RWE

Interim statement on the first three quarters of 2019

Part of asset swap with E.ON executed after EU approval: RWE divests stake in innogy and acquires E.ON's renewable energy business // European Commission approves continuation of British capacity market // Adjusted EBITDA for the first three quarters up 27 % year on year // New earnings forecast for 2019: adjusted EBITDA of €2.2 billion to €2.5 billion expected

At a glance

RWE Group – key figures		Jan – Sep 2019	Jan – Sep 2018	+/–	Jan – Dec 2018
Power generation	billion kWh	107.8	131.6	-23.8	176.0
External revenue (excluding natural gas tax/electricity tax)	€ million	9,107	9,712[1]	-605	13,298[1]
Adjusted EBITDA	€ million	1,442	1,139	303	1,538
Adjusted EBIT	€ million	624	465	159	619
Income from continuing operations before taxes	€ million	-254	-42	-212	49
Net income	€ million	9,091	-65	9,156	335
Earnings per share	€	14.79	-0.11	14.90	0.54
Cash flows from operating activities of continuing operations	€ million	-1,452	3,713	-5,165	4,611
Capital expenditure	€ million	8,909	863	8,046	1,260
Property, plant and equipment and intangible assets	€ million	1,198	687	511	1,079
Financial assets	€ million	7,711	176	7,535	181
Free cash flow	€ million	-1,976	2,912	-4,888	3,439
		30 Sep 2019	31 Dec 2018		
Net debt of continuing operations	€ million	10,040	4,389	5,651	
Workforce[2]		19,844	17,748	2,096	

1 Figure adjusted due to changes in the recognition of revenues from derivative transactions.
2 Converted to full-time positions.

Contents

Major events

In the period under review

Large part of asset swap executed: RWE transfers stake in innogy and receives renewables business from E.ON
In September 2019, RWE and E.ON executed a large part of the asset swap agreed last year. The prerequisite for this was the final clearance from the European Commission, which was granted on 17 September. A day later, we transferred our 76.8 % interest in innogy to E.ON. At the same time, E.ON conducted a capital increase in exchange for contributions in kind and issued the approximately 440 million resulting shares to RWE. This gave us a 16.7 % stake in E.ON, but by early October we reduced it to 15.0 % by selling off shares. The transfer of E.ON's renewable energy activities to RWE was a further part of the asset swap that was executed. This step was implemented as of the end of the day on 30 September. Simultaneously, we acquired the minority interests in the RWE nuclear power plants Gundremmingen (25 %) and Emsland (12.5 %) from the E.ON subsidiary PreussenElektra. In addition, we paid E.ON €1.5 billion as financial consideration. The full implementation of the transaction is subject to E.ON transferring parts of the innogy portfolio back to us: the renewable energy business, the German and Czech gas storage facilities, and a 37.9 % stake in the Austrian energy utility Kelag. This transfer will occur as early as possible next year.

The asset swap also envisaged RWE acquiring the majority stake in the Czech gas network operator innogy Grid Holding (IGH) from innogy and transferring it to E.ON thereafter. RWE acquired the 50.04 % shareholding at the end of February 2019. However, the consortium managed by the Australian financial service provider and infrastructure investor Macquarie, MIRA, which holds the remaining shares in IGH, exercised its right of first refusal. We therefore sold the shares in IGH to MIRA and not to E.ON. This transaction was completed with effect from 30 September. The sale price totalled about €1.8 billion and therefore matched the conditions at which we had purchased the stake from innogy.

Also as part of the asset swap, at the end of August, RWE acquired innogy's 49 % stake in VSE, the energy utility based in Košice, Slovakia. It is envisaged that the shareholding be transferred to E.ON at the same conditions next year. The purchase price which will fall due then was considered when netting the payment claims from the asset swap in September 2019. VSE is still included in our Group figures as a 'discontinued operation'.

By acquiring our majority stake in innogy, E.ON effected the early repayment of a loan that we had granted our former subsidiary in the run-up to the IPO in October 2016. It amounted to €700 million and would have come due in October 2020. We have already received the principal with accrued interest which was netted against other payment claims from the asset swap.

We have provided information on the effects of the transaction on our financial position, net worth and earnings on pages 7 et seqq. In addition, the acquisition of E.ON's renewable energy business changes the structure of our financial reporting. Details on this can be found on pages 5 et seq.

RWE announces new strategic alignment, aiming to be carbon neutral by 2040

On 30 September, the Executive Board of RWE AG announced the Group's future strategic alignment. Our greenhouse gas reductions will be a measure of our actions. RWE reduced its annual carbon dioxide emissions by one-third from 2012 to 2018. We plan to have lowered them by approximately 70% by 2030 compared to 2012. The phase-out of electricity generation from coal will play a central role. For example, we will shut down Aberthaw, our last UK hard coal-fired power station, at the end of March 2020. In Germany, the exit route will be determined by the recommendations of the Growth, Structural Change and Employment Commission, which the country's government has committed to implementing. In the Netherlands, where it will not be possible to generate electricity from coal probably from 2030 onwards, we are retrofitting the affected plants Amer 9 and Eemshaven to increasingly run on biomass. By 2040, we want to have converted enough of our power plant portfolio to achieve our goal of being carbon neutral. To this end, we will make increased use of renewable energy. The asset swap with E.ON has already given us a leading position which we intend to strengthen. We aim to invest €1.5 billion of our operating cash flow in renewable energy every year. External financing and proceeds from the sale of stakes in projects could increase this annual spend to between €2 billion and €3 billion. In addition, we will make more use of storage technologies and hydrogen produced without carbon emissions for climate-neutral electricity generation. The further development of our strategy is also reflected in our brand appearance. Our new mission statement, 'Our energy for a sustainable life', is an expression of the determination of the RWE Group and its approximately 20,000 employees to ensure a sustainable energy system.

Large-scale project in the UK North Sea: innogy secures contract for Sofia wind farm

In the middle of September, innogy won a remuneration contract for the offshore wind project Sofia in an auction run by the UK Department for Business, Energy and Industrial Strategy (BEIS). The project envisages building wind turbines in the UK North Sea with a total capacity of 1.4 GW. The investment volume is an estimated £3 billion, including the grid connection. The state will guarantee £39.65/MWh for electricity generated by the wind farm. This sum is based on the 2012 price level and will be adjusted for inflation. The contract period extends over 15 years. Sofia's location on Dogger Bank nearly 200 kilometres from the English coast has very good wind conditions and moderate water depths. All of the approvals required for the wind farm have been obtained and the final investment decision is scheduled for next year. Based on current planning, the first wind turbines could be commissioned in 2024/2025. The wind farm would then be fully operational in 2026.

In the United Kingdom, renewable energy has been supported via contracts for difference (CfDs) since April 2015. If the price realised by the plant operators on the wholesale market is below the guaranteed amount, they are paid the difference. If it exceeds the specified sum, they are obliged to make a payment. Projects receiving CfDs are selected as follows: if the budget set aside for a certain generation technology is big enough, all applicants receive a CfD. If the budget is not big enough, a tender process decides which bidders win a contract. The September auction was the third since the introduction of the CfD scheme in the United Kingdom.

Neurath C lignite unit placed on security standby

At the end of September, we took the 300 MW Unit C of the Neurath lignite-fired power plant offline, placing it on security standby. The block had to be shut down for environmental reasons, but can be brought back onto the grid within ten days to bridge severe electricity shortages. According to the German Electricity Market Act, a total of eight lignite units with a combined capacity of 2.7 GW had to be taken off the system between 2016 and 2019. These blocks are the last resort to ensure security of supply for four years each, after which they are shut down for good. RWE is participating in the lignite security standby scheme with five 300 MW units. At the end of September 2017, we placed units P and Q of the Frimmersdorf power plant on security standby. Niederaussem E and F followed suit a year later.

Major events in the period from January to July 2019 are presented on pages 5 to 10 of the interim report on the first half of 2019.

After the period under review

Commission gives go-ahead to resume British capacity market payments

After a thorough investigation, the European Commission reapproved the British capacity market, as announced on 24 October. It holds the view that the capacity market rules comply with EU state aid regulations. The Commission had originally reached this conclusion in July 2014, but the Court of the European Union found that the review conducted at the time had not been extensive enough. Therefore, the judges had declared the first approval invalid in November 2018. Thereafter, the British capacity market was suspended, with the participating power generators not receiving any payments. This caused RWE to temporarily forego contractually secured capacity payments of around €50 million for 2018 and about €180 million for 2019. Immediately after the renewed approval issued by the EU, the British government confirmed its intention to resume capacity payments and make the outstanding payments. The retrospective payments are expected to be received at the beginning of 2020. Irrespective of this, they will be reflected in our earnings for the current fiscal year. We had disregarded the effects of the reinstatement of the capacity market in our previous outlook for 2019, but have now adjusted our forecast (see page 16).

German government adopts Climate Protection Act and 2030 Climate Protection Programme

In early October, the German government passed a climate protection act after determining the key points of a 2030 Climate Protection Programme. The objective of the Climate Protection Act and the 2030 Climate Protection Programme is to ensure that the national emission reduction goals for 2030 are achieved. The Climate Protection Act enshrines these targets in law for the first time. Moreover, annual milestones are envisaged for all branches of industry except for the energy sector. The 2030 Climate Protection Programme describes the tools and measures with which the goals should be achieved. Furthermore, the government plans to introduce CO_2 pricing in the transportation and heating sectors, which are not covered by the European Emissions Trading System (EU ETS). This will first be introduced at the national level starting in 2021. Going forward, the government wants to push for the introduction of a Europe-wide, cross-sector emissions trading scheme with a moderate price floor. The idea is to offset increased consumer spending caused by CO_2 prices charged for petrol, diesel and other combustibles while providing relief in other areas through measures such as higher commuter allowances and lower VAT on train tickets. The Climate Protection Programme contains a number of additional measures in the areas of building, transportation, agriculture, forestry, industry and energy. Another objective is the accelerated expansion of offshore wind power: the federal government is now aiming for a total capacity of 20 GW by 2030 instead of the 15 GW targeted originally. Acceptance of new onshore wind turbines should increase as municipalities will receive a financial stake in their operation. Furthermore, the government plans to abolish the subsidy cap on new PV installations which envisages ending feed-in payments for new plants once a total capacity of 52 GW is reached. Moreover, the German government has committed itself to the proposals of the Growth, Structural Change and Employment Commission, which in January 2019 presented a concept for phasing out electricity generation from coal by 2038. The Commission recommends that the shutdowns be implemented in agreement with the operators and that they be granted appropriate compensation (see pages 5 et seq. of the interim report on the first half of 2019).

RWE enters into the Polish offshore wind business

In the future, RWE will also invest in the Polish offshore wind business. As announced in October, we acquired a project pipeline with a total capacity of over 1.5 GW from several private owners and developers. The total of four projects are set to be implemented on the Słupsk sandbank in the Baltic Sea. We already operate several onshore wind farms in Poland, with a combined capacity of 385 MW.

Commentary on reporting

Impact of the transaction with E.ON on 2019 financial reporting

As set out on page 1, we sold our stake in innogy (76.8 %) to E.ON as of 18 September. In exchange, we received E.ON's renewable energy business and the minority stakes in the RWE nuclear power stations Gundremmingen (25 %) and Emsland (12.5 %) held by the E.ON subsidiary PreussenElektra. These transactions lead to significant changes in our financial reporting.

innogy assets that were recognised as 'discontinued operations' in the income statement and recorded as 'assets/liabilities held for sale' on the balance sheet were deconsolidated with effect from 18 September. One exception is the 49 % interest in the Slovak energy utility VSE, which is scheduled to be transferred to E.ON next year and will be held by us until then: it is still being considered in the aforementioned items. 'innogy – continuing operations' also remain part of our financial reporting, although they temporarily belong to E.ON in legal terms. Therefore, they continue to contribute to the RWE Group's earnings, cash flows and debt. E.ON will transfer them back to us in 2020, as soon as the necessary legal requirements have been met.

We present the renewable energy business received from E.ON in the newly established segment 'Operations acquired from E.ON'. We started including it in our Group figures on 18 September although it was legally transferred on a different date. We started recognising the minority stakes in the Gundremmingen and Emsland nuclear power plants in the Lignite & Nuclear segment with effect from 30 September 2019.

New Group structure featuring five segments

In our 2019 financial reporting, we therefore divide the RWE Group into the following five segments: (1) Lignite & Nuclear, (2) European Power, (3) Supply & Trading, (4) innogy – continuing operations, and (5) Operations acquired from E.ON. 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. Operating responsibility for these activities lies with RWE Power. The segment 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. In the past, this segment also included the 51 % stake in Hungary-based Mátra, which generates electricity from lignite and was sold in March 2018.

- 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 our 70 % stake in the Turkish gas-fired power station Denizli, some hydroelectric power plants in Germany and Luxembourg, and RWE Technology International, which specialises in project management and engineering services. All of these activities are overseen by RWE Generation.

- Supply & Trading: This division encompasses the activities of RWE Supply & Trading. The company's main activity is its independent commodity trading business. In addition, it acts as an intermediary for gas, supplies large industrial and corporate customers with energy and makes short to medium-term investments in energy assets and energy companies with which attractive returns can be achieved after taking value-enhancing measures and selling them on (principal investments). Furthermore, RWE Supply & Trading markets RWE's power generation and optimises the Group's power plant dispatch commercially; however, earnings achieved through the latter activities are reported in the Lignite & Nuclear or European Power segment.

- innogy – continuing operations: The main element in this segment is innogy's renewable energy business. The company ranks among the leading producers of electricity from renewable sources and concentrates on Europe – in particular Germany and the United Kingdom – with footholds in North America and Australia. The focus in terms of energy sources rests on onshore and offshore wind, followed by hydro and solar. Continuing innogy activities also include the German and Czech gas storage facilities as well as the 37.9 % interest in the Austria-based energy utility Kelag.

- Operations acquired from E.ON: This is where we present the renewable energy business we received from E.ON, which also focuses on wind power and includes smaller PV and energy storage activities. The generation portfolio built by E.ON has a total capacity of 4.7 GW, including 3.7 GW from onshore wind farms and 1.0 GW from offshore wind farms. These figures only relate to fully consolidated activities and reflect the status quo as of 30 September 2019. In total, the companies responsible for the renewables business have approximately 1,500 employees and operate predominantly in North America and Europe.

Group companies with cross-segment tasks like the Group holding company RWE AG are stated under 'other, consolidation'. This item also includes our 25.1 % stake in the German transmission system operator Amprion, the newly added financial investment in E.ON, and consolidation effects.

Adoption of IFRS 16: higher net debt, higher depreciation

We began applying the new accounting standard IFRS 16 Leases in fiscal 2019. Consequently, leases are now reported on the balance sheet, unless they are short-term (up to twelve months) or relate to low-value assets. The lessee must recognise a right-of-use asset and a corresponding lease liability in the amount of the present value of the future lease payments. Further details on this can be found on page 107 of the 2018 Annual Report. This methodological change leads to an increase in the balance-sheet total and net debt. On the income statement, depreciation increases and the financial result declines, but these effects are offset by fairly similar changes in adjusted EBITDA, leaving net income almost unchanged. Prior-year figures were not adjusted.

Forward-looking statements

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

Business performance

External revenue[1] € million	Jan – Sep 2019	Jan – Sep 2018	+/–	Jan – Dec 2018
Lignite & Nuclear	771	813	-42	1,132
European Power	562	660	-98	925
Supply & Trading	6,892	7,458	-566	10,100
innogy – continuing operations	828	765	63	1,124
Operations acquired from E.ON	46	–	46	–
Other, consolidation	8	16	-8	17
RWE Group (excluding natural gas tax/electricity tax)	**9,107**	**9,712**	**-605**	**13,298**
Natural gas tax/electricity tax	111	102	9	141
RWE Group	**9,218**	**9,814**	**-596**	**13,439**

1 Some prior-year figures have been adjusted, mainly due to changes in the recognition of revenue from derivative transactions.

External revenue by product[1] € million	Jan – Sep 2019	Jan – Sep 2018	+/–	Jan – Dec 2018
Electricity revenue	**7,460**	**7,366**	**94**	**10,090**
of which:				
Lignite & Nuclear	221	218	3	303
European Power	406	374	32	542
Supply & Trading	6,184	6,229	-45	8,447
innogy – continuing operations	619	545	74	799
Operations acquired from E.ON	31	–	31	–
Gas revenue	**601**	**1,123**	**-522**	**1,565**
of which:				
Supply & Trading	552	1,075	-523	1,502
innogy – continuing operations	37	36	1	47
Other revenue	**1,046**	**1,223**	**-177**	**1,643**
RWE Group (excluding natural gas tax/electricity tax)	**9,107**	**9,712**	**-605**	**13,298**

1 Some prior-year figures have been adjusted, mainly due to changes in the recognition of revenue from derivative transactions. Electricity revenue under 'other, consolidation' and gas revenue in the European Power segment are not stated separately because it is immaterial.

External revenue 6 % down year on year

In the first three quarters of 2019, RWE recorded €9,107 million in external revenue (excluding natural gas tax and electricity tax), 6 % less than in the same period in 2018. The decline was primarily because gas revenue was roughly cut in half to €601 million compared to 2018. An exceptional effect came to bear here: gas sales by RWE Supply & Trading in the Czech Republic have been reclassified as pure trading volumes since the sale of innogy, the bulk purchaser in that country. Only the margins of the trading activities are reflected in revenue (net recognition). By contrast, these sales were recognised in gross terms in the first three quarters of 2018. We achieved €7,460 million in revenue with our main product, electricity. This was slightly more than last year. A revenue-increasing effect came from RWE Supply & Trading's realisation of higher prices for our generation volumes on the wholesale market and in sales to industrial customers. However, we experienced opposing volume effects as we produced much less electricity from lignite and hard coal.

Internal revenue € million	Jan – Sep 2019	Jan – Sep 2018	+/–	Jan – Dec 2018
Lignite & Nuclear	1,542	1,782	-240	2,340
European Power	2,407	2,753	-346	3,768
Supply & Trading	2,517	2,686	-169	3,434
innogy – continuing operations	282	271	11	386
Operations acquired from E.ON	–	–	–	–

Adjusted EBITDA € million	Jan – Sep 2019	Jan – Sep 2018	+/–	Jan – Dec 2018
Lignite & Nuclear	231	240	-9	356
European Power	130	234	-104	334
Supply & Trading	545	183	362	183
innogy – continuing operations	583	488	95	699
Operations acquired from E.ON	23	–	23	–
Other, consolidation	-70	-6	-64	-34
RWE Group	**1,442**	**1,139**	**303**	**1,538**

Adjusted EBITDA jumps 27 % year on year

Our adjusted earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA) amounted to €1,442 million, surpassing the figure recorded by the same point in time last year by €303 million, or 27 %. The main reason for this was that we were exceptionally successful in our trading business. Earnings developed as follows by segment:

- Lignite & Nuclear: At €231 million, adjusted EBITDA was marginally down on the figure recorded in the first three quarters of 2018 (€240 million). Power plant outages due to maintenance work and the temporary halt to the clearance of Hambach Forest weighed on our earnings in particular. These two factors were reasons why we generated much less electricity from lignite than in 2018. By contrast, we achieved a slightly higher wholesale price for electricity produced by our lignite and nuclear power plants. We had sold forward nearly all of the generation of these stations before 2019.

- European Power: In this segment, adjusted EBITDA declined by €104 million to €130 million. This was because we produced less electricity from hard coal due to unfavourable market conditions and because income from the commercial optimisation of power plant dispatch decreased. Furthermore, we stopped receiving capacity payments for our UK power stations, because the Court of the European Union annulled the approval of the capacity market granted by the European Commission at the end of 2018. By contrast, we had received €47 million in payments in the first three quarters of last year. At the end of October 2019, the European Commission reapproved the capacity market following a thorough review (see page 4). Therefore, we expect to receive the foregone capacity payments retrospectively and this to have a positive effect on full-year earnings. Our updated forecast envisages adjusted EBITDA of between €450 million and €550 million, as opposed to the range of €250 million to €350 million anticipated previously.

- Supply & Trading: Here, adjusted EBITDA amounted to €545 million, clearly surpassing the figure achieved in the first three quarters of 2018 (€183 million). This was predominantly due to the unusually strong trading performance mentioned earlier. The gas business also made a major contribution to earnings. Moreover, last year's corresponding figure was curtailed by an impairment recognised for an investment.

- innogy – continuing operations: Adjusted EBITDA generated by the innogy business remaining with RWE rose by €95 million to €583 million. The overall increase in the use of innogy wind farms due to the weather played a role. In addition, renewable energy assets that are not subsidised via fixed feed-in fees benefited from a rise in wholesale electricity prices. The continued expansion of innogy's wind capacity also had a positive impact on earnings.

- Operations acquired from E.ON: As we only started recognising E.ON's former renewable energy business in RWE's consolidated financial statements as of 18 September 2019, it did not make a notable contribution to adjusted EBITDA in the period under review (€23 million). We expect a figure of €200 million to €300 million by the end of the year.

The inclusion of the E.ON operations and the impending resumption of payments from the British capacity market will cause the Group's adjusted EBITDA to be higher than communicated previously. We had disregarded both these factors when preparing our forecast for 2019. Information on our updated outlook for 2019, which considers these issues, is provided on page 16.

Adjusted EBIT € million	Jan – Sep 2019	Jan – Sep 2018	+/–	Jan – Dec 2018
Lignite & Nuclear	–20	38	–58	77
European Power	–105	14	–119	37
Supply & Trading	537	179	358	177
innogy – continuing operations	293	226	67	349
Operations acquired from E.ON	–11	–	–11	–
Other, consolidation	–70	8	–78	–21
RWE Group	**624**	**465**	**159**	**619**

Our adjusted EBIT in the first three quarters totalled €624 million, surpassing the figure recorded in the same period in 2018 by €159 million, or 34 %. It differs from adjusted EBITDA by way of operating depreciation and amortisation, which amounted to €818 million in the period being reviewed (previous year: €674 million).

Non-operating result € million	Jan – Sep 2019	Jan – Sep 2018	+/–	Jan – Dec 2018
Disposal result	25	–24	49	–25
Effects on income from the measurement of derivatives and inventories[1]	–258	–191	–67	–146
Other	–348	–34	–314	10
Non-operating result	**–581**	**–249**	**–332**	**–161**

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

The non-operating result, in which we recognise certain effects which are not related to operations or the period being reviewed, amounted to –€581 million, which was much less than in the first three quarters of 2018 (–€249 million). Its components developed as follows:

- Disposals of investments and assets led to a capital gain of €25 million, with the divestment of the Belgian gas-fired power plant Inesco playing a major role (see page 4 of the interim statement on the first quarter of 2019). Last year, we reported a negative gain on disposals (–€24 million) mainly caused by the deconsolidation of our 51 % stake in Mátra, the Hungarian lignite-based power producer.

- The valuation of derivatives and inventories had an impact of – €258 million, compared to – €191 million in the same period last year. Such valuation effects are temporary. They are in part due to the fact that IFRS stipulates that financial instruments used to hedge price risks be recognised at fair value as of the cut-off date, whereas the hedged underlying transactions may only be recognised with an effect on earnings once they are realised. Moreover, there were temporary curtailments relating to stored gas that has already been sold forward but had to be valued at the lower spot prices as of the balance-sheet date.

- Income stated under 'other' totalled – €348 million, clearly down on the figure in last year's corresponding period (– €34 million). The main reason was that innogy recognised an impairment for its Nordsee Ost offshore wind farm in Germany. Nordsee Ost was subjected to an impairment test because the insolvency of a service provider required the maintenance concept to be revised fundamentally. In revaluing the wind farm, which was completed in 2015, account was taken of the fact that it is being subsidised according to the acceleration model and its fair value therefore declined faster than what the straight-line depreciation pursuant to IFRS reflects. The acceleration model includes a very high starting payment of €194/MWh, which is only made for eight years.

Financial result € million	Jan – Sep 2019	Jan – Sep 2018	+/–	Jan – Dec 2018
Interest income	131	115	16	166
Interest expenses	– 181	– 135	– 46	– 180
Net interest	**– 50**	**– 20**	**– 30**	**– 14**
Interest accretion to non-current provisions	– 265	– 158	– 107	– 264
Other financial result	18	– 80	98	– 131
Financial result	**– 297**	**– 258**	**– 39**	**– 409**

Our financial result deteriorated by €39 million to – €297 million compared to 2018. Its components changed as follows:

- Net interest declined by €30 million to – €50 million because the interest expenses rose. Several minor factors came to bear, the adoption of IFRS 16 being one of them (see page 6).

- The interest accretion to non-current provisions curtailed the result by €265 million, more than in the first three quarters of 2018 (– €158 million). Due to the current development of market interest rates, a downward adjustment was made to the discount rate we use to calculate our nuclear provisions. This led to a rise in the present value of the obligations, a portion of which was considered as an expense in the interest accretion.

- The 'other financial result' improved to €18 million (previous year: – €80 million) in part thanks to gains on our portfolio of securities after losses in the same period last year.

Reconciliation to net income € million	Jan – Sep 2019	Jan – Sep 2018	+/–	Jan – Dec 2018
Adjusted EBITDA	**1,442**	**1,139**	**303**	**1,538**
Operating depreciation, amortisation and impairment losses	- 818	- 674	- 144	- 919
Adjusted EBIT	**624**	**465**	**159**	**619**
Non-operating result	- 581	- 249	- 332	- 161
Financial result	- 297	- 258	- 39	- 409
Income from continuing operations before taxes	**- 254**	**- 42**	**- 212**	**49**
Taxes on income	195	5	190	- 103
Income from continuing operations	**- 59**	**- 37**	**- 22**	**- 54**
Income from discontinued operations	9,791	391	9,400	1,127
Income	**9,732**	**354**	**9,378**	**1,073**
of which:				
Non-controlling interests	626	374	252	679
RWE AG hybrid capital investors' interest	15	45	- 30	59
Net income/income attributable to RWE AG shareholders	**9,091**	**- 65**	**9,156**	**335**

Owing to the aforementioned developments, earnings before taxes from our continuing operations amounted to – €254 million (previous year: – €42 million). This went hand in hand with €195 million in tax income, which was much higher than what could have been expected based on the (theoretical) normal effective tax rate. A reduction of our tax risk provision played a role. After taxes, income achieved by our continuing operations totalled – €59 million (previous year: – €37 million).

Income from discontinued operations, which encompass innogy's grid and retail businesses as well as the stakes in IGH and VSE, amounted to €9,791 million (previous year: €391 million). The high figure was due to our sale of these activities, except for the interest in VSE, as part of the asset swap agreed with E.ON, which resulted in a deconsolidation gain of €8,258 million. The assets we sold had been recognised on the consolidated balance sheet at their historic carrying amounts, whereas the purchase prices were derived from their fair values, most of which were much higher. Recurrent income from discontinued operations totalled €1,533 million, a significant improvement compared to 2018 (€391 million). This was largely due to the fact that we may no longer apply depreciation, amortisation or impairments to discontinued operations since their separate reporting from 30 June 2018. By contrast, these items were still included in last year's statement for the first three quarters of 2018.

Non-controlling interests in income grew by €252 million to €626 million. As explained above, income from operating activities of discontinued operations rose substantially year on year. The share in income attributable to innogy's minority shareholders were commensurately higher.

The portion of earnings attributable to RWE hybrid capital investors amounted to €15 million (previous year: €45 million). This sum corresponds to the finance costs related to our £750 million hybrid bond, which was called on 20 March 2019 (see page 4 of the interim statement on the first quarter of 2019). As this bond did not have a predefined maturity, the proceeds we recorded from it were classified as equity pursuant to IFRS. RWE's other hybrid capital is classified as debt, and we recognise the interest accrued on it in the financial result.

The RWE Group's net income amounted to €9,091 million (previous year: – €65 million). Based on the 614.7 million RWE shares outstanding, this corresponded to earnings per share of €14.79 (previous year: – €0.11).

Capital expenditure on property, plant and equipment and on intangible assets € million	Jan – Sep 2019	Jan – Sep 2018	+/–	Jan – Dec 2018
Lignite & Nuclear	251	140	111	230
European Power	178	132	46	245
Supply & Trading	7	6	1	13
innogy – continuing operations	741	409	332	592
Operations acquired from E.ON	21	–	21	–
Other, consolidation	–	–	–	- 1
RWE Group	**1,198**	**687**	**511**	**1,079**

Capital expenditure on financial assets € million	Jan – Sep 2019	Jan – Sep 2018	+/–	Jan – Dec 2018
Lignite & Nuclear	78	–	78	–
European Power	2	3	- 1	4
Supply & Trading	66	36	30	37
innogy – continuing operations	21	136	- 115	141
Operations acquired from E.ON	–	–	–	–
Other, consolidation	7,544	1	7,543	- 1
RWE Group	**7,711**	**176**	**7,535**	**181**

Unusually high capital expenditure on financial assets due to asset swap with E.ON

At €8,909 million, our capital expenditure was exceptionally high (previous year: €863 million). The main reason for this was the asset swap with E.ON. As a result, our capital spending on financial assets amounted to €7,711 million (previous year: €176 million). €4.0 billion of this sum was attributable to the purchase of the 16.7 % stake in E.ON, while €3.6 billion was allocable to the acquisition of its renewable energy business. We spent €1,198 million on property, plant and equipment, which was much more than in 2018 (€687 million). Among other things, this can be traced back to the construction of the British offshore wind farm Triton Knoll and the Australian solar farm Limondale. Further details on these two large-scale projects can be found on page 38 of the 2018 Annual Report. Additional capital expenditure was allocated to power plant maintenance. Furthermore, the adoption of IFRS 16 came to bear, as it resulted in the capitalisation of rights of use for leased assets.

Cash flow statement[1] € million	Jan – Sep 2019	Jan – Sep 2018	+/–	Jan – Dec 2018
Funds from operations	669	336	333	138
Change in working capital	-2,121	3,377	-5,498	4,473
Cash flows from operating activities of continuing operations	**-1,452**	**3,713**	**-5,165**	**4,611**
Cash flows from investing activities of continuing operations	**1,692**	**-1,320**	**3,012**	**-2,999**
Cash flows from financing activities of continuing operations	**1,767**	**-1,369**	**3,136**	**-1,559**
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	11	14	-3	13
Total net changes in cash and cash equivalents	**2,018**	**1,038**	**980**	**66**
Cash flows from operating activities of continuing operations	-1,452	3,713	-5,165	4,611
Minus capital expenditure[2]	-1,118	-842	-276	-1,246
Plus proceeds from divestitures/asset disposals[2]	594	41	553	74
Free cash flow	**-1,976**	**2,912**	**-4,888**	**3,439**

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

Operating cash flow: heavy burdens due to realisation of commodity forward transactions
Our continuing operations generated cash flows from operating activities of -€1,452 million (previous year: €3,713 million) mainly due to transactions reflected in the change in working capital. For example, there were substantial cash outflows related to the realisation of commodity futures for which we received high variation margins before 2019. Variation margins are payments with which transaction partners offset profit and loss positions resulting from the daily revaluation of active contracts. However, their influence on cash flows is temporary and reverses once the transactions are realised.

Investing activities of our continuing operations resulted in a cash inflow of €1,692 million (previous year: -€1,320 million). This largely consisted of proceeds from sales of securities, whereas the capital expenditure on property, plant and equipment and on financial assets presented earlier had an opposite effect. On balance, our asset swap with E.ON led to a cash inflow of €226 million. Added to this is €294 million in proceeds from the sale of E.ON shares. As set out earlier, we reduced our financial investment in E.ON from 16.7 % to 15 % soon after we received it. As the disposal of shares was not completed until the beginning of October, we have not recognised the full proceeds in these interim financial statements.

Financing activities of our continuing operations led to cash flows of €1,767 million (previous year: -€1,369 million). In the period under review, financial debt issuances exceeded redemptions. This resulted in net cash inflows of €3,023 million. Our call of a £750 million hybrid bond not recognised as financial debt had a counteracting effect, resulting in a cash outflow of €869 million. Our payments to RWE shareholders, hybrid capital investors and co-owners of fully consolidated RWE companies totalled €556 million.

The aforementioned cash flows from operating, investing and financing activities increased our cash and cash equivalents by €2,018 million.

Our free cash flow was largely determined by the operating cash outflows from continuing operations. Totalling -€1,976 million, it was much lower than the high figure recorded in 2018 (€2,912 million).

Net debt € million	30 Sep 2019	31 Dec 2018	+/–
Cash and cash equivalents	5,541	3,523	2,018
Marketable securities	3,315	3,863	-548
Other financial assets	2,479	2,809	-330
Financial assets	**11,335**	**10,195**	**1,140**
Bonds, other notes payable, bank debt, commercial paper	4,098	1,657	2,441
Hedge transactions related to bonds	-2	12	-14
Other financial liabilities	3,761	1,107	2,654
Financial liabilities	**7,857**	**2,776**	**5,081**
Net financial assets	**3,478**	**7,419**	**-3,941**
Provisions for pensions and similar obligations	3,872	3,287	585
Surplus of plan assets over benefit obligations	-120	-213	93
Provisions for nuclear waste management	6,793	5,944	849
Mining provisions	2,565	2,516	49
Provisions for dismantling wind farms	978	362	616
Adjustment for hybrid capital	-570	-88	-482
Plus 50 % of the hybrid capital stated as equity	–	470	-470
Minus 50 % of the hybrid capital stated as debt	-570	-558	-12
Net debt of continuing operations	**10,040**	**4,389**	**5,651**
Net debt of discontinued operations	**259**	**14,950**	**-14,691**
Net debt	**10,299**	**19,339**	**-9,040**

Significant drop in debt due to deconsolidation of innogy's grid and retail businesses

As of 30 September 2019, our net debt amounted to €10.3 billion, markedly down on the €19.3 billion as of the end of 2018. The asset swap with E.ON played a key role.

The net debt of discontinued operations declined by €14.7 billion to €0.3 billion due to the deconsolidation of the grid and retail businesses of innogy which were transferred to E.ON and of the 50.04 % stake in the Czech gas network operator IGH, which we sold to the MIRA consortium. The remaining net debt is allocable to the Slovak energy utility VSE, which we acquired from innogy at the end of August and intend to sell on to E.ON next year.

The net debt of continuing operations rose by €5.7 billion to €10.0 billion, in part due to the effects of the asset swap with E.ON, which amounted to €3.1 billion. €1.5 billion was attributable to the net debt that we acquired with E.ON's renewable energy business, €0.7 billion related to additional nuclear provisions, and another €0.7 billion was associated with buying VSE from innogy. The rise in the net debt of continuing operations was also due to the negative operating cash flow. The adoption of IFRS 16 had an impact of €0.4 billion. Market-induced reductions in discount rates added €0.7 billion to pension provisions and €0.9 billion to nuclear provisions. The redemption of the £750 million hybrid bond in March 2019 drove up our debt by €0.4 billion as one half of the hybrid capital is qualified as equity in the calculation of net debt. At the same time, however, innogy repaid a loan, which roughly corresponded to the amount redeemed. This occurred as part of an agreement reached by our former subsidiary with us prior to its IPO in 2016 (see page 52 of the 2016 Annual Report).

Group balance sheet structure	30 Sep 2019		31 Dec 2018	
	€ million	%	€ million	%
Assets				
Non-current assets	33,532	57.3	18,595	23.2
of which:				
Intangible assets	4,547	7.8	2,193	2.7
Property, plant and equipment	19,440	33.2	12,409	15.5
Current assets	24,968	42.7	61,513	76.8
of which:				
Trade accounts receivable	2,651	4.5	1,963	2.5
Receivables and other assets	10,995	18.8	10,291	12.8
Marketable securities	3,049	5.2	3,609	4.5
Assets held for sale	1,236	2.1	40,496	50.6
Total	**58,500**	**100.0**	**80,108**	**100.0**
Equity and liabilities				
Equity	16,032	27.4	14,257	17.8
Non-current liabilities	23,569	40.3	20,007	25.0
of which:				
Provisions	17,254	29.5	15,863	19.8
Financial liabilities	3,729	6.4	1,998	2.5
Current liabilities	18,899	32.3	45,844	57.2
of which:				
Provisions	2,535	4.3	2,615	3.3
Financial liabilities	4,130	7.1	766	1.0
Trade accounts payable	2,389	4.1	2,429	3.0
Other liabilities	9,307	15.9	7,238	9.0
Liabilities held for sale	538	0.9	32,796	40.9
Total	**58,500**	**100.0**	**80,108**	**100.0**

Balance sheet structure: equity ratio jumps to 27.4 %

The asset swap with E.ON had significant effects on the consolidated balance sheet. It was the main reason why the balance sheet total decreased by €21.6 billion to €58.5 billion compared to the end of 2018. The deconsolidation of the stakes in innogy to E.ON and the MIRA consortium caused 'assets held for sale' to decline from €40.5 billion to €1.2 billion and 'liabilities held for sale' to drop from €32.8 billion to €0.5 billion. By contrast, the first-time consolidation of the acquired E.ON activities extended the balance-sheet total by €10.7 billion. The RWE Group's equity grew by €1.8 billion. As of 30 September 2019, its share of the balance-sheet total (the equity ratio) was 27.4 %, up by 9.6 percentage points compared to the end of 2018. This was mainly due to the substantial income from the deconsolidation of innogy's grid and retail businesses. The fact that the non-controlling interests in innogy's operations stated on our balance sheet are low now is having a counteracting effect. Our dividend payments and the redemption of the £750 million hybrid bond also reduced Group equity.

Outlook for 2019

New earnings outlook for 2019: adjusted EBITDA now forecast between €2.2 billion and €2.5 billion

In view of the progress made in executing the asset swap with E.ON and the anticipated retrospective payments from the British capacity market, we revised our earnings forecast for 2019 fundamentally. We had intentionally disregarded these two issues in our previous outlook, which we published on page 25 of the interim report on the first half of 2019. The segment 'Operations acquired from E.ON' added as of 18 September is expected to contribute between €200 million and €300 million to the Group's adjusted EBITDA by the end of the year. The acquisition of the minority interests in the Gundremmingen and Emsland nuclear power plants will also have a positive impact, but does not require the EBITDA forecast of €300 million to €400 million for Lignite & Nuclear to be adjusted. We now expect the European Power segment to achieve between €450 million and €550 million in adjusted EBITDA (previously €250 million to €350 million) because the retrospective capacity payments will be fully recognised in 2019 earnings, although we will not receive the funds until early 2020. In view of the aforementioned effects and the continued strong trading performance of RWE Supply & Trading, we now anticipate the RWE Group achieving adjusted EBITDA of €2.2 billion to €2.5 billion. We previously expected a range of €1.6 billion to €1.9 billion.

Forecast for adjusted EBITDA € million	2018 actual	Previous forecast August 2019[1]	Adjusted forecast
RWE Group	1,538	1,600–1,900	2,200–2,500
of which:			
Lignite & Nuclear	356	300–400	–
European Power	334	250–350	450–550
Supply & Trading	183	significantly above 300	–
innogy – continuing operations	699	800–900	–
Operations acquired from E.ON	–	–	200–300

1 See page 25 of the report on the first half of 2019.

Operating depreciation and amortisation is expected to be in the order of €1.1 billion, which is slightly more than anticipated so far. This results in adjusted EBIT of between €1.1 billion and €1.4 billion. In August, we had forecast a range of €0.6 billion to €0.9 billion.

As before, we expect a significant rise in capital expenditure on property, plant and equipment compared to 2018 (€1.3 billion). Among other things, construction of the British offshore wind farm Triton Knoll and the Australian solar farm Limondale will lead to significant outlays. The net debt of the Group's continuing operations will also be substantially higher than last year (€4.4 billion).

RWE figures with innogy as a purely financial investment: another upward correction to earnings forecast

For the last time, in fiscal 2019, we are publishing Group figures including our former subsidiary innogy as a purely financial investment, deviating from IFRS consolidation principles. We explain how these figures are calculated on page 58 of the 2018 Annual Report. innogy is considered on the income statement only with the dividend payable to RWE. This presentation disregards the acquisition of E.ON's renewable energy business. In 2019, adjusted EBITDA determined in this manner is expected to total €1.8 billion to €2.1 billion, exceeding our previous forecast (€1.4 billion to €1.7 billion) above all due to the anticipated retrospective capacity payments and the strong trading performance. We now anticipate adjusted net income to range between €0.9 billion and €1.2 billion (previously €0.5 billion to €0.8 billion).

Interim consolidated financial statements (condensed)

Income statement

€ million	Jul – Sep 2019	Jul – Sep 2018[1]	Jan – Sep 2019	Jan – Sep 2018[1]
Revenue (including natural gas tax/electricity tax)	**2,178**	**3,058**	**9,218**	**9,814**
Natural gas tax/electricity tax	-36	-33	-111	-102
Revenue[2]	**2,142**	**3,025**	**9,107**	**9,712**
Cost of materials	-1,548	-2,373	-7,067	-7,440
Staff costs	-492	-483	-1,532	-1,457
Depreciation, amortisation and impairment losses	-577	-234	-1,090	-674
Other operating result	264	-29	369	-45
Income from investments accounted for using the equity method	74	63	239	165
Other income from investments	15	-5	17	-45
Financial income	98	87	503	319
Finance costs	-163	-161	-800	-577
Income from continuing operations before tax	**-187**	**-110**	**-254**	**-42**
Taxes on income	44	91	195	5
Income from continuing operations	**-143**	**-19**	**-59**	**-37**
Income from discontinued operations	8,480	-148	9,791	391
Income	**8,337**	**-167**	**9,732**	**354**
of which: non-controlling interests	76	45	626	374
of which: RWE AG hybrid capital investors' interest		15	15	45
of which: net income/income attributable to RWE AG shareholders	**8,261**	**-227**	**9,091**	**-65**
Basic and diluted earnings per share in €	**13.44**	**-0.37**	**14.79**	**-0.11**
of which: from continuing operations in €	-0.17	-0.07	-0.14	-0.22
of which: from discontinued operations in €	13.61	-0.30	14.93	0.11

1 Figures restated: changes in the recognition of revenue and the cost of materials mainly relating to derivative transactions resulted In these two items each declining by €281 million in the first three quarters of 2018.
2 A presentation of revenue by product and segment can be found on page 7.

Statement of comprehensive income

Amounts after tax – € million	Jul – Sep 2019	Jul – Sep 2018[1]	Jan – Sep 2019	Jan – Sep 2018[1]
Income	**8,337**	**-167**	**9,732**	**354**
Actuarial gains and losses of defined benefit pension plans and similar obligations	-368	319	-974	-111
Income and expenses of investments accounted for using the equity method (pro rata)	146	-1	145	22
Fair valuation of equity instruments	-82	10	23	-4
Income and expenses recognised in equity, not to be reclassified through profit or loss	**-304**	**328**	**-806**	**-93**
Currency translation adjustment	742	33	784	-36
Fair valuation of debt instruments	-28	-5	36	-18
Fair valuation of financial instruments used for hedging purposes	33	2,193	-363	3,941
Income and expenses of investments accounted for using the equity method (pro rata)	-4	-1	-4	-4
Income and expenses recognised in equity, to be reclassified through profit or loss in the future	**743**	**2,220**	**453**	**3,883**
Other comprehensive income	**439**	**2,548**	**-353**	**3,790**
Total comprehensive income	**8,776**	**2,381**	**9,379**	**4,144**
of which: attributable to RWE AG shareholders	8,418	2,281	8,624	3,728
of which: attributable to RWE AG hybrid capital investors		15	15	45
of which: attributable to non-controlling interests	358	85	740	371

1 Figures restated: pursuant to IFRS 9, €127 million in fair value changes recognised as basis adjustments are no longer recognised in total comprehensive income.

Balance sheet

Assets € million	30 Sep 2019	31 Dec 2018
Non-current assets		
Intangible assets	4,547	2,193
Property, plant and equipment	19,440	12,409
Investments accounted for using the equity method	3,306	1,467
Other non-current financial assets	4,231	400
Receivables and other assets	1,297	1,302
Deferred taxes	711	824
	33,532	**18,595**
Current assets		
Inventories	1,496	1,631
Trade accounts receivable	2,651	1,963
Receivables and other assets	10,995	10,291
Marketable securities	3,049	3,609
Cash and cash equivalents	5,541	3,523
Assets held for sale	1,236	40,496
	24,968	**61,513**
	58,500	**80,108**

Equity and liabilities € million	30 Sep 2019	31 Dec 2018
Equity		
RWE AG shareholders' interest	15,574	8,736
RWE AG hybrid capital investors' interest		940
Non-controlling interests	458	4,581
	16,032	**14,257**
Non-current liabilities		
Provisions	17,254	15,863
Financial liabilities	3,729	1,998
Other liabilities	671	508
Deferred taxes	1,915	1,638
	23,569	**20,007**
Current liabilities		
Provisions	2,535	2,615
Financial liabilities	4,130	766
Trade accounts payable	2,389	2,429
Other liabilities	9,307	7,238
Liabilities held for sale	538	32,796
	18,899	**45,844**
	58,500	**80,108**

Cash flow statement

€ million	Jan – Sep 2019	Jan – Sep 2018
Income from continuing operations	-59	-37
Depreciation, amortisation and impairment losses/write-backs	1,101	725
Changes in provisions	-240	-280
Deferred taxes/non-cash income and expenses/income from disposal of non-current assets and marketable securities	-133	-72
Changes in working capital	-2,121	3,377
Cash flows from operating activities of continuing operations	**-1,452**	**3,713**
Cash flows from operating activities of discontinued operations	-561	1,182
Cash flows from operating activities	**-2,013**	**4,895**
Cash flows from investing activities of continuing operations[1]	**1,692**	**-1,320**
Cash flows from investing activities of discontinued operations	-1,893	-1,482
Cash flows from investing activities	**-201**	**-2,802**
Cash flows from financing activities of continuing operations	**1,767**	**-1,369**
Cash flows from financing activities of discontinued operations	52	1,250
Cash flows from financing activities	**1,819**	**-119**
Net cash change in cash and cash equivalents	-395	1,974
Effect of changes in foreign exchange rates and other changes in value on cash and cash equivalents	717	14
Net change in cash and cash equivalents	**322**	**1,988**
Cash and cash equivalents at beginning of reporting period	5,225	3,958
of which: reported as 'Assets held for sale'	1,702	25
Cash and cash equivalents at beginning of reporting period as per the consolidated balance sheet	3,523	3,933
Cash and cash equivalents at end of reporting period	**5,547**	**5,946**
of which: reported as 'Assets held for sale'	6	1,328
Cash and cash equivalents at end of reporting period as per the consolidated balance sheet	**5,541**	**4,618**

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

Financial calendar 2020

11 March 2020	Annual report for fiscal 2019
12 March 2020	Capital Market Day
28 April 2020	Annual General Meeting
4 May 2020	Dividend payment
14 May 2020	Interim statement on the first quarter of 2020
13 August 2020	Interim report on the first half of 2020
12 November 2020	Interim statement on the first three quarters of 2020

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