share prices

Sentiment on the German stock market clouded somewhat: the DAX was down by 5 % to 12,306 points in the first half of 2018. The escalation of the trade dispute between the USA and leading industrial nations played an important role. Punitive tariffs imposed by the US government and retaliatory measures by the affected countries gave rise to concern. Financial markets in Europe also suffered under the sluggish Brexit negotiations and the difficulties in forming a government in Italy. The continued extremely expansive monetary policy of leading central banks had a stabilising effect.

RWE common share posts total return of 24 % in the first half of the year

RWE shares clearly outperformed the DAX. Our common share closed the month of June at €19.53. Including the dividend of €1.50 paid at the beginning of May, it achieved a total return of 24 % for the first half of 2018. This ranked it first in the DAX. RWE's common stock also displayed a much better development than the sector index STOXX Europe 600 Utilities (+ 2 %). Our preferred share recorded a total return of 22 %, just below that of our common share. RWE's strong performance was primarily due to the asset swap agreed with E.ON on which we report in detail on page 4 et seq. On 12 March, the first stock market trading day after the announcement of the transaction, our common share gained 9 % in value. RWE's solid financial situation and increasing wholesale electricity prices also contributed to the encouraging share price trend.

ECONOMIC ENVIRONMENT

More than 2 % economic growth in the Eurozone

Based on preliminary estimates, global economic output in the first half of 2018 was about 3 % higher than in the same period last year. The Eurozone may well have posted slightly over 2 % growth, with the same applying to Germany, the largest economy in the currency area, where stimulus came primarily from consumer spending. Posting a gain of approximately 3 %, the Netherlands occupied one of the top spots among European countries. By contrast, in the United Kingdom, our most important market outside of the currency union, GDP only rose by slightly more than 1 %, with Brexit and the associated risks slowing the country's economy.

Slight decrease in demand for electricity in Germany

Economic growth stimulated electricity consumption in our core markets, whereas the trend towards energy savings had a dampening effect. Based on preliminary calculations by the Federal Association of the German Energy and Water Industries (BDEW), demand for electricity in Germany was down 0.3 % on last year. By contrast, an increase of about 1.5 % is estimated for the Netherlands. Demand for electricity was also up in the United Kingdom, with available data indicating an increase of 1 %.

Hard coal and gas quotations higher year on year

In addition to demand for electricity, the development of fuel costs determines power plant deployment. In the period under review, hard coal prices were much higher than a year before: coal deliveries including freight and insurance to the ARA ports (ARA = Amsterdam/Rotterdam/Antwerp) were quoted at an average of US$88 (€73) per metric ton in spot trading, an increase of US$8 compared to 2017. In forward trading (API 2 Index) contracts for delivery in the coming calendar year (2019 forward) were settled for an average of US$83 (€69) per metric ton. By comparison, the 2018 forward cost US$66 per metric ton in the same period last year. One reason for these price developments was the positive economic activity in the Asia-Pacific region and its revitalising effect on demand for coal. Gas prices also rose: for the period from January to June 2018, spot prices at the Dutch Title Transfer Facility (TTF) averaged €21 per MWh, up by €4 compared to the same period last year. The 2019 forward was settled at €18 per MWh. The comparable figure for the first half of 2017 was €17. Major influential factors in gas trading were rising oil prices and the robust global economy.

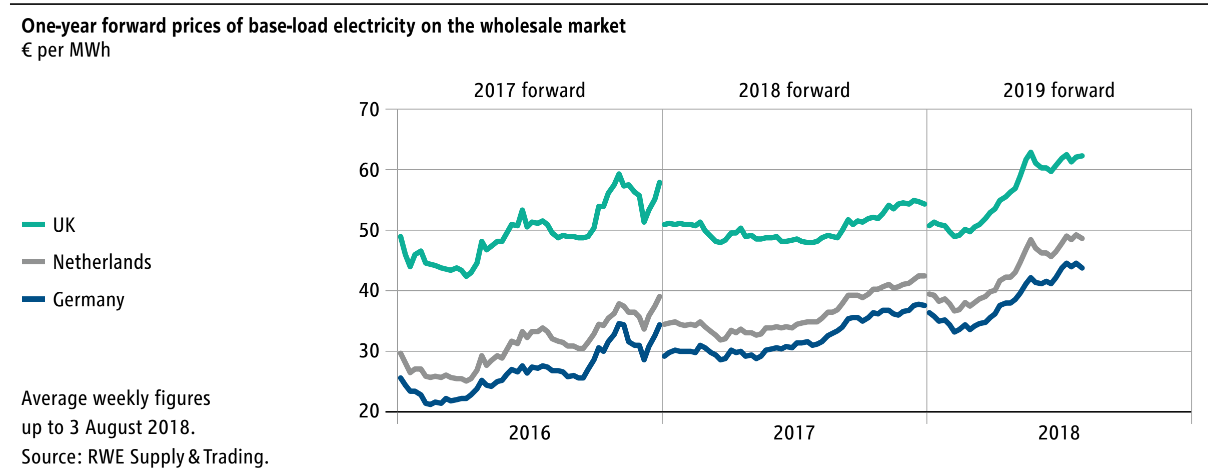
Reform of European Emissions Trading System causes rapid increase in CO_2 certificate prices

An important cost factor of fossil fuel-fired power stations is the procurement of CO_2 emission allowances. They have roughly tripled in price since the middle of 2017. An EU Allowance (EUA), which confers the right to emit one metric ton of carbon dioxide, cost an average of €15 at the end of June 2018, compared to €5 at the same point in time last year. Its average price in the first half of 2018 was €12. These figures relate to contracts for delivery that will mature in December 2018. There continue to be many more emission allowances on the market than companies need to cover their carbon dioxide emissions. However, in the meantime the EU has adopted a package of measures enabling it to significantly reduce the surplus of certificates from 2019 onwards (see page 7). This has apparently given many emitters of carbon dioxide a reason to expect an increase in certificate prices, causing them to purchase emission allowances early on. Consequently, EUAs have risen in price significantly even though the package of reforms has yet to be implemented.

Wholesale electricity prices continue upward trend

The rise in fuel and emission allowance prices was reflected in the development of wholesale electricity prices, which continued to trend upwards. In the first half of the year, base-load power traded for an average of €36 per MWh on the German spot market. Whereas the figure recorded in the same period last year was

only slightly exceeded, quotations on the UK spot market advanced by £9 to £53 (€60) per MWh and by €7 to €46 per MWh in the Netherlands. Forward markets displayed the following development: in the first six months of 2018, the average quotation of the 2019 base-load forward in Germany was €37 per MWh, €7 more than what was paid for the 2018 forward in the same period last year. The price of the one-year forward rose by £6 to £48 (€55) per MWh in the United Kingdom and by €8 to €42 per MWh in the Netherlands.



Decline in margins of electricity forwards for 2018

We sell forward most of the output of our power stations and secure the prices of the required fuel and emission allowances in order to reduce short-term volume and price risks. Therefore, our electricity revenue in the period under review was determined by the conditions at which we concluded forward contracts for 2018 in earlier years. We conducted such sales relatively early on for our lignite and nuclear power plants, which mostly cover the need for base-load electricity, realising lower prices than in the contracts for 2017. Given that generation costs were virtually stable, the margins of these stations dropped accordingly. We typically conduct forward sales of electricity produced by hard coal and gas-fired power plants with a smaller lead time. As a result, we benefited from the recovery of prices in wholesale electricity trading. However, we had to pay much more for fuel. Therefore, the margins of these stations were also lower than in 2017.

Wind speeds below average in Central Europe and the United Kingdom

The availability and profitability of renewable assets greatly depend on weather conditions. Wind speeds play an important role. At innogy's generation sites in Central Europe and the United Kingdom they were much lower than the average of the last 30 years. By contrast, they were higher in Italy and Spain. Compared to the first half of 2017, wind speeds recorded in western Germany, in the Netherlands and in the southeast of the United Kingdom were either just as high or higher. The same applies to Italy and Spain. Wind speeds dropped in the rest of the UK, in eastern Germany and in Poland. The utilisation of our run-of-river power stations strongly depends on precipitation and melt water volumes. In Germany, where most of the RWE Group's run-of-river power plants are located, these volumes marginally exceeded the long-term average and were higher than in the first six months of 2017.

MAJOR EVENTS

In the period under review

Asset swap agreed: E.ON will acquire innogy – RWE will become Europe's No. 3 in renewables
RWE and E.ON have jointly set the course for a fundamental redistribution of their business operations. RWE will become Europe's No. 3 in renewable energy and E.ON will expand its grid and retail activities, which will become the company's main areas of activity. It is envisaged that this will be accomplished by way of an extensive asset swap, which was contractually agreed on 12 March 2018. E.ON will acquire the 76.8 % stake in innogy SE held by RWE. In return, RWE will receive the following shareholdings and assets: (1) a 16.67 % stake in E.ON which will be created by way of a capital increase from authorised capital in exchange for contributions in kind; (2) nearly the entire renewable energy business of E.ON; (3) innogy's renewable energy business; (4) the minority interests held by the E.ON subsidiary PreussenElektra in the RWE-operated nuclear power stations Gundremmingen and Emsland of 25 % and 12.5 %, respectively; (5) innogy's gas storage business and (6) the 37.9 % stake in the Austrian energy utility KELAG held by innogy. In addition, RWE will pay €1.5 billion to E.ON. It is envisaged that the transfer of the business activities and equity holdings will take retroactive commercial effect from 1 January 2018. When the contract was concluded, the transaction was based on a valuation of our 76.8 % stake in innogy of €40 per share, which equates to a premium of 28 % on innogy's share price as of 22 February 2018 (€31.29), the last quotation that was largely unaffected by speculation about the takeover. The €40 includes the dividends of innogy SE for the 2017 and 2018 fiscal years to which RWE remains entitled.

By taking over E.ON's and innogy's renewables operations, RWE will receive 8 GW of zero-carbon generation capacity. The lion's share of this is onshore and offshore wind farms. In addition to existing plants, we will acquire an attractive project pipeline with which we can expand our renewables position in both Europe and North America. Our leading role in conventional electricity generation will remain unaffected by the transaction. In its core markets Germany, the United Kingdom and the Benelux countries, RWE will become an all-rounder in electricity production that ensures security of supply with its flexible power plants while playing a proactive role in transitioning the energy sector towards electricity production that is gentle on the climate. The minority interest in KELAG, which specialises in electricity generation from hydroelectric power stations, will strengthen our renewables position even further. The German and Czech gas storage facilities of innogy, which we will assign to the Supply & Trading segment, are a good fit for our existing gas activities. In light of the mounting significance of gas as an energy source for producing electricity, we expect that attractive returns can be achieved in the gas storage business over the long term.

As a result of the asset swap with E.ON, RWE will establish a stronger position for itself not just strategically, but also financially. We expect that the Group's leverage factor, which reflects the ratio of net debt to adjusted EBITDA and was 3.5 last year, will be below 3.0 after the transaction closes. The renewable energy business, which is characterised by a high share of stable regulated income, should then contribute more than half of the RWE Group's adjusted EBITDA.

The agreed asset swap will be carried out in several steps. First, on 27 April E.ON made a voluntary public offer to innogy's minority shareholders for the acquisition of their shares. At €40 per share minus the innogy dividends for the 2017 and 2018 fiscal years, the offer price was in line with the conditions underlying the transaction between E.ON and us. When the acceptance deadline expired on 25 July, a total of 9.4 % of the shares in innogy were tendered to E.ON. The next step will entail E.ON acquiring our 76.8 % stake in innogy once the relevant antitrust and regulatory authorities have given their approval. This will probably occur in the middle of 2019. At the same time, we will make the agreed payment of €1.5 billion and receive the 16.67 % stake in E.ON as well as the minority interests in the Gundremmingen and Emsland nuclear power plants. In the last step, E.ON will transfer to us its own and innogy's renewables activities, innogy's gas storage business and the shareholding in KELAG. We are confident of being able to complete the entire transaction by the end of 2019.

On 18 July, RWE and innogy as well as E.ON and innogy reached legally binding agreements regarding the planned integration of innogy's operations into the receiving companies. It is envisaged that this will be a transparent process in which all employees are treated fairly and – to the greatest extent possible – equally, irrespective of the company they currently work for. Another objective is that the integration plays to the strengths of each company. In exchange, innogy management will support the implementation of the transaction – also vis-à-vis the capital market. The agreement paves the way to the early joint planning of the integration measures which, in turn, will expedite the completion of the transaction.

Majority stake in Hungarian electricity generator Mátra sold

RWE and the energy utility EnBW jointly sold their stakes of 51 % and 21.7 % in Hungarian power producer Mátrai Erőmű Zrt. (Mátra for short). The transaction was completed in March 2018. The buyer is a consortium consisting of Czech Republic-based EP Holding and Hungarian investor Lőrinc Mészáros. Mátra specialises in producing lignite and generating electricity from this fuel. At the end of 2017, the company had slightly more than 2,000 people on its payroll and a net generation capacity of about 840 MW. Mátra is no longer of strategic importance to us, because we want to focus our conventional electricity generation business on our core markets Germany, the United Kingdom and the Benelux region.

UK capacity market: RWE power stations secure payments for 6.6 GW in auction for 2021/2022

Two further auctions for the UK capacity market took place at the beginning of 2018. For us, the focus was on the bidding process for the delivery period from 1 October 2021 to 30 September 2022, which was completed after three days on 8 February 2018. With the exception of the Aberthaw hard coal-fired power plant and some small new build projects, all RWE stations entered in the auction qualified for a capacity payment. Together, they account for 6.6 GW of secured capacity. However, the £8.40/kW capacity payment (before adjustment for inflation) determined by the tender was far below market expectations. In total, existing plants and new build projects with 74.2 GW in generation capacity entered the auction, 50.4 GW of which will receive a capacity payment. A few days before, a further auction took place, relating to the delivery period from 1 October 2018 to 30 September 2019. An auction had already been held for this period in December 2014, at which stations accounting for a combined 49.3 GW (including 8.0 GW of RWE) qualified for a payment of £19.40/kW. The second auction was designed to close remaining capacity gaps. Additional generation capacity of 5.8 GW was auctioned at a price of £6.00/kW. RWE had participated in the auction with a small project, for which we were unable to obtain a capacity payment.

RWE sells Belgian CHP station

In June 2018, we reached an agreement to sell our Inesco CHP station in Belgium to the UK chemicals group INEOS. The plant is eleven years old and located in a chemical park near Antwerp operated by INEOS. It is gas-fired, has a net electric capacity of 133 MW and supplies the companies situated in the chemical park with steam and demineralised water in addition to electricity. We expect the transaction to be completed by the end of the year. One of the reasons for our decision to sell the station was its tight integration in the business activities of INEOS. Nevertheless, we see Belgium as a growth market and are exploring options for acquiring and building generation capacity there.

RWE ends rating by Standard & Poor's

Standard & Poor's withdrew its RWE credit rating in the middle of February 2018 at our request. The reason for this is that we transferred the majority of our capital market debt to innogy as part of the reorganisation of the Group. As next to no senior bonds of RWE AG have been outstanding since then, we deem the two remaining ratings by Moody's and Fitch sufficient. Standard & Poor's had issued us an investment-grade rating of BBB– before the rating was ended. The ratings of both Moody's (Baa3) and Fitch (BBB) are also investment grade. Once our planned asset swap with E.ON became known, both of the agencies announced that they would review our credit rating. Moody's has since confirmed our rating with a stable outlook.

RWE pays dividend of €1.50 per common and preferred share for past fiscal year

On 26 April 2018, the Annual General Meeting of RWE AG approved the dividend proposed by the Executive Board and the Supervisory Board for fiscal 2017 by a large majority. We therefore paid a dividend of €1.50 per common and preferred share at the beginning of May. The sum is made up of an ordinary dividend of €0.50 and a special payment of €1.00 through which we have enabled our shareholders to benefit from the nuclear fuel tax refund. The Executive Board envisages a dividend of €0.70 for fiscal 2018.

innogy shareholders receive dividend of €1.60 per share

On 24 April 2018, the Annual General Meeting of innogy SE decided to pay a dividend of €1.60 per share for the past fiscal year. Based on the adjusted net income of €1,224 million achieved by our subsidiary in 2017, the payout ratio was 73 %.

innogy secures subsidies for wind farm in German North Sea

At an auction in April 2018, innogy submitted a successful bid for a state subsidy for the Kaskasi offshore wind project, which is expected to have a generation capacity of 325 MW. Its location in the vicinity of Heligoland is advantageous thanks to the good wind conditions and moderate water depths. Another advantage is its proximity to innogy's existing wind farm Nordsee Ost. The decision on the construction of Kaskasi is scheduled to be taken in the spring of 2020. Based on current planning, the wind farm could begin operating in 2022.

Solar developer Birdseye grants innogy exclusive rights to projects in the USA

In June 2018 innogy agreed to join forces with US-based Birdseye Renewable Energy to develop solar projects. The partnership encompasses 13 projects with a total capacity of about 440 MW, which have been initiated by Birdseye and are in various stages of development. As a result of the agreement, innogy has secured the right

of first refusal to acquire projects from the pipeline as soon as they have reached construction maturity. Plans envisage innogy's subsidiary Belectric completing the acquired projects as well as handling the operation and maintenance of the stations. Moreover, innogy and Birdseye want to explore further opportunities to work together.

Uwe Tigges confirmed as CEO of innogy – Arno Hahn new Chief HR Officer

At its meeting on 24 April 2018, the Supervisory Board of innogy SE appointed Uwe Tigges (58) Chairman of the company's Executive Board. Until then, Uwe Tigges had occupied this position on an interim basis after Peter Terium left the company in December 2017. Moreover, the Supervisory Board appointed Arno Hahn (55) to the Executive Board for a period of three years with effect from 1 May 2018. Arno Hahn takes over responsibility for human resources from Uwe Tigges and succeeds him as Labour Director. He is a former Managing Director and the former Labour Director of Westnetz GmbH.

EU passes reform of European Emissions Trading System

In February and March 2018, the European Parliament and the Council of Ministers decided to fundamentally reform the European Emissions Trading System (ETS). This was preceded by trilateral talks held by representatives of the two bodies and the European Commission, which led to an agreement in November 2017. The objective of the reform, which entered into force in April 2018, is to strengthen the ETS and bring it in line with the European greenhouse gas reduction goal for 2030. By then, branches of industry participating in the ETS must reduce their emissions by 43 % compared to 2005. Therefore, the number of CO_2 certificates issued will be lowered by 2.2 % annually during the fourth trading period, which runs from 2021 until 2030. The current reduction rate is 1.74 %. Another objective of the amendment to the ETS is to reduce the existing glut of allowances on the market. This will be done by transferring a much larger volume of allowances into the 'market stability reserve' (MSR) compared to what was prescribed by former legislation. The MSR, which will be used from 2019 onwards, is a tool that will provide more flexibility in bringing the supply of certificates in line with demand. The new regulation envisages withholding certificates accounting for up to 24 % of the surplus on the market annually from 2019 to 2023 and transferring them to the MSR. It also envisages cancelling MSR emission allowances exceeding the volume allocated to the market in the preceding year from 2023 onwards. In addition, it will allow member states to cancel certificates relating to power plants closed as a result of national emission-reduction measures.

EU bodies agree on more ambitious goal to expand renewable energy

In June 2018, the European Parliament and the Council of Ministers reached a compromise in trilateral talks with the European Commission on parts of a legislative package entitled 'Clean Energy for all Europeans'. Specifically, the package included new versions of the directives in relation to renewable energy and energy efficiency as well as a regulation for monitoring progress made in climate and energy policy. The compromise envisages at least 32 % of EU energy demand being covered by renewables by no later than 2030. This target is much more ambitious than the 27 % originally proposed by the Commission. The goal in respect of energy efficiency is also challenging. The vision of the Council and Parliament is that EU primary energy consumption will be reduced by 32.5 % by 2030, relative to the development under normal circumstances. The planned regulation for monitoring progress in climate and energy policy obligates the member states to present national energy and climate plans for the period ending in 2030 and to develop long-term climate-protection strategies by the end of 2019. Germany has already fulfilled this requirement with the Climate Protection Plan 2050. The legal acts have to be formally adopted by the Council and Parliament in order to enter into force.

Planned Electricity Market Regulation: EU wants to exclude coal plants from capacity markets
Also in June 2018, the European Parliament, the Council of Ministers and the European Commission started trilateral talks concerning amendments to the Electricity Market Directive (EMD) and the Electricity Market Regulation (EMR). These legal acts also form part of the legislative package entitled 'Clean Energy for all Europeans'. In the run-up, the Council (December 2017) and the Industrial Committee of the Parliament (February 2018) had established their positions. Both of these bodies intend to introduce regulations to the EMR which national governments must comply with if they are introducing capacity mechanisms or have already done so. Participation of power plants emitting more than 550 g CO_2/kWh in such mechanisms would be very limited in the future. The Council of Europe is in favour of allowing stations exceeding the 550 gram limit receiving capacity payments only if they emit less than 700 kg CO_2/kW annually. This would also apply to existing plants from 2030 onwards and limit the annual operation of a modern lignite unit to roughly 750 hours under full load. The Parliament calls for even more restrictive requirements. It envisages emission-intensive power plants being used as part of strategic reserves at best, and only if they emit less than 200 kg CO_2/kW per year. This would also apply to existing stations no later than five years from the regulation coming into force. Irrespective of whether the representatives of the Council or Parliament get their way, coal-fired power plants would no longer be able to participate in general capacity markets such as the one already existing in the United Kingdom. Observers anticipate that the trilateral talks should be concluded this year.

Germany: commission to present concept for achieving climate goals in the energy sector
On 12 March, the new German government, consisting of the Christian Democratic Union/Christian Social Union and the Social Democratic Party, concluded their coalition agreement. In the agreement, the governing parties commit to the 'Climate Action Plan 2020' and the 'Climate Protection Plan 2050', which should be implemented fully. With regard to the programmes in the energy sector, the government intends to orientate itself towards proposals developed by a commission created for this specific purpose: the Growth, Structural Change and Employment Commission became active at the end of June and has convened twice since then. It is composed of 24 representatives from industry, trade unions, science, the public and environmental organisations as well as four chairs. The Commission also includes three members of Germany's Lower House of Parliament from the governing parties, who do not have any voting rights. It has the support of eight government departments and representatives of the affected states. One of its tasks is to develop additional measures for the energy sector to ensure the 2020 climate objective can be achieved. Germany had set itself the goal of reducing greenhouse gas emissions by at least 40 % by 2020 compared to the 1990 level. However, the government estimates that it will be almost impossible to hit this target. In addition, the Commission has been entrusted with proposing measures which ensure that the approximately 60 % reduction in emissions envisaged in the energy sector by 2030 compared to 1990 is achieved reliably. It is expected that this be accomplished paying due regard to the balance between security of supply, environmental protection and profitability without causing structural disruption. The Commission's tasks also include developing a plan for reducing and ending electricity generation from coal, while specifying the necessary legal, economic, social and structural policy measures. The results of the Commission's work are expected by the end of 2018 and will serve as a basis for a package of laws, which the coalition partners intend to adopt next year.

Netherlands: government presents coal phase-out bill

In May, the Dutch government adopted a draft law in which it lays out its plans for a nationwide exit from coal. Based on the bill, power plants dating back to the 1990s will be prohibited from running on hard coal from 2025 onwards. The ban will enter into force five years later for younger stations. This would mean that, in the Netherlands, power would no longer be produced from coal starting in 2030. This objective has also been set out in the coalition agreement signed by the four governing parties under Prime Minister Mark Rutte in the middle of October 2017. The Parliament is scheduled to reach a decision on the draft law after the summer break. Five hard coal-fired power stations are still in operation in the Netherlands. Two of them belong to RWE. Amer 9 has a net installed capacity of 643 MW and was commissioned in 1993. According to the draft law, this power plant would have to stop generation from coal at the end of 2024. For our second station, the 1,554 MW twin unit in Eemshaven, which has been operating since 2014, this would be the case at the end of 2029. These plants would have to be shut down or operated only using alternative fuels. Both stations are being retrofitted for co-firing biomass. We are receiving subsidies for this, with which we are financing the investment outlay and the additional cost of sourcing fuel. If the power plants were fully converted to biomass, we would face substantial additional burdens. In our dialogue with policymakers, we are lobbying to be compensated for the financial disadvantages that we would suffer as a result of the planned coal phase-out and we will take legal recourse to this end if necessary.

After the period under review

Nuclear phase-out: government decides to grant financial compensation to power plant operators

On 4 July 2018, the 16th Amendment to the German Nuclear Energy Act entered into force. It grants RWE, Vattenfall and E.ON financial compensation for economic disadvantages arising from the accelerated nuclear phase-out. The government is thus complying with the demands of the German Constitutional Court. After the catastrophic reactor incident at Fukushima in March 2011, the legislator reversed a decision reached just before then to extend the lifetimes of nuclear power plants. Now the power utilities can request appropriate financial compensation for the stranded investments which they made relying on the extended lifetimes. In addition, RWE and Vattenfall are owed compensation for generation contingents, which they had been granted as part of the nuclear energy agreement of 2000, and that cannot be used any longer. At the time, RWE had been granted additional quotas to compensate for the forced decommissioning of the Mülheim-Kärlich nuclear power station after just under a year of operation due to mistakes in the approval procedure. A portion of these volumes would lapse unused as a result of the latest shutdown deadlines established in 2011. The Court deemed this circumstance an anti-constitutional encroachment of our property. We estimate that our unused contingent from Mülheim-Kärlich amounts to 27 TWh. This figure already reflects the postive effect which the planned acquisition of the minority interests in the Emsland and Gundremmingen nuclear power plants from E.ON has on our generation volumes. The amendment to the Nuclear Energy Act stipulates that RWE and Vattenfall must make efforts to sell their unusable electricity contingents to other German nuclear power plant operators. If they do not succeed in doing so or only manage to sell a portion, they are entitled to request compensation for the remaining electricity volumes after 2022. We estimate that this change in legislation will result in RWE receiving a medium triple-digit million euro amount.

Go-ahead for acquisition of large wind power project pipeline in USA

At the end of July, innogy successfully completed the acquisition of an onshore wind project pipeline in the USA with a potential total installed capacity of over 2 GW. The seller is the UK investment firm Terra Firma Capital Partners. The transaction had been agreed as early as December 2017, but it required several approvals to close – from the Committee on Foreign Investment in the United States amongst others. The acquired portfolio encompasses more than 20 projects in various stages of development across eight states. innogy will assess the projects’ profitability and initially keep all of its options open regarding financing and ownership structure.

COMMENTARY ON REPORTING

New presentation of innogy's activities starting in the first half of 2018

The asset swap agreed with E.ON, on which we report in detail on pages 4 et seq., requires a change in reporting. To date, we have presented innogy in its own segment as a fully consolidated group of companies. From now on, this segment includes only those parts of innogy that are due to remain within the RWE Group in the long term. The other parts, which will be transferred to E.ON, are classified as 'discontinued operations' until their date of sale. This primarily applies to the grid and retail businesses. The details of the change in accounting treatment are as follows:

- We are recognising the innogy business assigned to E.ON in the income statement only in condensed form under 'income from discontinued operations'. It will no longer be considered in the Group's sales volume, revenue, adjusted EBITDA, adjusted EBIT, non-operating result, financial result, or taxes on income. Prior-year figures will be adjusted accordingly. We will not calculate adjusted IFRS net income until the E.ON/innogy deal closes, because this financial indicator is of limited informational value during the transitional period.

- On the consolidated balance sheet, discontinued operations have been combined under 'assets held for sale' and 'liabilities held for sale'. In accordance with IFRS, we are maintaining the presentation of last year's balance sheet figures.

- In the cash flow statement in the consolidated financial statements, we present the cash flows from discontinued operations for the reporting and prior-year periods separately. We take a different approach in the condensed cash flow statement in the review of operations. Here, we only state cash flows from continuing operations.

Group structure featuring four segments

In our financial reporting, the RWE Group is still divided into four segments (divisions). Whereas we continue to report on the Lignite & Nuclear, European Power and Supply & Trading divisions, 'innogy' has been replaced by the segment 'innogy – continuing operations'. The individual segments are as follows:

- Lignite & Nuclear: This segment encompasses our German electricity generation from lignite and nuclear power as well as our lignite production in the Rhineland. These activities are managed by our subsidiary RWE Power. We also report the 51 % stake in Hungary-based Mátra, which generates electricity from lignite and was sold in March 2018, in this division. The segment further includes our investments in the Dutch nuclear power plant operator EPZ (30 %) and the German company URANIT (50 %), which holds a 33 % stake in Urenco, a uranium enrichment specialist.

- European Power: This is where we report on our electricity production from gas, hard coal and biomass, which focuses on Germany, the United Kingdom and the Benelux region. The segment also includes some hydroelectric power plants in Germany and Luxembourg, our 70 % stake in the Turkish gas-fired power station Denizli, and RWE Technology International, which specialises in project management and engineering services. All of these activities are under the responsibility of RWE Generation.

- Supply & Trading: This division encompasses the activities of RWE Supply & Trading. The company trades commodities, acts as an intermediary for gas, and supplies some large industrial and corporate customers with energy. In addition, RWE Supply & Trading markets RWE's power generation and optimises power plant dispatch. However, earnings achieved through the latter activities are reported in the Lignite & Nuclear and European Power segments.

- innogy – continuing operations: The segment includes only those parts of innogy that are due to remain within the RWE Group in the long term. The renewable energy business is the focal point: innogy is a leading European producer of electricity from renewable sources, in particular wind and hydroelectric power, focusing on Germany, the United Kingdom, Spain, the Netherlands, Poland and Italy. E.ON will transfer these operations back to us after acquiring innogy. The same applies to innogy's gas storage facilities, which are located in Germany and the Czech Republic, as well as to the 37.9 % interest in the Austria-based energy utility KELAG.

Individual companies with cross-segment tasks, e. g. the Group holding company RWE AG, are stated under 'other, consolidation'. This item also includes our 25.1 % stake in the German electricity transmission system operator Amprion.

Change in revenue recognition due to adoption of IFRS 15

In the 2018 fiscal year, we began applying the new accounting standard IFRS 15 'Revenue from Contracts with Customers', which contains regulations governing the recognition of revenue. One of the consequences is that changes in the fair value of commodity derivatives, which occur before the contracts are realised, are now recognised in other operating income instead of in revenue or the cost of materials. Therefore, the revenue we state for 2018 is lower, particularly in the gas business. Prior-year figures have not been adjusted.

Financial instruments have stronger effect on earnings due to adoption of IFRS 9

We also started to apply the new accounting standard IFRS 9 'Financial Instruments' in 2018, which relates to the accounting treatment of financial instruments. Again, prior-year figures have not been adjusted. IFRS 9 results in changes to the classification and measurement of financial instruments, to hedge accounting and to the recognition of impairments based on expected credit losses. One of the consequences is that changes in the fair value of some of our securities are no longer recognised without an effect on profit or loss. This results in increased volatility on the income statement. Furthermore, the recognition of expected credit losses reduces the value of our assets. In consequence, net debt is slightly higher.

Forward-looking statements

This interim report 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 these statements.

BUSINESS PERFORMANCE

Power generation January – June	Lignite		Gas		Hard coal		Nuclear		Renewables		Pumped storage, other		Total	
Billion kWh	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Lignite & Nuclear	34.6	38.0	–	–	–	–	9.9	15.0	–	–	–	0.3	44.5	53.3
European Power	–	–	23.2	27.3	13.5	18.1	–	–	0.6	0.5	1.3	1.2	38.6	47.1
of which:														
Germany[1]	–	–	2.0	3.7	6.0	7.8	–	–	0.4	0.3	1.3	1.2	9.7	13.0
United Kingdom	–	–	17.2	17.3	0.4	2.6	–	–	0.2	0.2	–	–	17.8	20.1
Netherlands/Belgium	–	–	2.8	4.2	7.1	7.7	–	–	–	–	–	–	9.9	11.9
innogy – continuing operations	–	–	–	–	–	–	–	–	4.8	4.7	–	–	4.8	4.7
RWE Group	**34.6**	**38.0**	**23.2**	**27.3**	**13.5**	**18.1**	**9.9**	**15.0**	**5.4**	**5.2**	**1.3**	**1.5**	**87.9**	**105.1**

1 Including electricity from power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. In the first half of 2018, this amounted to 3.0 billion kWh (first half of 2017: 3.6 billion kWh).

Power generation down 16 % year on year

In the first half of 2018, the RWE Group produced 87.9 billion kWh of electricity, 16 % less than in the same period last year. We recorded significant declines across all conventional generation technologies. Nuclear power production (– 5.1 TWh) was affected by the fact that we had to shut down Gundremmingen B (1,284 MW) at the end of 2017 as part of the legally mandated nuclear phase-out. Outages at the two remaining stations, Gundremmingen C and Emsland, experienced due to inspections also came to bear. Power plant outages were also the reason why we generated less electricity from lignite (– 3.4 TWh). Some of the downtime was moved up. Moreover, as required by law we decommissioned the Frimmersdorf P and Q lignite units (284 MW and 278 MW) and put them into legally mandated standby as of 1 October 2017. Shrinking margins led to a drop in the utilisation of our gas-fired power stations (– 4.1 TWh). We generated less electricity from hard coal (– 4.6 TWh) for the same reason; another contributing factor was the shutdown of the Voerde A/B twin unit (1,390 MW) with effect from 1 April 2017. We only posted a rise in electricity volumes from renewable sources (+ 0.2 TWh) although overall wind conditions were slightly less favourable than in the first half of 2017. This positive development is due to innogy's commissioning of new wind turbines. In addition, capacity utilisation of our run-of-river power stations improved.

In addition to our in-house generation, we procure electricity from external suppliers. These purchases totalled 24.2 billion kWh in the period under review (first half of 2017: 19.1 billion kWh). In-house generation and power purchases combined for 112.1 billion kWh (first half of 2017: 124.2 billion kWh).

Electricity sales 10 % down year on year – slight increase in volumes in the gas business

The RWE Group's continuing operations sold 107.7 billion kWh of electricity and 35.5 billion kWh of gas to external customers. Most of these volumes are allocable to the Supply & Trading segment. Electricity sales experienced a drop of 10 %, primarily due to the decline in our generation volume and the resulting drop in the amount of in-house production sold by RWE Supply & Trading. By contrast, gas deliveries were 3 % higher than in 2017. A contributing factor was that RWE Supply & Trading won new industrial and corporate customers.

External revenue € million	Jan – Jun 2018	Jan – Jun 2017	+/– %	Jan – Dec 2017
Lignite & Nuclear	551	617	–10.7	1,259
European Power	531	465	14.2	923
Supply & Trading	5,132	5,768	–11.0	10,517
innogy – continuing operations	531	528	0.6	1,087
Other, consolidation	13	29	–55.2	36
RWE Group (excluding natural gas tax/electricity tax)	**6,758**	**7,407**	**–8.8**	**13,822**
Natural gas tax/electricity tax	69	66	4.5	131
RWE Group	**6,827**	**7,473**	**–8.6**	**13,953**

External revenue by product € million	Jan – Jun 2018	Jan – Jun 2017	+/– %	Jan – Dec 2017
Electricity revenue	**5,043**	**5,349**	**–5.7**	**10,430**
of which:				
Lignite & Nuclear	158	217	–27.2	451
European Power	266	317	–16.1	594
Supply & Trading	4,214	4,428	–4.8	8,628
innogy – continuing operations	405	387	4.7	755
Gas revenue[1]	**770**	**1,222**	**–37.0**	**1,795**
of which:				
Supply & Trading	738	1,192	–38.1	1,738
innogy – continuing operations	24	25	–4.0	48
Other revenue	**945**	**836**	**13.0**	**1,597**
RWE Group (excluding natural gas tax/electricity tax)	**6,758**	**7,407**	**–8.8**	**13,822**

1 Immaterial gas revenue in the European Power segment and in the 'other, consolidation' item is not stated separately.

External revenue 9 % down year on year

The RWE Group's external revenue decreased by 9 % to €6,758 million. This figure does not include taxes on natural gas or electricity. Our electricity revenue amounted to €5,043 million, down 6 % on the first half of 2017. The decline in sales volume came to bear here. The Group's gas revenue dropped by 37 % to €770 million despite the slight increase in sales volume. Our initial adoption of IFRS 15 in 2018 played a role, because it caused certain items to no longer be recognised in revenue (see commentary on page 12). In addition, we achieved less revenue from the realisation of hedges.

Internal revenue € million	Jan – Jun 2018	Jan – Jun 2017	+/– %	Jan – Dec 2017
Lignite & Nuclear	1,177	1,473	–20.1	2,897
European Power	1,763	2,173	–18.9	3,967
Supply & Trading	2,119	2,263	–6.4	3,419
innogy – continuing operations	191	183	4.4	377

Adjusted EBITDA € million	Jan – Jun 2018	Jan – Jun 2017	+/– %	Jan – Dec 2017
Lignite & Nuclear	167	401	–58.4	671
European Power	196	222	–11.7	463
Supply & Trading	101	131	–22.9	271
innogy – continuing operations	368	386	–4.7	785
Other, consolidation	–7	–10	30.0	–41
RWE Group	**825**	**1,130**	**–27.0**	**2,149**

Adjusted EBITDA 27 % down year on year

Our adjusted earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA) amounted to €825 million. This was 27 % lower than last year's comparable figure. Shrinking margins and volumes in conventional electricity generation were the main reasons. However, we benefited from a very good trading performance in the second quarter. The following developments were observed in the segments:

- Lignite & Nuclear: This division's adjusted EBITDA declined by €234 million to €167 million primarily because we realised lower wholesale prices for electricity generated by our lignite-fired and nuclear power plants compared to 2017. We had already sold forward almost all of the production of these stations in previous years. The closure of unit B of the Gundremmingen nuclear power station at the end of 2017 also had a negative effect on earnings. Moreover, extensive power plant maintenance led to outages and additional costs. However, our operating costs for the full year will probably be lower than in 2017, primarily due to our ongoing efficiency-enhancement programme.

- European Power: We recorded €196 million in adjusted EBITDA in this segment. This was €26 million less than the high figure achieved in the first half of 2017, which benefited from capital gains on property sales. The margins we achieved from forward sales of electricity from our gas and hard coal-fired power stations were lower than in 2017. By contrast, the payments we have been receiving since October 2017 for participating in the UK capacity market had a positive effect. In addition, operating costs were down.

- Supply & Trading: Here, adjusted EBITDA dropped by €30 million to €101 million. Whereas our energy trading performance improved over 2017 thanks to a very good second quarter, we fell short of the unusually high earnings achieved in the gas business in the first half of 2017. In addition, RWE Supply & Trading made a value adjustment to an equity stake acquired within the scope of its principal investments. These are short to medium-term investments in energy assets or energy companies on which we believe we can achieve high returns by taking measures to increase their value and subsequently selling them.

- innogy – continuing operations: Adjusted EBITDA posted by the innogy business remaining with RWE amounted to €368 million, slightly less than the comparable figure for 2017 (€386 million). One reason for this was a delay in the realisation of income in the photovoltaic business. Further earnings shortfalls stemmed from overall capacity utilisation at innogy's wind farms in the second quarter being lower than in 2017 due to unfavourable weather conditions. This was contrasted by additional income earned from newly commissioned wind turbines.

Adjusted EBIT € million	Jan – Jun 2018	Jan – Jun 2017	+/– %	Jan – Dec 2017
Lignite & Nuclear	33	262	–87.4	399
European Power	49	69	–29.0	155
Supply & Trading	99	129	–23.3	265
innogy – continuing operations	198	211	–6.2	398
Other, consolidation	6	–11	154.5	–47
RWE Group	**385**	**660**	**–41.7**	**1,170**

In the first six months of 2018, adjusted EBIT totalled €385 million, which was 42 % less than the comparable figure for 2017. This figure differs from adjusted EBITDA in that it does not include operating depreciation and amortisation, which amounted to €440 million in the period being reviewed (first half of 2017: €470 million).

Non-operating result € million	Jan – Jun 2018	Jan – Jun 2017	+/– € million	Jan – Dec 2017
Capital gains/losses	–25	68	–93	107
Impact of derivatives on earnings	–88	11	–99	–480
Other	–20	1,432	–1,452	1,322
Non-operating result	**–133**	**1,511**	**–1,644**	**949**

The non-operating result, in which we recognise certain effects with no or limited relation to the operations in the period under review, totalled –€133 million (first half of 2017: €1,511 million). The individual items developed as follows:

- Sales of investments and assets led to a net book loss of €25 million as opposed to a gain of €68 million in the same period last year. The loss was related to the sale of our majority stake in the Hungarian lignite-based power producer Mátra, on which we report on page 5. The transaction caused expenses resulting from the conversion of Mátra's financial statements to euros, which were previously recognised in equity, to have an effect on earnings. Capital gains on property sales were unable to offset this effect.

- We recognised a loss of €88 million in the 'impact of derivatives on earnings' item, as opposed to a slightly positive result recorded in the same period last year (€11 million). We use derivatives to hedge price risks. Pursuant to IFRS, these types of financial instruments are recognised at fair value at the corresponding balance-sheet date, whereas transactions which are hedged with them are only recognised as a profit or loss when they are realised. This results in temporary effects on earnings, which are neutralised over time.

- The earnings stated under 'other' amounted to –€20 million, which was much less than the high figure recorded in the same period last year (€1,432 million), which benefited from the nuclear fuel tax refund. We took minor charges in the period under review because we had accrued provisions for expected expenses associated with the execution of the asset swap with E.ON.

Financial result € million	Jan – Jun 2018	Jan – Jun 2017	+/– € million	Jan – Dec 2017
Interest income	88	138	–50	197
Interest expenses	–89	–141	52	–298
Net interest	**–1**	**–3**	**2**	**–101**
Interest accretion to non-current provisions	–105	–38	–67	–226
Other financial result	–78	224	–302	264
Financial result	**–184**	**183**	**–367**	**–63**

Our financial result deteriorated by €367 million to –€184 million. Its components changed as follows:

- Net interest was essentially unchanged, amounting to –€1 million. We earned lower income on interest, but interest expenses also declined, primarily because hybrid bonds were redeemed or bought back last year (see page 54 of the 2017 Annual Report).

- The interest accretion to non-current provisions curtailed earnings by €105 million, having a bigger effect than in 2017. The year-earlier figure (–€38 million) benefited from increases in discount rates for nuclear provisions; the resulting reductions in the net present value of the obligations were recognised as income in the interest accretion. Changes in discount rates also had positive effects on other non-current provisions in the first half of 2017, which did not recur in the period under review.

- The 'other financial result' amounted to –€78 million, which was much lower than in the first six months of last year (€224 million). The latter figure was unusually high, because it contained the interest we were owed for the nuclear fuel tax payments we had made until 2016 and were refunded thereafter. In addition, we incurred losses from the fair valuation of securities in the period under review. The changes in fair value were presented with an effect on profit or loss for the first time due to the initial adoption of IFRS 9, after having been recognised without an effect on earnings in 2017. Smaller losses from the sale of securities had a counteracting effect.

At €68 million, income from continuing operations before tax was far below the comparable figure for 2017 (€2,354 million). The effective tax rate was 126 %, which was unusually high (first half of 2017: 14 %). One reason for this is that RWE AG's tax group incurred losses for which we did not capitalise deferred taxes, as opposed to the positive tax result that we recorded in the first half of 2017. Deferred tax assets constitute a right to future tax rebates that results from the differences in the recognition and/or valuation of assets and liabilities between the tax balance sheet and the IFRS balance sheet. Deferred taxes may only be capitalised if in later fiscal years, tax gains are achieved that allow the tax rebates to be used. There is currently no sufficient certainty that this will occur in RWE AG's tax group. After taxes, we posted income from continuing operations of –€18 million (first half of 2017: €2,023 million).

Reconciliation to net income		Jan – Jun 2018	Jan – Jun 2017	+/– %	Jan – Dec 2017
Adjusted EBITDA	€ million	**825**	**1,130**	**–27.0**	**2,149**
Operating depreciation, amortisation and impairment losses	€ million	–440	–470	6.4	–979
Adjusted EBIT	€ million	**385**	**660**	**–41.7**	**1,170**
Non-operating result	€ million	–133	1,511	–108.8	949
Financial result	€ million	–184	183	–200.5	–63
Income from continuing operations before taxes	€ million	**68**	**2,354**	**–97.1**	**2,056**
Taxes on income	€ million	–86	–331	74.0	–333
Income from continuing operations	€ million	**–18**	**2,023**	**–100.9**	**1,723**
Income from discontinued operations	€ million	539	937	–42.5	592
Income	€ million	**521**	**2,960**	**–82.4**	**2,315**
of which:					
Non-controlling interests	€ million	329	267	23.2	373
RWE AG hybrid capital investors' interest	€ million	30	24	25.0	42
Net income/income attributable to RWE AG shareholders	€ million	**162**	**2,669**	**–93.9**	**1,900**
Earnings per share	€	0.26	4.34	–94.0	3.09
Number of shares outstanding (average)	millions	614.7	614.7	–	614.7
Effective tax rate	%	126	14	–	16

Income from discontinued operations totalled €539 million, down €398 million on the comparable figure for 2017 primarily due to temporary losses in the fair valuation of derivatives. In addition, operating earnings deteriorated, above all in the retail business. This was contrasted by relief provided by a lower effective tax rate.

Non-controlling interests rose by €62 million to €329 million. In the same period last year, Hungary-based power producer Mátra, in which we held a stake of 51 % until March 2018, recorded a loss, which had a negative impact on the income of the co-owners. This effect did not recur in 2018. The decrease in the net income of innogy in RWE's interim financial statements had a counteracting effect, because the income of the minority shareholders, who accounted for 23.2 % in total, declined commensurately.

The portion of earnings attributable to hybrid capital investors amounted to €30 million (first half of 2017: €24 million). This sum corresponds to the finance costs related to our £750 million hybrid bond. Associated proceeds are classified as equity according to IFRS because the bond has a theoretically perpetual tenor. RWE's remaining hybrid capital is classified as debt and we record interest accrued on it in the financial result.

As a consequence of the above developments, net income decreased considerably compared to 2017, falling to €162 million (first half of 2017: €2,669 million). Based on the 614.7 million in RWE shares outstanding, earnings per share amounted to €0.26 (first half of 2017: €4.34).

Capital expenditure on property, plant and equipment and on intangible assets € million	Jan – Jun 2018	Jan – Jun 2017	+/– € million	Jan – Dec 2017
Lignite & Nuclear	105	98	7	269
European Power	67	38	29	147
Supply & Trading	5	1	4	7
innogy – continuing operations	103	95	8	285
Other, consolidation	–	1	–1	–2
RWE Group	**280**	**233**	**47**	**706**

Capital expenditure on financial assets € million	Jan – Jun 2018	Jan – Jun 2017	+/– € million	Jan – Dec 2017
Lignite & Nuclear	–	1	–1	1
European Power	2	1	1	1
Supply & Trading	34	5	29	30
innogy – continuing operations	65	90	–25	153
Other, consolidation	–1	–	–1	11
RWE Group	**100**	**97**	**3**	**196**

Capital expenditure 15 % up on 2017

In the first half of 2018, the RWE Group recorded capital expenditure of €380 million compared to €330 million in the same period last year, representing an increase of 15 %. Spending on property, plant and equipment and on intangible assets increased by 20 % to €280 million. Additional expenses for power plant maintenance played a role here. The Group spent €100 million on financial assets, only slightly more than in 2017. These outlays primarily related to the expansion of wind power capacity. In the first half of 2017, the lion's share of the funds was used to acquire Belectric.

Cash flow statement[1] € million	Jan – Jun 2018	Jan – Jun 2017	+/– € million	Jan – Dec 2017
Funds from operations	70	1,868	–1,798	–3,971
Change in working capital	1,841	–174	2,015	200
Cash flows from operating activities of continuing operations	**1,911**	**1,694**	**217**	**–3,771**
Cash flows from investing activities of continuing operations	**–1,287**	**4,118**	**–5,405**	**3,750**
Cash flows from financing activities of continuing operations	**–957**	**230**	**–1,187**	**–997**
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	23	8	15	–19
Total net changes in cash and cash equivalents	**–310**	**6,050**	**–6,360**	**–1,037**
Cash flows from operating activities of continuing operations	1,911	1,694	217	–3,771
Minus capital expenditure[2]	–390	–310	–80	–902
Plus proceeds from divestitures/asset disposals[2]	34	64	–30	234
Free cash flow	**1,555**	**1,448**	**107**	**–4,439**

1 All items solely relate to continuing operations.
2 Only related to items with an effect on cash.

Operating cash flow: significant rise due to received collateral

Cash flows from operating activities of continuing operations amounted to €1,911 million. This was 13 % higher than the comparable figure for 2017, although it included a one-off effect of €1.7 billion resulting from the nuclear fuel tax refund. The main reason for the positive development was that we obtained high variation margins in connection with forward contracts for CO_2 certificates and other commodities in the period under review. Variation margins are payments with which transaction partners mutually offset profit and loss positions resulting from the daily revaluation of active contracts. However, their influence on cash flows is temporary and ends once the transactions are realised.

Investing activity of our continuing operations resulted in cash outflows of €1,287 million (first half of 2017: cash inflows of €4,118 million). In addition to the capital expenditure presented earlier, short-term investments in securities also made a contribution. This was contrasted by proceeds on divestitures and asset disposals.

Financing activity of our continuing operations also resulted in cash outflows, which amounted to €957 million (first half of 2017: inflow of €230 million). This was predominantly due to dividend payments totalling about €1 billion, which we made to RWE shareholders, co-owners of fully consolidated RWE companies and hybrid investors. €165 million in new financial debt was issued in the period under review. This was contrasted by €136 million in redemptions.

On balance, the aforementioned cash flows from operating, investing and financing activities reduced our cash and cash equivalents by €310 million.

The high variation margins were also reflected in free cash flow, which amounted to €1,555 million, up 7 % year on year.

Net debt[1] € million	30 Jun 2018	31 Dec 2017	+/– € million
Cash and cash equivalents	3,253	3,933	–680
Marketable securities	3,506	5,131	–1,625
Other financial assets	1,337	1,863	–526
Financial assets	**8,096**	**10,927**	**–2,831**
Bonds, other notes payable, bank debt, commercial paper	1,366	15,099	–13,733
Hedge transactions related to bonds	17	27	–10
Other financial liabilities	875	2,102	–1,227
Financial liabilities	**2,258**	**17,228**	**–14,970**
Net financial debt	**–5,838**	**6,301**	**–12,139**
Provisions for pensions and similar obligations	2,880	5,420	–2,540
Surplus of plan assets over benefit obligations	–233	–103	–130
Provisions for nuclear waste management	5,951	6,005	–54
Mining provisions	2,425	2,322	103
Provisions for dismantling wind farms	358	359	–1
Adjustment for hybrid capital	–96	–77	–19
Plus 50 % of the hybrid capital stated as equity	455	470	–15
Minus 50 % of the hybrid capital stated as debt	–551	–547	–4
Net debt of continuing operations	**5,447**	**-**	**-**
Net debt of discontinued operations	**16,300**	**-**	**-**
Net debt	**21,747**	**20,227**	**1,520**

1 As of the balance-sheet date, discontinued operations are only recognised in the collective item 'net debt of discontinued operations', whereas they were still included in the individual items of the table at the end of 2017.

Net debt slightly higher than at the end of last year

As of 30 June 2018, net debt amounted to €21.7 billion, of which €5.4 billion was allocable to our continuing operations and €16.3 billion to our discontinued operations. The prior-year figures only relate to the Group as a whole. Net debt was €1.5 billion higher than in 2017. The rise is attributable to our discontinued operations and largely due to capital expenditure, dividend payments and an increase in provisions for pensions. With regard to continuing operations, the high cash flows from variation margins had a debt-reducing effect, whereas dividend payments (€1.0 billion) and capital expenditure (€0.4 billion) had a counteracting effect. Furthermore, provisions for pensions rose by €0.2 billion, because the plan assets with which we fund the majority of our pension obligations decreased owing to unfavourable market developments. Furthermore, we lowered the average discount rates applied to calculate the net present value of the German pension obligations. The new rates average 1.7 % for continuing operations as opposed to 1.9 % in the 2017 financial statements.

Group balance sheet structure	30 Jun 2018		31 Dec 2017	
	€ million	%	€ million	%
Assets				
Non-current assets	18,408	24.2	45,694	66.2
of which:				
Intangible assets	2,121	2.8	12,383	17.9
Property, plant and equipment	11,988	15.8	24,947[1]	36.1
Current assets	57,550	75.8	23,365	33.8
of which:				
Receivables and other assets[2]	10,743	14.1	12,487	18.1
Assets held for sale	38,838	51.1	128	0.2
Total	**75,958**	**100.0**	**69,059**	**100.0**
Equity and liabilities				
Equity	12,470	16.4	11,991	17.4
Non-current liabilities	18,354	24.2	36,774	53.2
of which:				
Provisions	15,856	20.9	19,249	27.9
Financial liabilities	1,577	2.1	14,414	20.9
Current liabilities	45,134	59.4	20,294	29.4
of which:				
Provisions	2,084	2.7	5,137	7.4
Financial liabilities	664	0.9	2,787	4.0
Other liabilities[3]	9,522	12.5	12,259	17.8
Liabilities held for sale	32,864	43.3	111	0.2
Total	**75,958**	**100.0**	**69,059**	**100.0**

1 Figure adjusted because investment property has been subsumed under property, plant and equipment.
2 Including financial accounts receivable, trade accounts receivable and income tax refund claims.
3 Including trade accounts payable and income tax liabilities.

Equity ratio: slight decline to 16.4 %

As of the cut-off date for the financial statements, we had a balance-sheet total of €76.0 billion, as opposed to €69.1 billion as of 31 December 2017. For the current year, we recognise the parts of innogy that are due to be transferred to E.ON in the long run separately in 'assets held for sale' (€38.8 billion) and 'liabilities held for sale' (€32.9 billion). Prior-year figures have not been restated, in compliance with IFRS. This was the main reason why certain balance-sheet items decreased considerably. On the assets side, intangible assets as well as property, plant and equipment were down €10.3 billion and €13.0 billion year on year, respectively. On the equity and liabilities side, financial liabilities and provisions declined by €15.0 billion and €6.4 billion, respectively. The restatement did not affect the balance-sheet total, which was higher than in 2017. This was in part due to increases in the values of commodity derivatives, three bond issuances by innogy and a rise in pension provisions. The RWE Group's equity rose by €0.5 billion to €12.5 billion. However, its share in the balance-sheet total (equity ratio) was down one percentage point to 16.4 %.

Workforce[1]	30 Jun 2018	31 Dec 2017	+/– %
Lignite & Nuclear	11,288	13,132	−14.0
European Power	2,707	2,656	1.9
Supply & Trading	1,212	1,156	4.8
innogy – continuing operations	2,120	1,952	8.6
Other[2]	231	210	10.0
RWE Group	**17,558**	**19,106**	**−8.1**

1 Converted to full-time positions.
2 This item exclusively comprises employees of the holding company RWE AG.

Lower headcount due to sale of Mátra

As of 30 June 2018, the RWE Group's continuing operations had 17,558 people on their payroll, of which 14,975 were employed in Germany and 2,583 worked at locations abroad. Part-time positions were considered in these figures on a pro-rata basis. The workforce in Germany was expanded by 456 staff members compared to the end of 2017. By contrast, 2,004 employees left the Group abroad; a contributing factor was the sale of our majority stake in the Hungarian power producer Mátra in March 2018 (see page 5). In purely operating terms, i. e. disregarding such consolidation effects, our headcount rose by 512.

DEVELOPMENT OF RISKS AND OPPORTUNITIES

Change in the risk and opportunity situation since the beginning of the year

Detailed information on the structure and processes of our risk management, the responsible organisational units, the major risks and opportunities as well as our measures to control and monitor risks is presented on page 74 et seqq. of our 2017 Annual Report. Due to further developments in the first half of 2018, however, this information must be updated in certain regards. This relates to the following risk classes:

- Financial/other risks: Until the beginning of 2018, RWE's greatest exposure to financial risk was that the value of its 76.8 % stake in innogy could drop considerably due to a decline in share price and that the dividends from this investment could lag behind expectations. The planned sale of this shareholding as part of an asset swap with E.ON eliminates this risk. Therefore, we have reclassified our financial risks from 'high' to 'medium'. However, it is possible that our asset swap with E.ON may not be concluded, but we deem this scenario, which is considered in 'other risks', highly unlikely. By maintaining an intense dialogue with the parties involved and carefully preparing and supporting the approval processes, we are working to ensure the implementation of the transaction as planned. Our 'other risks' remain in the 'medium' category.

- Regulatory and political risks: The earnings prospects of conventional electricity generation greatly depend on the steps taken by German politicians in order to achieve their climate protection goals. As set out on page 8, the government has put together a commission to develop proposals to this end and to present a roadmap for reducing and phasing out electricity production from coal. The commission is now active, and it remains to be seen what proposals it will make. RWE has taken coal-fired power plants offline early in the past and will continue to do so, placing lignite stations on standby to ensure security of supply. It cannot be ruled out that we are forced to decommission further capacity. In our dialogue with policymakers, we point out that a rushed exit from coal will place a substantial burden not just on us, but also on German industry, as a result of increasing electricity prices. Furthermore, we have pointed out that there are risks with respect to security of supply.

  The Dutch government has set out its plans for an early exit from coal (see page 9). If all elements of the draft law it presented in May are enacted, we will be forbidden from using hard coal in the Amer 9 and Eemshaven power stations starting in 2025 and 2030, respectively. Then these plants would have to be shut down or converted to run solely on alternative fuels (e.g. biomass). In both cases we could face significant economic disadvantages.

  By contrast, the regulatory framework for nuclear energy has improved further. The government has specified the financial compensation which we are owed due to the nuclear phase-out in the 16th Amendment to the German Nuclear Energy Act (see page 10). This implements the requirements established by the German Constitutional Court. We also welcome the fact that suggestions to reintroduce the nuclear fuel tax have not found their way into the coalition agreement between the Christian Democratic Union/Christian Social Union and the Social Democratic Party.

  The overall assessment of our regulatory and political risks has not changed as a result of the developments in the current year. We still classify them as 'high'.

Current risk indicators

We manage and monitor risks from short-term volatility in commodity prices and financial market risks using indicators such as value at risk (VaR). The VaR specifies the possible loss from a risk position not exceeded with a given probability over a certain time horizon. The VaR figures within the RWE Group are based on a confidence level of 95 %; the assumed holding period for a position is one day. This means that, with a probability of 95 %, the daily loss will not exceed the VaR.

In the trading business of RWE Supply & Trading, the VaR is limited to €40 million for commodity positions. From January to June 2018, it averaged €14 million, compared to €12 million for the same period last year. The highest daily level was €19 million (first half of 2017: €15 million).

In the middle of last year, we combined responsibility for the management of our gas portfolio and the liquefied natural gas (LNG) business in a new organisational unit at RWE Supply & Trading. The maximum allowed VaR of this unit amounts to €12 million. In the period under review, the average VaR was €4 million.

One of the most significant financial risk factors is the development of interest rates. For example, rising market interest rates can lead to falling prices for the securities we hold. This primarily applies to fixed-interest loans. The average VaR for the interest rate-driven securities price risk at RWE AG (without innogy) averaged €4 million in the first half of the year (first half of 2017: €7 million). A further consequence of rising interest rates is that they drive up our finance costs. We measure this risk using the cash flow at risk (CFaR). We apply a confidence level of 95 % and a holding period of one year. The CFaR of RWE AG amounted to €3 million (first half of 2017: €1 million).

RWE AG's cash investments also include equities. The average VaR for the risk associated with changes in the price of these instruments was €5 million (first half of 2017: €1 million). This figure does not include our investment in innogy.

RWE is also exposed to risks from fluctuations in exchange rates. This results in part from our operations in the United Kingdom. Furthermore, energy commodities such as coal and oil are traded in US dollars. As last year, the average VaR for RWE AG's foreign currency position was less than €1 million.

OUTLOOK FOR 2018

Adjusted EBITDA forecast € million	2017 actual[1]	Outlook for 2018
RWE Group	2,149	1,500 – 1,800
of which:		
Lignite & Nuclear	671	350 – 450
European Power	463	300 – 400
Supply & Trading	271	100 – 300
innogy – continuing operations	785	700 – 800

1 Prior-year figures adjusted; see commentary on pages 11 et seq.

Outlook amended due to new reporting: adjusted EBITDA of €1.5 billion to €1.8 billion expected

The change in reporting in the 2018 half-year report also affects the figures for the full year. Therefore, we have to make a structural adjustment to the forecast which we published on pages 83 et seqq. of the 2017 Annual Report. Excluding innogy's business that is due to be transferred to E.ON, the RWE Group's adjusted EBITDA is expected to range between €1.5 billion and €1.8 billion. Last year's comparable figure was €2.1 billion. Based on current planning, innogy's continuing operations will contribute adjusted EBITDA of between €700 million and €800 million (2017: €785 million). The earnings forecasts for the Lignite & Nuclear, European Power and Supply & Trading segments remain unchanged. As set out earlier, we will no longer calculate adjusted net income in the transitional period leading up to the completion of the asset swap with E.ON. The forecast for this key figure published in our 2017 Annual report is therefore irrelevant.

Capital expenditure on property, plant and equipment of continuing operations is expected to total between €1.2 billion and €1.4 billion. A capital outlay of €0.8 billion to €1.0 billion has been planned for innogy's continuing operations, which will primarily be used for the expansion of renewable energy. We anticipate that capital expenditure on property, plant and equipment in conventional electricity generation will amount to about €400 million. These funds are mainly earmarked for the maintenance and modernisation of power stations and opencast mines. Some of the funds will be channelled to minor growth projects, e. g. the conversion of our Dutch hard coal-fired power stations to biomass co-firing. By the end of the year, the net debt of our continuing operations is expected to be moderately below the €5.4 billion recorded as of 30 June.

RWE Group with innogy as a purely financial investment: earnings forecast confirmed

For financial planning purposes, we also use Group figures which include innogy as a purely financial investment and not as a fully consolidated group of companies. In so doing, we deviate from IFRS rules, recognising our 76.8 % stake in our subsidiary under 'other financial assets'. We consider innogy in adjusted EBITDA only on the basis of the dividend payment it makes to RWE. Further details on this can be found on page 60 of the 2017 Annual Report. On page 85, it also contains statements on the probable development of key figures calculated by the described method. We had forecast adjusted EBITDA in the range of €1.4 billion to €1.7 billion (2017: €2.1 billion) and adjusted net income in the range of €0.5 billion to €0.8 billion (2017: €1.0 billion). We confirm this outlook. In the meantime, however, we have adjusted our forecast with respect to net debt (2017: €4.5 billion). Now we anticipate a moderate decline as opposed to the moderate increase which we had forecast originally. The main reason for this is the high level of cash inflows from variation margins: their positive effect is expected to be felt through to the end of the year, as some of the affected contracts will not be realised until after 2018.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for half-year financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim Group review of operations includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Essen, 10 August 2018

The Executive Board

Schmitz Krebber

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONDENSED)

Income statement

€ million	Apr – Jun 2018	Apr – Jun 2017[1]	Jan – Jun 2018	Jan – Jun 2017[1]
Revenue (including natural gas tax/electricity tax)	**2,805**	**3,154**	**6,827**	**7,473**
Natural gas tax/electricity tax	−34	−31	−69	−66
Revenue[2]	**2,771**	**3,123**	**6,758**	**7,407**
Cost of materials	−2,328	−2,286	−5,138	−5,266
Staff costs	−503	−464	−974	−936
Depreciation, amortisation and impairment losses	−229	−537	−440	−796
Other operating result	65	1,649	−16	1,693
Income from investments accounted for using the equity method	54	38	102	63
Other income from investments	−42	−3	−40	6
Financial income	56	611	232	852
Finance costs	−132	−339	−416	−669
Income from continuing operations before tax	**−288**	**1,792**	**68**	**2,354**
Taxes on income	−25	−269	−86	−331
Income from continuing operations	**−313**	**1,523**	**−18**	**2,023**
Income from discontinued operations	−112	153	539	937
Income	**−425**	**1,676**	**521**	**2,960**
of which: non-controlling interests	18	−57	329	267
of which: RWE AG hybrid capital investors' interest	15	10	30	24
of which: net income/income attributable to RWE AG shareholders	**−458**	**1,723**	**162**	**2,669**
Basic and diluted earnings per common and preferred share in €	**−0.75**	**2.80**	**0.26**	**4.34**
of which: from continuing operations in €	−0.54	2.67	−0.15	3.41
of which: from discontinued operations in €	−0.21	0.13	0.41	0.93

1 Prior-year figures adjusted.
2 A presentation of revenue by product and segment can be found on page 14 of the interim Group review of operations.

Statement of comprehensive income

Amounts after tax – € million	Apr – Jun 2018	Apr – Jun 2017	Jan – Jun 2018	Jan – Jun 2017
Income	**– 425**	**1,676**	**521**	**2,960**
Actuarial gains and losses of defined benefit pension plans and similar obligations	– 244	273	– 430	805
Income and expenses of investments accounted for using the equity method (pro rata)	23	– 17	23	– 17
Fair value of equity instruments	13		– 14	
Income and expenses recognised in equity, not to be reclassified through profit or loss	**– 208**	**256**	**– 421**	**788**
Currency translation adjustment	– 170	71	– 69	91
Fair valuation of financial instruments available for sale		3		22
Fair valuation of debt instruments	– 8		– 13	
Fair valuation of financial instruments used for hedging purposes	812	53	1,878	– 447
Income and expenses of investments accounted for using the equity method (pro rata)	– 3	3	– 3	3
Income and expenses recognised in equity, to be reclassified through profit or loss in the future	**631**	**130**	**1,793**	**– 331**
Other comprehensive income	**423**	**386**	**1,372**	**457**
Total comprehensive income	**– 2**	**2,062**	**1,893**	**3,417**
of which: attributable to RWE AG shareholders	13	2,037	1,577	2,994
of which: attributable to RWE AG hybrid capital investors	15	10	30	24
of which: attributable to non-controlling interests	– 30	15	286	399

Balance sheet

Assets € million	30 Jun 2018	31 Dec 2017
Non-current assets		
Intangible assets	2,121	12,383
Property, plant and equipment	11,988	24,947[1]
Investments accounted for using the equity method	1,406	2,846
Other non-current financial assets	365	1,109
Receivables and other assets	1,677	1,782
Deferred taxes	851	2,627
	18,408	**45,694**
Current assets		
Inventories	1,415	1,924
Trade accounts receivable	1,399	5,405
Receivables and other assets	9,344	7,082
Marketable securities	3,301	4,893
Cash and cash equivalents	3,253	3,933
Assets held for sale	38,838	128
	57,550	**23,365**
	75,958	**69,059**

Equity and liabilities € million	30 Jun 2018	31 Dec 2017
Equity		
RWE AG shareholders' interest	7,384	6,759
RWE AG hybrid capital investors' interest	910	940
Non-controlling interests	4,176	4,292
	12,470	**11,991**
Non-current liabilities		
Provisions	15,856	19,249
Financial liabilities	1,577	14,414
Other liabilities	472	2,393
Deferred taxes	449	718
	18,354	**36,774**
Current liabilities		
Provisions	2,084	5,137
Financial liabilities	664	2,787
Trade accounts payable	2,094	5,077
Other liabilities	7,428	7,182
Liabilities held for sale	32,864	111
	45,134	**20,294**
	75,958	**69,059**

1 Figure adjusted because investment property has been subsumed under property, plant and equipment.

Cash flow statement

€ million	Jan – Jun 2018	Jan – Jun 2017[1]
Income from continuing operations	–18	2,023
Depreciation, amortisation and impairment losses/write-backs	485	400
Changes in provisions	–523	–530
Deferred taxes/non-cash income and expenses/income from disposal of non-current assets and marketable securities	126	–25
Changes in working capital	1,841	–174
Cash flows from operating activities of continuing operations	**1,911**	**1,694**
Cash flows from operating activities of discontinued operations	–112	20
Cash flows from operating activities	**1,799**	**1,714**
Capital expenditure on non-current assets/acquisitions	–390	–310
Proceeds from disposal of assets/divestitures	34	64
Changes in marketable securities and cash investments	–931	4,364
Cash flows from investing activities of continuing operations[2]	**–1,287**	**4,118**
Cash flows from investing activities of discontinued operations	–616	182
Cash flows from investing activities	**–1,903**	**4,300**
Cash flows from financing activities of continuing operations	**–957**	**230**
Cash flows from financing activities of discontinued operations	1,199	113
Cash flows from financing activities	**242**	**343**
Net cash change in cash and cash equivalents	138	6,357
Effect of changes in foreign exchange rates and other changes in value on cash and cash equivalents	23	8
Net change in cash and cash equivalents	**161**	**6,365**
Cash and cash equivalents at beginning of the reporting period	3,958	4,576
of which: reported as 'Assets held for sale'	25	
Cash and cash equivalents at beginning of the reporting period as per the consolidated balance sheet	3,933	4,576
Cash and cash equivalents at the end of the reporting period	**4,119**	**10,941**
of which: reported as 'Assets held for sale'	866	37
Cash and cash equivalents at end of the reporting period as per the consolidated balance sheet	**3,253**	**10,904**

1 Prior-year figures adjusted.
2 After the initial/subsequent transfer to plan assets in the amount of €41 million (prior-year period: €18 million).

Statement of changes in equity

€ million	Subscribed capital and additional paid-in capital of RWE AG	Retained earnings and distributable profit	Accumulated other comprehen-sive income	**RWE AG shareholders' interest**	RWE AG hybrid capital investors' interest	Non-controlling interests	**Total**
Balance at 1 Jan 2017	**3,959**	**−652**	**−553**	**2,754**	**942**	**4,294**	**7,990**
Repayment of capital						−41	−41
Dividends paid		−5		−5	−60	−457	−522
Income		2,669		2,669	24	267	2,960
Other comprehensive income		676	−351	325		132	457
Total comprehensive income		3,345	−351	2,994	24	399	3,417
Other changes		14		14	4	−33	−15
Balance at 30 Jun 2017	**3,959**	**2,702**	**−904**	**5,757**	**910**	**4,162**	**10,829**
Balance at 31 Dec 2017	**3,959**	**2,367**	**433**	**6,759**	**940**	**4,292**	**11,991**
Initial adoption of IFRS 9		47	−62	−15		−4	−19
Initial adoption of IFRS 15		−21		−21		−5	−26
Balance at 1 Jan 2018	**3,959**	**2,393**	**371**	**6,723**	**940**	**4,283**	**11,946**
Repayment of capital						−19	−19
Dividends paid		−922		−922	−60	−494	−1,476
Income		162		162	30	329	521
Other comprehensive income		−390	1,805	1,415		−43	1,372
Total comprehensive income		−228	1,805	1,577	30	286	1,893
Other changes		6		6		120	126
Balance at 30 Jun 2018	**3,959**	**1,249**	**2,176**	**7,384**	**910**	**4,176**	**12,470**

NOTES

Accounting policies

RWE AG, headquartered in Essen, Germany, is the parent company of the RWE Group ('RWE' or 'Group').

The interim consolidated financial statements as of 30 June 2018, including the additional information in the interim Group review of operations, have been prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable in the EU. The statements were approved for publication on 10 August 2018.

In line with IAS 34, the scope of reporting for the presentation of the interim consolidated financial statements for the period ended 30 June 2018 was condensed compared with the scope applied to the consolidated financial statements as of 31 December 2017.

With the exception of the changes and new rules described below, these interim consolidated financial statements were prepared using the accounting policies applied in the consolidated financial statements for the period ended 31 December 2017. For further information, please see the Group's 2017 Annual Report, which provides the basis for this half-year financial report.

The discount rate applied to provisions for nuclear waste management is 0.6 % (31 December 2017: 0.6 %), and 4.2 % (31 December 2017: 4.2 %) for mining-related provisions. Provisions for pensions and similar obligations are discounted at an interest rate of 1.7 % in Germany and 2.6 % abroad (31 December 2017: 2.0 % and 2.3 %, respectively).

Changes in accounting regulations

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have approved new IFRSs, several amendments to existing IFRSs and a new interpretation, which are effective for the RWE Group as of fiscal 2018:

IFRS 9 Financial Instruments (2014) replaces the previous regulations of IAS 39 on financial instruments. The standard contains amended regulations on measurement categories for financial assets and includes minor changes in relation to the measurement of financial liabilities. It also contains regulations on impairments based on expected credit losses for the first time. The new regulations on hedge accounting are intended to enable better reporting of the risk management activities in the consolidated financial statements. In line with the transitional provisions of IFRS 9, prior-year figures are not adjusted. The application of the new classification and measurement regulations and the recognition of the associated effects of the changes is effected by adjusting the carrying amounts of the financial assets and liabilities as well as of retained earnings as of 1 January 2018.

IFRS 9 contains amended regulations regarding the classification of financial assets. They envisage four measurement categories:

- Debt instruments measured at amortised cost
- Debt instruments measured at fair value with changes recognised directly in equity, to be reclassified through profit or loss in the future
- Financial instruments measured at fair value through profit or loss
- Equity instruments measured at fair value with changes recognised directly in equity, not to be reclassified through profit or loss

Furthermore, IFRS 9 contains new regulations regarding impairments of financial assets, which envisage recognition based on expected credit losses.

The following tables summarise the effects of the new classification and impairment regulations for financial instruments on the individual balance-sheet items and the respective measurement categories on the date of initial application:

Reclassification by balance sheet item in accordance with IFRS 9 € million	Measurement category in accordance with IAS 39	Measurement category in accordance with IFRS 9	Carrying amount in accord-ance with IAS 39	Additional impairment in accordance with IFRS 9	Carrying amount in accordance with IFRS 9
Other non-current financial assets	Financial assets available for sale	Debt instruments measured at fair value with changes recognised directly in equity	73		73
		Equity instruments measured at fair value with changes recognised directly in equity	77		77
		Financial instruments measured at fair value through profit or loss	959		959
Financial receivables	Loans and receivables	Debt instruments measured at amortised cost	2,069	18	2,051
		Financial instruments measured at fair value through profit or loss	35		35
Trade accounts receivable	Loans and receivables	Debt instruments measured at amortised cost	5,405	8	5,397
Other receivables and other assets	Loans and receivables	Debt instruments measured at amortised cost	244	1	243
	Financial assets recognised at fair value through profit or loss	Financial instruments measured at fair value through profit or loss	2,807		2,807
Marketable securities	Financial assets available for sale	Debt instruments measured at amortised cost	11		11
		Debt instruments measured at fair value with changes recognised directly in equity	1,306	18	1,306[1]
		Equity instruments measured at fair value with changes recognised directly in equity	796		796
		Financial instruments measured at fair value through profit or loss	2,780		2,780
Cash and cash equivalents	Loans and receivables	Debt instruments measured at amortised cost	3,933		3,933
			20,495	**45**	**20,468**[1]

1 Additional impairments pursuant to IFRS 9 of debt instruments measured at fair value with changes recognised directly in equity do not lead to a reduction in the carrying amounts as the impairments have already been considered in equity through the previous fair value measurement.

Some of our securities have been reclassified from the 'financial assets available for sale' category to the 'debt instruments measured at amortised cost' category due to the initial adoption of IFRS 9. If these financial instruments had not been reclassified, there would have been no profits or losses from fair value measurement in the first half of 2018. The carrying amount as of 30 June 2018 corresponds to the fair value of the financial instruments of €5 million.

Deferred tax assets in the amount of €7 million were recognised above and beyond the aforementioned effects.

Reclassification in accordance with IFRS 9 – sum by measurement category				
Measurement category in accordance with IAS 39 € million	Measurement category in accordance with IFRS 9	Carrying amount in accordance with IAS 39	Additional impairment in accordance with IFRS 9	Carrying amount in accordance with IFRS 9
Loans and receivables	Debt instruments measured at amortised cost	11,651	27	11,624
	Financial instruments measured at fair value through profit or loss	35		35
Financial assets available for sale	Debt instruments measured at amortised cost	11		11
	Debt instruments measured at fair value with changes recognised directly in equity	1,379	18	1,379
	Equity instruments measured at fair value with changes recognised directly in equity	873		873
	Financial instruments measured at fair value through profit or loss	3,739		3,739
Financial assets recognised at fair value through profit or loss	Financial instruments measured at fair value through profit or loss	2,807		2,807
		20,495	**45**	**20,468**

The following table presents the reconciliation of the closing balance of the impairments pursuant to IAS 39 to the opening balance of the impairments pursuant to IFRS 9:

Reconciliation of the risk provision in accordance with IFRS 9 € million	Risk provision in accordance with IAS 39	Additional risk provision in accordance with IFRS 9	Risk provision in accordance with IFRS 9
Other non-current financial assets	179		179
Financial receivables	241	18	259
Trade accounts receivable	397	8	405
Other receivables and other assets	2	1	3
Marketable securities		18	18
	819	**45**	**864**

In addition to the new regulations regarding the recognition of financial assets, IFRS 9 includes minor amendments with respect to the recognition of financial liabilities. These changes do not have an impact on the RWE Group.

Moreover, IFRS 9 contains new regulations concerning hedge accounting, which are intended to better present the risk management activities in the consolidated financial statements. To this end, IFRS 9 expands the scope of underlying transactions qualifying for hedge accounting and adopts a new approach to evaluating effectiveness.

RWE is continuing its existing hedge accounting relationships in accordance with IFRS 9. The treatment of foreign-currency basis spreads will change for the hedge accounting of foreign-currency risks, which will tend to lead to higher ineffectivities of existing hedging relationships. This change will not have any material effects on the RWE Group. New hedging relationships were not designated at the date of initial application.

The fair value option for own-use contracts and the possibility to exclude the fair value component of options for hedging relationships are not made use of in the RWE Group. Overall, the new regulations regarding hedge accounting do not have any material effects on the consolidated financial statements of RWE.

IFRS 15 Revenue from Contracts with Customers (2014) including Amendments to IFRS 15: Effective Date of IFRS 15 (2015) and **Clarifications to IFRS 15 Revenue from Contracts with Customers (2016)** replaced the contents of **IAS 18 Revenue** and **IAS 11 Construction Contracts** and the associated interpretations with effect from 1 January 2018.

The new standard does not distinguish between different types of orders and performance. It establishes uniform criteria as to when revenue is realised for a performance obligation at a point in time or over time. Therefore, revenue is recognised when the customer obtains control of the agreed goods and services and can benefit from such.

RWE applied the modified retrospective method as the transition method for the first-time application as of 1 January 2018. Prior-year figures were not restated. The effects of the first-time application of IFRS 15 are recognised in equity, causing retained earnings to drop by €21 million.

The first-time application of IFRS 15 has the following effects on equity at the beginning of fiscal 2018 and on the income statement in the first six months of fiscal 2018:

- As of 1 January 2018, RWE recognised contractual liabilities for basic fees received from customers in advance in the amount of €12 million. In addition, expenses incurred for free giveaways and goods in the amount of €26 million, previously recognised in accordance with IAS 18, were reversed. Furthermore, €8 million in costs associated with obtaining a contract were capitalised. Moreover, €2 million in deferred tax assets and €7 million in deferred tax liabilities were recognised.
- The first-time application of IFRS 15 caused RWE to change the presentation of unrealised changes in the fair value of commodity derivatives. Since 1 January 2018, they have no longer been presented as revenue or costs of material, but in other operating income. The change leads to a stabilisation of revenue and does not affect our income. €225 million was recognised in other operating income for unrealised changes in the fair value of commodity derivatives for the first half of 2018.

The following amendments to standards and new interpretations mandatory for the RWE Group from fiscal 2018 onwards do not have an effect on the consolidated financial statements of RWE:

- Amendments to IFRS 4 Application of IFRS 9 Financial Instruments in conjunction with IFRS 4 Insurance Contracts (2016)
- Annual Improvements to IFRS Standards 2014–2016 Cycle (2016)
- Amendments to IAS 40 Transfers of Investment Property (2016)
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (2016)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (2016)

New accounting policies

The IASB issued further standards, which are not yet mandatory in the European Union (EU) in fiscal 2018. The anticipated effects of these were described in the 2017 Consolidated Annual Report. Based on the current state of implementation, the anticipated effects are updated as follows:

IFRS 16 Leases (2016)
The following options and exemptions are being made use of at the date of initial application:

- Renouncement of a renewed assessment as to whether contracts existing before the date of first adoption contain a lease in accordance with IFRS 16
- Recognition of the right of use asset and measurement in the amount of the leasing liability, adjusted for lease payments that had already been recognised as an asset or a liability
- Adjustment of the right of use asset by the amount recognised as a provision for onerous leases on the balance sheet for the period ending on 31 December 2018
- Leases with a term expiring within the first twelve months from the date of first-time adoption are treated as short-term leases
- Measurement of the right of use asset at the date of first-time adoption without considering initial direct costs

In addition to the aforementioned transitional regulations, RWE is making use of exemptions allowing for leases relating to short-term or low-value assets not to be recognised on the balance sheet as a right of use asset.

RWE continues to expect the effects on the consolidated financial statements described in the 2017 Annual Report.

Scope of consolidation

In addition to RWE AG, the consolidated financial statements contain all material German and foreign companies which RWE AG controls directly or indirectly. Principal associates are accounted for using the equity method, and principal joint arrangements are accounted for using the equity method or as joint operations.

The following summaries show the changes in the number of fully consolidated companies, investments accounted for using the equity method and joint ventures:

Number of fully consolidated companies	Germany	Abroad	Total
Balance at 1 Jan 2018	**142**	**199**	**341**
First-time consolidation	5	41	46
Deconsolidation	−2	−6	−8
Mergers	−3	−8	−11
Balance at 30 Jun 2018	**142**	**226**	**368**

Number of investments and joint ventures accounted for using the equity method	Germany	Abroad	Total
Balance at 1 Jan 2018	**72**	**18**	**90**
Other changes	1		1
Balance at 30 Jun 2018	**73**	**18**	**91**

Furthermore, six companies are presented as joint operations (31 December 2017: six companies).

Disposals

Mátra

RWE Power sold the Hungarian company Mátrai Erőmű Zrt. (Mátra) to a consortium in the middle of December 2017. The transaction was completed in March 2018. Mátra had been assigned to the 'Lignite & Nuclear' segment. As of 31 December 2017, this company's assets and liabilities were stated on the balance sheet as 'held for sale'. The deconsolidation loss amounts to €46 million and was recognised in other operating income.

Discontinued operations

E.ON-innogy asset swap

On 12 March 2018, RWE AG and E.ON SE reached a contractual agreement to transfer the 76.8 % majority stake in innogy held by RWE to E.ON as part of an extensive exchange of operations and shareholdings. The innogy assets that are to be transferred to E.ON over the long term will be stated as 'discontinued operations' until they have been sold. This mainly relates to the grid and retail business, which has been assigned to the 'innogy' segment thus far. The transaction values the 76.8 % stake in innogy held by RWE including the assumed dividends of innogy SE for fiscal 2017 and 2018 totalling €3.24 per share, to which RWE remains entitled, at €40.00 per share. The transaction volume thus amounts to about €17.1 billion. The Supervisory Board of RWE AG has approved the sale. The transaction is subject to authority approvals. It is envisaged to close during 2019.

Since 30 June 2018, the innogy assets that are to be transferred have been recognised as discontinued operations. The elimination bookings effected to consolidate expenses and income for the intragroup deliveries and services existing so far, which will be continuing either with innogy or with third parties after the deconsolidation of the innogy assets that are to be transferred, were fully assigned to the discontinued operations.

Major key figures of the activities of the innogy assets that are to be transferred are presented below:

Key figures of discontinued operations € million	30 Jun 2018
Non-current assets	28,456
Current assets	10,382
Non-current liabilities	21,048
Current liabilities	11,816

Key figures of discontinued operations € million	Jan – Jun 2018	Jan – Jun 2017
Revenue[1]	19,110	19,909
Other income[2]	717	476
Expenses[3]	−19,173	−19,068
Income from discontinued operations before tax	654	1,317
Taxes on income	−115	−380
Income from discontinued operations	539	937

1 Including income with continuing operations in the amount of €1,425 million (prior-year period: €974 million).
2 Including income with continuing operations in the amount of €124 million (prior-year period: €237 million).
3 Including expenses with continuing operations in the amount of €9,096 million (prior-year period: €5,980 million).

The first-time application of IFRS 15 involved identifying with respect to regulatory fees individual issues in particular in relation to renewable energy, in which companies classified as discontinued operations pursuant to IFRS 15 qualify as agents unlike pursuant to IAS 18. In the first half of 2018, this caused revenue and the cost of materials within income from discontinued operations to decline by €1.6 billion, as performance bonuses of the transmission system operator no longer qualify as revenue in the direct marketing model of the German Renewable Energy Act. This did not have an impact on earnings.

Accumulated other comprehensive income from discontinued operations amounted to –€846 million (31 December 2017: –€730 million).

Of the share of total comprehensive income attributable to RWE AG shareholders, €1,578 million (prior-year period: €2,861 million) were allocable to continuing operations and –€1 million (prior-year period: €133 million) were allocable to discontinued operations.

Share-based payment

The consolidated financial statements for the period ended 31 December 2017 presented the share-based payment system for executives of RWE AG and subordinate affiliates. As part of the Long-Term Incentive Plan for executives entitled 'Strategic Performance Plan' (SPP), RWE AG and innogy SE each issued another tranche for fiscal 2018.

Dividend distribution

RWE AG's Annual General Meeting, held on 26 April 2018, decided to pay a dividend of €1.50 per individual, dividend-bearing common and preferred share for fiscal 2017. This sum is made up of an ordinary dividend of €0.50 and a special dividend of €1.00 from the nuclear fuel tax refund. Last year, a dividend of €0.13 per dividend-bearing preferred share was paid and no dividend was paid for common shares. The dividend payment for fiscal 2017 totalled €922 million (previous year: €5 million).

Earnings per share

		Jan – Jun 2018	Jan – Jun 2017
Net income/income attributable to RWE AG shareholders	€ million	162	2,669
Number of shares outstanding (weighted average)	thousands	614,745	614,745
Basic and diluted earnings per common and preferred share	€	0.26	4.34
of which: from continuing operations	€	–0.15	3.41
of which: from discontinued operations	€	0.41	0.93

Related party disclosures

The RWE Group classifies associated companies and joint ventures as related parties. In the first half of 2018, transactions concluded with material related parties generated €1,425 million in income (first half of 2017: €1,864 million) and €1,769 million in expenses (first half of 2017: €1,665 million). As of 30 June 2018, accounts receivable amounted to €424 million (31 December 2017: €392 million) and accounts payable totalled €142 million (31 December 2017: €176 million). All business transactions were concluded at arm's length conditions and on principle do not differ from transactions involving the supply of goods and services concluded with other companies. Other obligations from executory contracts amounted to €1,169 million (31 December 2017: €1,426 million).

Above and beyond this, the RWE Group did not execute any material transactions with related companies or persons.

Reporting on financial instruments

Financial instruments are divided into non-derivative and derivative. Non-derivative financial assets essentially include other financial assets, accounts receivable, marketable securities and cash and cash equivalents. Financial instruments are recognised at amortised cost or fair value, depending on their classification. On the liabilities side, non-derivative financial instruments principally include liabilities recorded at amortised cost.

The fair value of financial instruments is established based on the published exchange price, insofar as the financial instruments are traded on an active market. On principle, the fair value of non-quoted debt and equity instruments is determined on the basis of discounted expected payment flows, taking into consideration macroeconomic developments and corporate planning data. Current market interest rates corresponding to the remaining maturity are used for discounting.

Derivative financial instruments are recognised at fair value as of the balance-sheet date, insofar as they fall under the scope of IFRS 9. Exchange-traded products are measured using the published closing prices of the relevant exchange. Non-exchange traded products are measured on the basis of publicly available broker quotations or, if such quotations are not available, of generally accepted valuation methods. In doing so, we draw on prices on active markets as much as possible. If such are not available either, company-specific planning estimates are used in the measurement process. These estimates encompass all of the market factors which other market participants would take into account in the course of price determination. Assumptions pertaining to the energy sector and the economy are the result of a comprehensive process involving both in-house and external experts.

The measurement of the fair value of a group of financial assets and financial liabilities is conducted on the basis of the net risk exposure per business partner in accordance with IFRS 13.48.

As a rule, the carrying amounts of financial assets and liabilities subject to IFRS 7 are identical with their fair values. There are deviations only in relation to financial liabilities. Their carrying amounts totalled €2,241 million (31 December 2017: €17,201 million) and their fair values totalled €2,363 million (31 December 2017: €19,167 million).

The following overview presents the main classifications of financial instruments measured at fair value in the fair value hierarchy prescribed by IFRS 13. In accordance with IFRS 13, the individual levels of the fair value hierarchy are defined as follows:

- Level 1: Measurement using (unadjusted) prices of identical financial instruments formed on active markets
- Level 2: Measurement on the basis of input parameters which are not the prices from Level 1, but which can be observed for the financial instrument either directly (i. e. as price) or indirectly (i. e. derived from prices)
- Level 3: Measurement using factors which cannot be observed on the basis of market data

Fair value hierarchy € million	Total 30 Jun 2018	Level 1	Level 2	Level 3	Total 31 Dec 2017	Level 1	Level 2	Level 3
Other financial assets	365	24	177	164	1,109	80	208	821
Derivatives (assets)	7,778		7,744	34	4,263		4,230	33
of which: used for hedging purposes	2,277		2,277		1,456		1,456	
Securities	3,297	1,811	1,486		4,893	3,168	1,725	
Assets held for sale	3,893	1,887	1,214	792				
Derivatives (liabilities)	7,125		7,123	2	4,257		4,253	4
of which: used for hedging purposes	1,130		1,130		643		643	
Liabilities held for sale	1,188		1,188					

The development of the fair values of Level 3 financial instruments is presented in the following table:

Level 3 financial instruments: Development in 2018	Balance at 1 Jan 2018	Changes in the scope of consolidation, currency adjustments and other	Changes			Balance at 30 Jun 2018
€ million			Recognised in profit or loss	Not recognised in profit or loss (OCI)	With a cash effect	
Other financial assets	821	–739	9	7	66	164
Financial receivables	35	–35				
Derivatives (assets)	33	–1	12		–10	34
Assets held for sale		792				792
Derivatives (liabilities)	4	–1	2		–3	2

Level 3 financial instruments: Development in 2017	Balance at 1 Jan 2017	Changes in the scope of consolidation, currency adjustments and other	Changes			Balance at 30 Jun 2017
€ million			Recognised in profit or loss	Not recognised in profit or loss (OCI)	With a cash effect	
Other financial assets	789	10	9		38	846
Derivatives (assets)	37	–1	–6		–7	23
Derivatives (liabilities)	10				2	12

Amounts recognised in profit or loss generated through Level 3 financial instruments relate to the following line items in the income statement:

Level 3 financial instruments: Amounts recognised in profit or loss € million	Total Jan – Jun 2018	Of which: attributable to financial instruments held at the balance-sheet date	Total Jan – Jun 2017[1]	Of which: attributable to financial instruments held at the balance-sheet date[1]
Revenue	10	10		
Cost of materials			– 6	– 6
Income from investments	– 1	– 1		
Income from discontinued operations	10	10	9	7
	19	**19**	**3**	**1**

1 Prior-year figures adjusted.

Level 3 derivative financial instruments essentially consist of energy purchase agreements, which relate to trading periods for which there are no active markets yet. The valuation of such depends on the development of gas prices in particular. All other things being equal, rising gas prices cause the fair values to increase, whereas declining gas prices cause them to drop. A change in pricing by + / – 10 % would cause the market value to rise by €5 million or decline by €5 million.

Events after the balance-sheet date

Commentary on events after the balance-sheet date can be found in the interim Group review of operations.

REVIEW REPORT

To RWE Aktiengesellschaft, Essen

We have reviewed the condensed consolidated interim financial statements – comprising the condensed income statement, condensed statement of comprehensive income, condensed statement of financial position, condensed statement of cash flows, condensed statement of changes in equity and selected explanatory notes – and the interim group management report of RWE Aktiengesellschaft, Essen, for the period from January 1, 2018 to June 30, 2018 which are part of the half-year financial report pursuant to § (Article) 115 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standard on Review Engagements "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Essen, 10 August 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Michael Reuther	Ralph Welter
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Financial Calendar 2018/2019

14 November 2018	Interim statement on the first three quarters of 2018
14 March 2019	Annual report for fiscal 2018
3 May 2019	Annual General Meeting
8 May 2019	Dividend payment
15 May 2019	Interim statement on the first quarter of 2019
14 August 2019	Interim report on the first half of 2019
14 November 2019	Interim statement on the first three quarters of 2019

This document was published on 14 August 2018. It is a translation of the German interim report on the first half of 2018. In case of divergence from the German version, the German version shall prevail.

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