Interim statement on the first quarter of 2018

- RWE and E.ON agree extensive swap of assets and participations
- E.ON will acquire innogy – RWE to become Europe's No. 3 in renewables
- RWE AG Executive Board targets dividend of €0.70 for fiscal 2018
- RWE Group Q1 adjusted EBITDA of €1.9 billion in line with expectations

RWE

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AT A GLANCE

RWE Group – key figures		Jan – Mar 2018	Jan – Mar 2017	+/– %	Jan – Dec 2017
Power generation	billion kWh	49.9	57.8	–13.7	202.2
External electricity sales volume	billion kWh	69.3	70.0	–1.0	261.1
External gas sales volume	billion kWh	96.0	95.5	0.5	254.1
External revenue (excluding natural gas tax/electricity tax)	€ million	11,615	12,532	–7.3	42,434
Adjusted EBITDA	€ million	1,891	2,131	–11.3	5,756
Adjusted EBIT	€ million	1,416	1,623	–12.8	3,646
Income before taxes	€ million	1,304	1,674	–22.1	3,056
Net income	€ million	620	946	–34.5	1,900
Adjusted net income	€ million	517	689	–25.0	1,232
Earnings per share	€	1.01	1.54	–34.4	3.09
Adjusted net income per share	€	0.84	1.12	–25.0	2.00
Cash flows from operating activities	€ million	364	–1,133	132.1	–1,754
Capital expenditure	€ million	558	391	42.7	2,629
Property, plant and equipment and intangible assets	€ million	321	282	13.8	2,260
Financial assets	€ million	237	109	117.4	369
Free cash flow[1]	€ million	15	–1,329	101.1	–3,849
		31 Mar 2018	31 Dec 2017		
Net debt	€ million	20,908	20,227	3.4	
Workforce[2]		58,391	59,547	–1.9	

1 New definition; see commentary on page 15.
2 Converted to full-time positions.

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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 activities. RWE will become Europe's No. 3 in renewable energy while E.ON will enlarge its grid and retail operations, which will be the company's main areas of activity in the future. It is envisaged that this will be achieved through a substantial asset swap, which was contractually agreed on 12 March. E.ON will acquire RWE's 76.8 % stake in innogy SE. In return, RWE will receive the following 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 a contribution 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 will take retroactive commercial effect from 1 January 2018. The transaction was based on a valuation of our 76.8 % stake in innogy of €40 per share when the contract was concluded. This includes the dividends of innogy SE for fiscal 2017 and 2018, to which RWE will continue to be entitled.

By taking over the renewable energy activities of E.ON and innogy, RWE will receive 8 GW of zero-carbon electricity generation capacity. The lion's share is attributable to onshore and offshore wind farms. In addition to existing plants, we will receive 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 in Germany, the United Kingdom and the Benelux countries, RWE will become an all-rounder in electricity production, ensuring security of supply with its flexible power stations while playing a proactive role in transitioning the energy sector towards climate-friendly electricity production. The minority interest in KELAG, which specialises in electricity generation from hydroelectric power plants, will further strengthen our renewables position. The German and Czech gas storage facilities of innogy, which will be assigned 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 anticipate that the Group's leverage factor, which is the ratio of net debt to adjusted EBITDA and was 3.5 last year, will fall below 3.0 after the transaction closes. The renewables business, which is characterised by a large portion of stable regulated income, should then contribute more than half of the RWE Group's adjusted EBITDA.

The agreed swap of participations and assets will be carried out in several steps. On 27 April, E.ON made a voluntary public offer to innogy's minority shareholders for the acquisition of their shares. E.ON has offered €40 per share, minus the innogy dividends for fiscal 2017 and 2018. This corresponds to a premium of 28 % on top of innogy's closing share price as of 22 February (€31.29), the last quotation that was largely unaffected by takeover speculation. On 10 May, the Executive Board and the Supervisory Board of innogy declared that they deem the offer appropriate in financial terms, but that they cannot issue a recommendation in this regard as they do not have enough information. This statement does not affect E.ON's acquisition of our majority stake in innogy. This step of the transaction can be taken as soon as all of the necessary approvals have been obtained from the relevant competition and regulatory authorities. This is likely to happen by 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 renewables business, as well as innogy's renewable activities, gas storage business and shareholding in KELAG. We are confident of being able to complete the entire transaction by the end of 2019.

RWE sells majority stake in Mátra

RWE Power and the energy utility EnBW jointly sold their stakes of 50.9 % 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. The company is no longer of strategic importance to us, because we want to focus our conventional electricity business on the core markets Germany, the United Kingdom and the Benelux region.

UK capacity market auction for 2021/2022: RWE secures payments for 6.6 GW of generation capacity

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. Existing plants and new build projects with a total of 74.2 GW in generation capacity entered the auction, 50.4 GW of which received 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 recent auction closed remaining capacity gaps. Additional generation capacity of 5.8 GW was auctioned at a price of £6.00/kW. RWE had participated in the procedure with a small unit, which will not receive a payment.

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. Thanks to the positive effect of the transaction on our earnings power, we are confident of being able to maintain our investment-grade ratings.

innogy places €1 billion bond

At the end of January, innogy placed a senior bond with a nominal volume of €1 billion and a tenor of eleven-and-a-half years. In so doing, our subsidiary took advantage of the favourable level of market interest rates. The coupon of 1.5 % and issue price of 98.785 % result in a yield of 1.617 % per year. The issuance was effected by innogy Finance B.V. and backed by innogy SE. It met with strong investor interest and was oversubscribed several times. The proceeds will serve to refinance matured liabilities, amongst other things.

innogy and Stadtwerke Aachen pool grid business in newly-established Regionetz GmbH

The newly established Aachen-based network company Regionetz GmbH took up operation on 1 January 2018. The company is the result of a merger of the network activities of the municipal utility Stadtwerke Aachen AG (STAWAG) and Stolberg-based innogy subsidiary EWV Energie- und Wasser-Versorgung GmbH. With about 600 employees, it operates electricity, gas, heat and water networks in Greater Aachen as well as certain areas in the districts of Heinsberg and Düren. STAWAG is the majority shareholder of Regionetz, in which innogy holds an equity stake of just under 50 %. As innogy has a controlling position in accordance with IFRS 10, it has to fully consolidate Regionetz. Further information on the transaction can be found on pages 150 et seq. of the 2017 RWE Annual Report.

EU decides to reform European Emissions Trading System

In February and March 2018, the European Parliament and the European Council 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 target 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 more quickly. This will be done by transferring a much larger volume of allowances to 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 excess certificates accounting for up to 24 % of the volume allocated on the market annually between 2019 and 2023 and transferring it 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.

European Council and Parliament intend to exclude coal-fired power stations from capacity markets

Following the European Council, in February 2018, the Industry Committee of the European Parliament also established its position on the amendment to the Electricity Market Directive. One of the main topics was the determination of minimum standards that national governments must observe if they have introduced capacity mechanisms or intend to do so. Like the Council, the Parliament's committee wants to exclude power plants emitting carbon dioxide in excess of 550 g/kWh from capacity markets. This rule would also apply to existing stations no later than five years after the Directive has entered into force. However, power plants in strategic reserves would be exempt as long as their annual carbon emissions are below 200 kg/kW of installed capacity. This would limit the full-load hours of a modern lignite-fired power station to roughly 200 per year. Moreover, strategic reserves are to be given priority when capacity mechanisms are introduced. In the middle of December 2017, the member states in the European Council agreed on a joint position on the redesign of the electricity market and spoke out in favour of the 550 gram rule. The Council envisages exempting only power plants that emit less than 700 kg CO_2/kW per year. Under this regime, a modern lignite-fired power station would only be allowed to run for roughly 750 hours at full load every year in order to be considered for capacity payments. However, this would not apply to existing plants until 2030. The positions of both the Parliament and the Council would result in coal-fired power stations at best being able to participate in strategic reserves, but not in market-based capacity mechanisms. Now the two institutions have to agree on a joint position. To this end, they will take up trilateral talks including representatives of the European Commission.

Germany: commission to submit concept for achieving climate protection 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 national and international climate protection goals for 2020, 2030 and 2050. It is expected that the packages of measures entitled 'Climate Protection Action Programme 2020' and 'Climate Protection Plan 2050' adopted in the last legislative period be fully implemented. The coalition agreement envisages accelerating the expansion of renewable energy so that it accounts for at least 65 % of electricity consumption by 2030. In addition, the government wants to task a commission with developing an action programme for the energy sector. The commission, bearing the title 'Growth, Structural Change and Employment', will include representatives from politics, business, environmental associations and trade unions as well as from the affected states and regions. The government wants the commission to develop supplementary measures for the energy sector, with which the gap to achieving the climate goal for 2020 can be closed as much as possible. Germany had set itself the goal of reducing greenhouse gas emissions by at least 40 % by 2020 compared to the 1990 level. Based on the assessments of the federal government, it will be almost impossbile to achieve this target. Furthermore, it is envisaged that the commission proposes measures which ensure that the emission reduction of 55 % aimed for by 2030 compared to 1990 is achieved reliably. In doing so, the balance between security of supply, environmental protection and profitability should be maintained and no major structural changes should be caused. The commission's tasks also include developing a plan for the phase-out of electricity generation from coal, while detailing the necessary accompanying legal, economic, social and structural measures. The results of the commission's work are scheduled to be presented at the end of 2018 and will form the basis for legislative packages, which the coalition partners intend to pass next year.

After the period under review

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 the 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 pays dividend of €1.60 per share

On 24 April 2018, the Annual General Meeting of innogy SE voted for 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 %.

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

At its meeting on 24 April, the Supervisory Board appointed Uwe Tigges (58) Chairman of the company's Executive Board. Until then, Mr. Tigges had occupied this position on an interim basis after Peter Terium left the innogy Executive Board 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 Mr. Tigges and succeeds him as Labour Director. So far, he has been the Managing Director and Labour Director of Westnetz GmbH, offices which he will keep for the time being.

innogy secures subsidies for new wind farm in German North Sea

At an auction in April, innogy submitted a successful bid for a state subsidy for the Kaskasi offshore wind project. The Kaskasi wind farm is expected to have a generation capacity of 325 MW. Its location in the vicinity of Heligoland benefits from 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.

COMMENTARY ON REPORTING

Unchanged segment structure in Q1 2018

The exchange of business operations and investments agreed upon with E.ON (see pages 1 et seq.) will lead to a change in reporting. We will classify all of innogy's business operations that will be transferred to E.ON in the long run as 'discontinued operations' until they are sold. Detailed commentary on this can be found on page 16. We will change our reporting later in the current fiscal year, but in this interim statement on the first quarter, we will continue to report in line with the four following segments.

- 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 under the responsibility of RWE Power. We also report the 50.9 % stake in Hungary-based Mátra, which was sold in March 2018, in this segment. Lignite & Nuclear also 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. This business focuses on Germany, the United Kingdom and the Benelux region and is overseen by RWE Generation. 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.

- Supply & Trading: This division encompasses the activities of RWE Supply & Trading. The company is active in energy and commodities trading as well as the gas business. It supplies some large industrial and corporate customers in Germany and neighbouring countries with electricity and gas. In addition, RWE Supply & Trading markets RWE's power generation and optimises power plant dispatch, with the related earnings being reported in the Lignite & Nuclear and European Power segments.

- innogy: This segment comprises the renewables, grid and retail activities, which are pooled in our subsidiary innogy SE. The company is a leading European producer of electricity from renewables, in particular wind and hydroelectric power, focusing on Germany, the United Kingdom, Spain, the Netherlands and Poland. innogy's second mainstay is the operation of electricity distribution networks (Germany, Slovakia, Hungary and Poland) and gas distribution networks (Germany, the Czech Republic and Croatia). The supply of electricity, gas and energy solutions constitutes the third area of innogy's business, with markets in Germany, the United Kingdom, the Netherlands, Belgium, the Czech Republic, Slovakia, Hungary, Poland and a few other Central Eastern European countries. innogy also owns majority stakes in a number of regional utilities in Germany. Moreover, the company holds numerous non-controlling interests in utility companies, such as German municipal utilities and the Austrian utility KELAG.

Companies with cross-segment tasks like the Group holding company RWE AG are stated under 'Other, consolidation'. This item also includes our 25.1 % interest 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 new regulations governing the statement of revenue. Prior-year figures have not been adjusted. One of the new rules introduced by IFRS 15 stipulates that changes in the fair value of commodity derivatives, which occur before the contracts are realised, must be recognised in other operating income instead of in revenue or the cost of materials. Another methodological adjustment made in IFRS 15 relates to the recognition of subsidies that are passed through in accordance with the German Renewable Energy Act (EEG). Under what is referred to as the 'market premium model', the operator of an EEG plant sells the electricity to a direct marketer. In addition to the electricity price paid by the direct marketer, the plant operator receives a premium to compensate for the difference between the electricity price and the (higher) EEG subsidy rate. This premium, which is paid to the plant operator by the distribution system operator, is refunded by the transmission system operator. Until now, the distribution system operators have recorded the refunded premiums as revenue and the paid premiums under the cost of materials. Pursuant to IFRS 15, this is no longer allowed.

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' this year. Again, prior-year figures have not been adjusted. IFRS 9 results in changes to the classification and valuation of financial instruments, to hedge accounting and to the recognition of impairments due to expected payment defaults. 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 our financial assets. In consequence, net debt is slightly higher.

BUSINESS PERFORMANCE

External revenue 7 % down year on year

In the first quarter of 2018, the RWE Group posted €11,615 million in external revenue. This figure does not include taxes on natural gas or electricity. Compared to the same period in 2017, our revenue declined by 7 %. Revenue from the sale of electricity dropped by 9 % to €7,329 million. The main reason for this was that certain items may no longer be recognised in revenue due to the application of IFRS 15 (see page 7). In addition, innogy experienced volume shortfalls due to competition, in particular to German households, corporate customers and industrial enterprises. At €3,286 million, the RWE Group's gas revenue was 10 % down year on year. Here again, a major factor was the adoption of IFRS 15. By contrast, the relatively low temperatures in the first quarter had a positive effect on gas revenue, primarily in the UK and Dutch residential customer business.

External revenue € million	Jan – Mar 2018	Jan – Mar 2017	+/– %	Jan – Dec 2017
Lignite & Nuclear	278	279	–0.4	1,163
European Power	213	214	–0.5	725
Supply & Trading	1,105	1,234	–10.5	3,074
innogy	10,009	10,797	–7.3	37,455
Other, consolidation	10	8	25.0	17
RWE Group (excluding natural gas tax/electricity tax)	**11,615**	**12,532**	**–7.3**	**42,434**
Natural gas tax/electricity tax	794	762	4.2	2,151
RWE Group	**12,409**	**13,294**	**–6.7**	**44,585**

External revenue by product[1] € million	Jan – Mar 2018	Jan – Mar 2017	+/– %	Jan – Dec 2017
Electricity revenue	**7,329**	**8,067**	**–9.1**	**30,568**
of which:				
Lignite & Nuclear	96	99	–3.0	381
European Power	123	128	–3.9	422
Supply & Trading	617	671	–8.0	1,864
innogy	6,493	7,169	–9.4	27,900
Gas revenue	**3,286**	**3,663**	**–10.3**	**8,971**
of which:				
Supply & Trading	193	455	–57.6	1,054
innogy	3,088	3,206	–3.7	7,907
Other revenue	**1,000**	**802**	**24.7**	**2,895**
RWE Group (excluding natural gas tax/electricity tax)	**11,615**	**12,532**	**–7.3**	**42,434**

1 Immaterial gas revenue in the European Power segment and immaterial electricity and gas revenue under 'Other, consolidation' is not stated separately.

Internal revenue € million	Jan – Mar 2018	Jan – Mar 2017	+/– %	Jan – Dec 2017
Lignite & Nuclear	677	763	–11.3	2,993
European Power	1,064	1,349	–21.1	4,166
Supply & Trading	4,865	5,065	–3.9	13,634
innogy	862	591	45.9	2,591

Adjusted EBITDA € million	Jan – Mar 2018	Jan – Mar 2017	+/– %	Jan – Dec 2017
Lignite & Nuclear	180	213	–15.5	671
European Power	159	167	–4.8	463
Supply & Trading	–24	146	–116.4	271
innogy	1,582	1,617	–2.2	4,331
Other, consolidation	–6	–12	50.0	20
RWE Group	**1,891**	**2,131**	**–11.3**	**5,756**

Adjusted EBITDA 11 % down year on year

During the reporting period, we recorded adjusted earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA) of €1,891 million. Overall, this figure was within expectations. Compared to the first quarter of last year, adjusted EBITDA declined by 11 %. The main reasons for this were a decline in generation margins and a weak energy trading performance. Our subsidiary innogy experienced a drop in retail earnings, but benefited from a rise in generation from its wind farms due to improved wind levels. The following developments were observed in the segments:

- Lignite & Nuclear: Adjusted EBITDA declined by €33 million to €180 million, primarily because we realised lower wholesale prices for electricity produced 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. In addition, unit B of the Gundremmingen nuclear power plant stopped contributing to earnings because it was shut down at the end of 2017. Savings achieved as a result of our efficiency-enhancement programme only partially offset the aforementioned burdens.

- European Power: In this segment, adjusted EBITDA amounted to €159 million. This was 5 % down on the high figure recorded in last year's corresponding period, 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 slightly lower than in 2017. The payments we have been receiving for participating in the UK capacity market had a positive effect.

- Supply & Trading: This division's adjusted EBITDA decreased by €170 million to –€24 million. The main reason for this was a weak trading performance. However, we continue to expect that the segment will close fiscal 2018 within the forecast range of €100 million to €300 million.

- innogy: Our subsidiary posted adjusted EBITDA of €1,582 million. This was 2 % less than in the same period last year. The decrease was principally caused by the retail business, where declining one-off income and drops in sales due to competition came to bear. Moreover, innogy had to purchase additional gas at unfavourable conditions on the spot market in the Netherlands, in order to satisfy a rise in demand driven by the cold weather. Earnings in the Renewables segment increased. A major reason for this was that production from innogy's wind farms increased thanks to improved weather conditions. The commissioning of new wind power capacity also had a positive impact. Above and beyond this, generation assets that do not receive fixed compensation from the state benefited from the rise in wholesale electricity prices. innogy also grew earnings in the distribution network business, in part due to higher gains on network disposals. Such sales are usually conducted when network companies have to relinquish a concession to a competitor after invitations to tender from the municipalities.

Adjusted EBIT € million	Jan – Mar 2018	Jan – Mar 2017	+/– %	Jan – Dec 2017
Lignite & Nuclear	114	139	–18.0	399
European Power	85	91	–6.6	155
Supply & Trading	–25	145	–117.2	265
innogy	1,236	1,261	–2.0	2,816
Other, consolidation	6	–13	146.2	11
RWE Group	**1,416**	**1,623**	**–12.8**	**3,646**

In the first quarter of 2018 adjusted EBIT decreased by 13 % to €1,416 million. This figure differs from adjusted EBITDA in that it does not include operating depreciation and amortisation, which amounted to €475 million in the period being reviewed (previous year: €508 million).

Non-operating result € million	Jan – Mar 2018	Jan – Mar 2017	+/– € million	Jan – Dec 2017
Capital gains/losses	–45	3	–48	118
Impact of derivatives on earnings	298	228	70	–719
Goodwill impairment losses	–	–	–	–479
Other	–55	46	–101	1,241
Non-operating result	**198**	**277**	**–79**	**161**

The non-operating result, in which we recognise certain effects with little or no relation to the operations in the period under review, totalled €198 million (previous year: €277 million). The individual items developed as follows:

- Sales of investments and assets led to a net book loss of €45 million as opposed to the marginal capital gains in the first quarter of last year. The loss was in connection with the sale reported on page 2 of Hungary-based Mátra: due to the transaction, the cost of converting Mátra's financial statements to euros, which had previously only been recognised in equity, had an effect on profit or loss.

- Changes in the value of derivatives which we use to hedge against price fluctuations enhanced earnings by €298 million (previous year: €228 million). Pursuant to IFRS, the derivatives are recognised at fair value at the corresponding balance sheet date, whereas transactions which are hedged with these derivatives are only recognised as a profit or loss when they are realised. These timing differences result in short-term effects on earnings, which are neutralised over time.

- The result for the item 'Other' was –€55 million (previous year: €46 million). The main reason for this was that we accrued provisions for expenses expected in connection with the planned asset swap with E.ON (see pages 1 et seq.).

Financial result € million	Jan – Mar 2018	Jan – Mar 2017	+/– € million	Jan – Dec 2017
Interest income	39	62	–23	220
Interest expenses	–201	–226	25	–907
Net interest	**–162**	**–164**	**2**	**–687**
Interest accretion to non-current provisions	–66	–12	–54	–261
Other financial result	–82	–50	–32	197
Financial result	**–310**	**–226**	**–84**	**–751**

Our financial result decreased by €84 million to –€310 million. Its components changed as follows:

- At –€162 million, net interest was slightly up on the previous year's level. Interest income was down, but interest expenses also declined, primarily because hybrid bonds were redeemed and bought back last year (see page 54 of the 2017 Annual Report).

- The interest accretion to non-current provisions curtailed earnings by €66 million, having a bigger effect than in 2017. One reason for this was that the year-earlier figure (–€12 million) benefited from a rise in the discount rate applied to nuclear provisions. The resulting decrease in the net present value of the obligation had been recognised as income in the interest accretion. Adjustments to discount rates also had a positive effect on other non-current provisions in the first quarter of 2017, which did not recur in the period under review.

- The other financial result dropped by €32 million to –€82 million. This item includes losses from the fair valuation of certain marketable securities, which have been recognised with an effect on profit or loss for the first time due to the switch to IFRS 9. In 2017, these changes in fair values were accounted for without an effect on profit or loss. A counteracting impact was felt from lower losses from the sale of securities.

Reconciliation to net income		Jan – Mar 2018	Jan – Mar 2017	+/– %	Jan – Dec 2017
Adjusted EBITDA	€ million	**1,891**	**2,131**	**–11.3**	**5,756**
Operating depreciation, amortisation and impairment losses	€ million	–475	–508	6.5	–2,110
Adjusted EBIT	€ million	**1,416**	**1,623**	**–12.8**	**3,646**
Non-operating result	€ million	198	277	–28.5	161
Financial result	€ million	–310	–226	–37.2	–751
Income before taxes	€ million	**1,304**	**1,674**	**–22.1**	**3,056**
Taxes on income	€ million	–358	–390	8.2	–741
Income	€ million	**946**	**1,284**	**–26.3**	**2,315**
of which:					
Non-controlling interests	€ million	311	324	–4.0	373
RWE AG hybrid capital investors' interest	€ million	15	14	7.1	42
Net income/income attributable to RWE AG shareholders	€ million	**620**	**946**	**–34.5**	**1,900**
Adjusted net income	€ million	**517**	**689**	**–25.0**	**1,232**
Earnings per share	€	1.01	1.54	–34.4	3.09
Adjusted net income per share	€	0.84	1.12	–25.0	2.00
Number of shares outstanding (average)	millions	614.7	614.7	–	614.7
Effective tax rate	%	27	23	–	24

Income before tax decreased 22 % to €1,304 million. Our effective tax rate was 27 %, four percentage points higher than in the first quarter of 2017. One reason for this is that RWE AG's tax group incurred losses for which no deferred taxes were capitalised, as opposed to the positive tax result that we recorded in the first quarter 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. This cannot be said for RWE AG's tax group with sufficient certainty.

After taxes, we posted income of €946 million (previous year: €1,284 million). Non-controlling interests decreased by 4 % to €311 million. This was mainly because our subsidiary innogy, in which minority shareholders hold a stake of 23.2 %, achieved lower net income.

The portion of our earnings attributable to hybrid capital investors amounted to €15 million (previous year: €14 million). This sum corresponds to the finance costs of our £750 million hybrid bond, which is classified as equity according to IFRS due to its theoretically perpetual tenor. RWE's remaining hybrid capital is classified as debt and we recognise the interest on it in the financial result.

As a result of the above developments, net income decreased considerably compared to 2017, falling to €620 million (previous year: €946 million). Based on the 614.7 million RWE shares outstanding, earnings per share amounted to €1.01 (previous year: €1.54).

Reconciliation to adjusted net income January – March € million	Original figures 2018	Adjustment	Adjusted figures 2018	Adjusted figures 2017
Adjusted EBIT	**1,416**	**–**	**1,416**	**1,623**
Non-operating result	198	–198	–	–
Financial result	–310	41	–269	–273
Income before taxes	**1,304**	**–157**	**1,147**	**1,350**
Taxes on income	–358	36	–322	–350
Income	**946**	**–121**	**825**	**1,000**
of which:				
Non-controlling interests	311	–18	293	297
RWE AG hybrid capital investors' interest	15	–	15	14
Net income/income attributable to RWE AG shareholders	**620**	**–103**	**517**	**689**

Adjusted net income: significant decline to €517 million

The RWE Group's adjusted net income totalled €517 million. It differs from net income in that the entire non-operating result and major special items are deducted from it. For example, we eliminated the effects in the financial result, which stemmed from the fact that changes in the fair value of some securities are now recognised with an effect on profit or loss in accordance with IFRS 9. Compared to 2017, adjusted net income dropped by €172 million. This was primarily due to the decrease in adjusted EBITDA.

Capital expenditure on property, plant and equipment and on intangible assets € million	Jan – Mar 2018	Jan – Mar 2017	+/– € million	Jan – Dec 2017
Lignite & Nuclear	43	55	–12	269
European Power	24	11	13	147
Supply & Trading	1	1	–	7
innogy	253	215	38	1,839
Other, consolidation	–	–	–	–2
RWE Group	**321**	**282**	**39**	**2,260**

Capital expenditure on financial assets € million	Jan – Mar 2018	Jan – Mar 2017	+/– € million	Jan – Dec 2017
Lignite & Nuclear	–	–	–	1
European Power	2	–	2	1
Supply & Trading	26	1	25	30
innogy	210	108	102	327
Other, consolidation	–1	–	–1	10
RWE Group	**237**	**109**	**128**	**369**

Capital expenditure 43 % higher than in 2017

In the first quarter of 2018, the RWE Group recorded capital expenditure of €558 million, representing an increase of 43 % compared to 2017. Spending on financial assets more than doubled to €237 million. The single-largest transaction in the period under review was the merger of the grid business of innogy subsidiary EWV with the grid business of Aachener Stadtwerke to form the new company Regionetz GmbH (see page 3). Capital expenditure on property, plant and equipment and intangible assets amounted to €321 million, 14 % higher than a year before. One reason for this was that innogy stepped up its capital spending on the modernisation of network infrastructure and broadband expansion.

Cash flow statement € million	Jan – Mar 2018	Jan – Mar 2017	+/– € million	Jan – Dec 2017
Funds from operations	1,866	1,819	47	–1,545
Change in working capital	–1,502	–2,952	1,450	–209
Cash flows from operating activities	**364**	**–1,133**	**1,497**	**–1,754**
Cash flows from investing activities	**–825**	**–698**	**–127**	**2,691**
Cash flows from financing activities	**371**	**940**	**–569**	**–1,536**
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	21	11	10	–19
Total net changes in cash and cash equivalents	**–69**	**–880**	**811**	**–618**
Cash flows from operating activities	364	–1,133	1,497	–1,754
Minus capital expenditure[1]	–465	–356	–109	–2,580
Plus proceeds from divestitures/asset disposals[1]	116	160	–44	485
Free cash flow	**15**	**–1,329**	**1,344**	**–3,849**

1 This item solely includes transactions with an effect on cash.

Operating cash flow: significant rise due to received collateral

The RWE Group's cash flows from operating activities totalled €364 million. They were characterised by typical seasonal burdens in the retail business: whereas electricity and gas sales volumes, and thus procurement expenses, at the beginning of the year are above average on account of the weather conditions, payments from customers are spread out evenly over the year. However, operating cash flow improved considerably compared to the first quarter of 2017 (–€1,133 million). The main reason for this was that we obtained significant collateral, referred to as variation margins, in connection with forward contracts for CO_2 certificates and other commodities. Variation margins are payments with which transaction partners mutually offset profit and loss positions resulting from the daily revaluation of active contracts. Their influence on cash flows is temporary and ends once the transactions are realised.

Investment activity resulted in cash outflows of €825 million (previous year: €698 million). In addition to the capital expenditure presented above, short-term investments in securities also made a contribution. This was contrasted by proceeds from the sale of property, plant and equipment and financial assets.

Cash flows from financing activities amounted to €371 million (previous year: €940 million). In the reporting period, debt issuances totalled €1.1 billion, with redemptions amounting to €0.6 billion. Dividends paid to co-owners of fully consolidated RWE companies and hybrid capital investors led to total cash outflows of €144 million.

On balance, the aforementioned cash flows from operating, investing and financing activities reduced our cash and cash equivalents by €69 million.

The high variation margins were also reflected in free cash flow, which amounted to €15 million (previous year: –€1,329 million). Since the half-year financial statements for 2017, we have been using a new definition of free cash flow: we calculate this figure by deducting our entire capital expenditure (including spending on financial assets) from operating cash flows and adding to them the proceeds from divestments and asset disposals. The prior year's figure was adjusted accordingly.

Net debt € million	31 Mar 2018	31 Dec 2017	+/– € million
Cash and cash equivalents[1]	3,889	3,933	–44
Marketable securities	5,416	5,131	285
Other financial assets	2,063	1,863	200
Financial assets	**11,368**	**10,927**	**441**
Bonds, other notes payable, bank debt, commercial paper	15,746	15,099	647
Hedge transactions related to bonds	20	27	–7
Other financial liabilities	2,083	2,102	–19
Financial liabilities	**17,849**	**17,228**	**621**
Net financial debt	**6,481**	**6,301**	**180**
Provisions for pensions and similar obligations	5,914	5,420	494
Surplus of plan assets over benefit obligations	–142	–103	–39
Provisions for nuclear waste management	5,984	6,005	–21
Mining provisions	2,416	2,322	94
Provisions for dismantling wind farms	359	359	–
Adjustment for hybrid capital (portion of relevance to the rating)	–104	–77	–27
Plus 50% of the hybrid capital stated as equity	448	470	–22
Minus 50% of the hybrid capital stated as debt	–552	–547	–5
Net debt	**20,908**	**20,227**	**681**

1 Including 'assets held for sale' (Mátra) cash and cash equivalents decreased from €3,958 million to €3,889 million (–€69 million).

Net debt slightly higher than at the end of last year

As of 31 March 2018, our net debt totalled €20.9 billion, up €0.7 billion on its level as of 31 December 2017. Whereas the influencing factors considered in free cash flow nearly offset each other, provisions for pensions rose by €0.5 billion. One contributing factor was that 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 rate applied to calculate the net present value of the German pension obligations from 2.0% to 1.9%. Both factors caused provisions to be increased. Dividends paid to co-owners of fully consolidated RWE companies and hybrid capital investors also played a role in the increase in net debt.

OUTLOOK FOR 2018

Change in reporting due to asset swap with E.ON requires adjustment to forecast

The agreed asset swap with E.ON will have a significant impact on the financial reporting for the current fiscal year. In accordance with IFRS, we will recognise the parts of innogy that will be transferred to E.ON in the long run as 'discontinued operations' until they are sold. This primarily applies to the grid and retail businesses. The change in accounting treatment will become effective in the current fiscal year. We will then report as follows:

- We will recognise 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.

- On the consolidated balance sheet, the affected business operations will be combined under 'assets held for sale' and 'liabilities held for sale'. In accordance with IFRS, we will maintain the presentation of the previous year's balance sheet figures.

- In the cash flow statement in the consolidated financial statements, we will recognise the cash flows from discontinued operations separately. Conversely, we will take a different approach in relation to the condensed cash flow statement in the review of operations: here, we will only present cash flows from continuing operations for both the reporting and prior-year periods.

The change in methodology will also affect key figures mentioned in the outlook which we published in March (see pages 83 et seqq. of the 2017 Annual Report). For instance, the RWE Group's adjusted EBITDA will now be much lower than communicated so far. The March forecast has also become irrelevant with respect to adjusted net income. We will provide an updated outlook for 2018 once our internal planning has been revised.

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 company. 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. Our March outlook contained 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 (previous year: €2.1 billion) and adjusted net income in the range of €0.5 billion to €0.8 billion (previous year: €1.0 billion). We confirm this outlook. However, we now expect that net debt will record a moderate decline (previous year: €4.5 billion) 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.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONDENSED)

Income statement

€ million	Jan – Mar 2018	Jan – Mar 2017
Revenue (including natural gas tax/electricity tax)	**12,409**	**13,294**
Natural gas tax/electricity tax	−794	−762
Revenue	**11,615**	**12,532**
Cost of materials	−8,169	−8,794
Staff costs	−1,190	−1,156
Depreciation, amortisation and impairment losses	−474	−527
Other operating result	−292	−249
Income from investments accounted for using the equity method	87	66
Other income from investments	37	28
Financial income	282	333
Finance costs	−592	−559
Income before tax	**1,304**	**1,674**
Taxes on income	−358	−390
Income	**946**	**1,284**
of which: non-controlling interests	311	324
of which: RWE AG hybrid capital investors’ interest	15	14
of which: net income/income attributable to RWE AG shareholders	**620**	**946**
Basic and diluted earnings per common and preferred share in €	**1.01**	**1.54**

Statement of comprehensive income

€ million[1]	Jan – Mar 2018	Jan – Mar 2017
Income	**946**	**1,284**
Actuarial gains and losses of defined benefit pension plans and similar obligations	–186	532
Fair valuation of equity instruments	–27	
Income and expenses recognised in equity, not to be reclassified through profit or loss	**–213**	**532**
Currency translation adjustment	101	20
Fair valuation of financial instruments available for sale		19
Fair valuation of debt instruments	–5	
Fair valuation of financial instruments used for hedging purposes	1,066	–500
Income and expenses recognised in equity, to be reclassified through profit or loss in the future	**1,162**	**–461**
Other comprehensive income	**949**	**71**
Total comprehensive income	**1,895**	**1,355**
of which: attributable to RWE AG shareholders	1,564	957
of which: attributable to RWE AG hybrid capital investors	15	14
of which: attributable to non-controlling interests	316	384

1 Figures stated after taxes.

Balance sheet

Assets € million	31 Mar 2018	31 Dec 2017
Non-current assets		
Intangible assets	12,456	12,383
Property, plant and equipment	25,055	24,947[1]
Investments accounted for using the equity method	2,856	2,846
Other financial assets	1,223	1,109
Receivables and other assets	1,725	1,782
Deferred taxes	2,615	2,627
	45,930	**45,694**
Current assets		
Inventories	1,309	1,924
Trade accounts receivable	6,959	5,405
Receivables and other assets	8,313	7,082
Marketable securities	5,163	4,893
Cash and cash equivalents	3,889	3,933
Assets held for sale		128
	25,633	**23,365**
	71,563	**69,059**

Equity and liabilities € million	31 Mar 2018	31 Dec 2017
Equity		
RWE AG shareholders' interest	8,295	6,759
RWE AG hybrid investors' interest	895	940
Non-controlling interests	4,633	4,292
	13,823	**11,991**
Non-current liabilities		
Provisions	19,735	19,249
Financial liabilities	14,472	14,414
Other liabilities	2,220	2,393
Deferred taxes	730	718
	37,157	**36,774**
Current liabilities		
Provisions	5,550	5,137
Financial liabilities	3,358	2,787
Trade accounts payable	4,680	5,077
Other liabilities	6,995	7,182
Liabilities held for sale		111
	20,583	**20,294**
	71,563	**69,059**

1 Adjusted figure.

Cash flow statement

€ million	Jan - Mar 2018	Jan - Mar 2017
Income	946	1,284
Depreciation, amortisation and impairment losses/write-backs	476	124
Changes in provisions	322	514
Deferred taxes/non-cash income and expenses/income from disposal of non-current assets and marketable securities	122	–103
Changes in working capital	–1,502	–2,952
Cash flows from operating activities	**364**	**–1,133**
Capital expenditure on non-current assets/acquisitions	–465	–357
Proceeds from disposal of assets/divestitures	116	160
Changes in marketable securities and cash investments	–476	–501
Cash flows from investing activities[1]	**–825**	**–698**
Cash flows from financing activities	**371**	**940**
Net cash change in cash and cash equivalents	–90	–891
Effect of changes in foreign exchange rates and other changes in value on cash and cash equivalents	21	11
Net change in cash and cash equivalents	**–69**	**–880**
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 end of the reporting period	**3,889**	**3,696**

1 After the initial/subsequent transfer to plan assets in the amount of €41 million (prior-year period: €134 million).

Financial Calendar 2018/2019

14 August 2018	Interim report on the first half of 2018
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

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