Interim report on the first half of 2019

- H1 adjusted EBITDA of the RWE Group 37 % up year on year
- Exceptionally good energy trading performance
- RWE raises earnings forecast for fiscal 2019
- Adjusted EBITDA of €1.6 billion to €1.9 billion expected

RWE

Powering. Reliable. Future.

AT A GLANCE

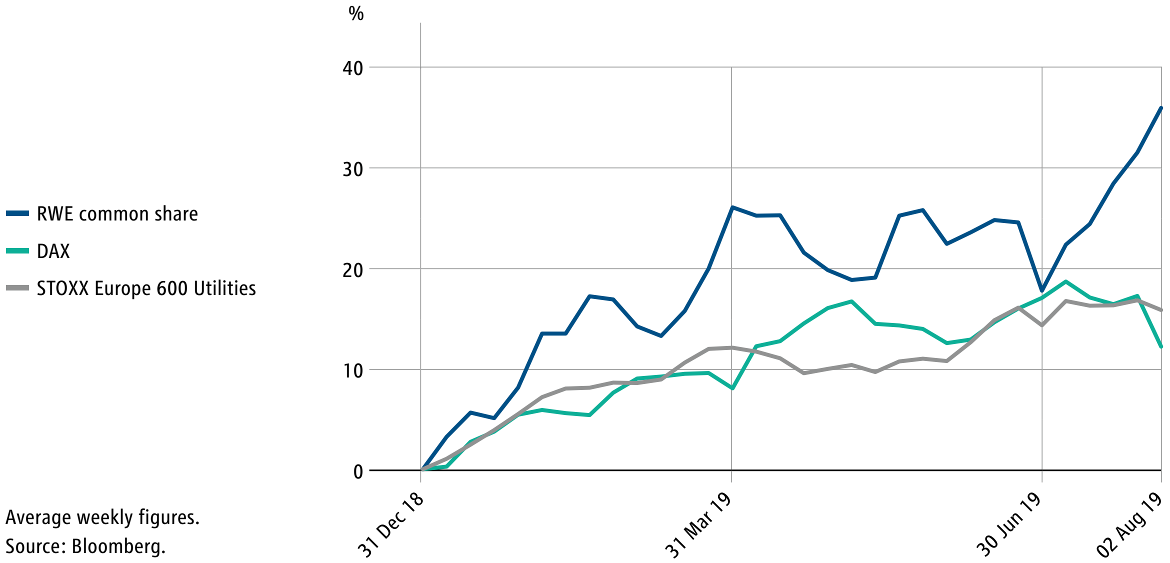
RWE Group – key figures		Jan – Jun 2019	Jan – Jun 2018	+/–	Jan – Dec 2018
Power generation	billion kWh	73.7	87.9	–14.2	176.0
External revenue (excluding natural gas tax/electricity tax)	€ million	6,965	6,687[1]	278	13,298[1]
Adjusted EBITDA	€ million	1,130	825	305	1,538
Adjusted EBIT	€ million	617	385	232	619
Income from continuing operations before taxes	€ million	–67	68	–135	49
Net income	€ million	830	162	668	335
Earnings per share	€	1.35	0.26	1.09	0.54
Cash flows from operating activities of continuing operations	€ million	–1,136	1,911	–3,047	4,611
Capital expenditure	€ million	674	380	294	1,260
Property, plant and equipment and intangible assets	€ million	652	280	372	1,079
Financial assets	€ million	22	100	–78	181
Free cash flow	€ million	–1,647	1,555	–3,202	3,439
		30 Jun 2019	31 Dec 2018		
Net debt of continuing operations	€ million	8,035	4,389	3,646	
Workforce[2]		17,890	17,748	142	

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

CONTENTS

STRONG FIRST HALF FOR THE RWE SHARE AND THE DAX

Performance of the RWE common share compared with the DAX and STOXX Europe 600 Utilities



Average weekly figures.
Source: Bloomberg.

Stock market on upward trend despite economic cool-down

Sentiment on the German stock market brightened after weak trading in 2018. Germany's benchmark index, the DAX, climbed by 17 % to 12,399 points in the first six months of 2019. This was its best first-half performance since 2007, despite a struggling economy and the continued trade dispute between the USA and China. As before, the extremely low interest rates and the announcement by ECB President Mario Draghi that he intends to maintain the extremely loose monetary policy were the main drivers of share prices. Zero interest rates and negative yields on some German government bonds continue to attract many investors to the stock market.

RWE common share: 18 % total return

RWE's common share posted a substantial gain, closing the month of June at €21.67. Including the dividend of €0.70 paid at the beginning of May, it achieved a total return of 18 % for the first half of the year. This put it just above the DAX, whilst also outperforming the sector index STOXX Europe 600 Utilities (15 %). Our rapid progress in the execution of the envisaged asset swap with E.ON was a major reason for RWE's strong share performance. As a result of the transaction, which we want to conclude in the next few months, RWE will become Europe's number three in renewable energy. The deal is considered by many investors and analysts to be a key driver of the value of the RWE share. Furthermore, the recommendations of the Growth, Structural Change and Employment Commission that were published in January 2019 raised hopes that the political risks associated with electricity generation from coal in Germany might decrease. As set out on pages 5 et seq., the Commission is calling for an orderly exit from coal and appropriate compensation for the affected companies. July saw the RWE share's upward trend continue despite a weak market environment. One of the factors was that some financial analysts made upward corrections to their target price for RWE. The raised earnings forecast for 2019 announced at the end of July also had a positive effect on the share price.

ECONOMIC ENVIRONMENT

Roughly 1 % economic growth in the Eurozone

Based on preliminary estimates, global economic output in the first half of 2019 was 2.5 % higher than in the same period last year. The Eurozone may well have posted about 1 % growth, with Germany recording a gain of merely 0.5 %. Due to its dependency on exports, the largest economy in the currency area is significantly affected by international trade conflicts. Recording an estimated increase of 1.5 %, the Netherlands occupied one of the top spots among Eurozone countries. In the United Kingdom, our most important market outside of the currency union, the economy displayed robust development, despite the UK's impending exit from the EU. The country's GDP rose by some 1.5 %.

Decrease in demand for electricity in Germany and the UK

Economic expansion stimulated electricity consumption in our core markets, while the trend towards energy savings had a dampening effect. Furthermore, less electricity was needed for heating due to the mild weather. Preliminary data from the Federal Association of the German Energy and Water Industries (BDEW) indicate that electricity consumption in Germany was down 1.6 % on the first six months of 2018. Power usage in other core markets is also estimated to have declined. Whereas there are no reliable figures for the Netherlands yet, demand for electricity in the United Kingdom dropped by about 3 %.

Mild winter causes gas spot prices to collapse

The first half of the year was characterised by extremely low prices on the spot market for natural gas. Quotations at the Title Transfer Facility (TTF) – the Dutch trading hub – averaged €16/MWh. They were therefore €5 lower than a year before. An important role was played by unusually low demand for heating gas caused by the mild winter. Moreover, the European market was flooded with huge amounts of liquefied natural gas (LNG), putting even more pressure on prices. Increased gas consumption due to the improved capacity utilisation of gas-fired power stations was unable to offset this. However, prices remained stable in gas forward trading. The 2020 TTF forward cost €19/MWh, which was slightly more than the 2019 TTF forward in the first half of 2018 (€18/MWh).

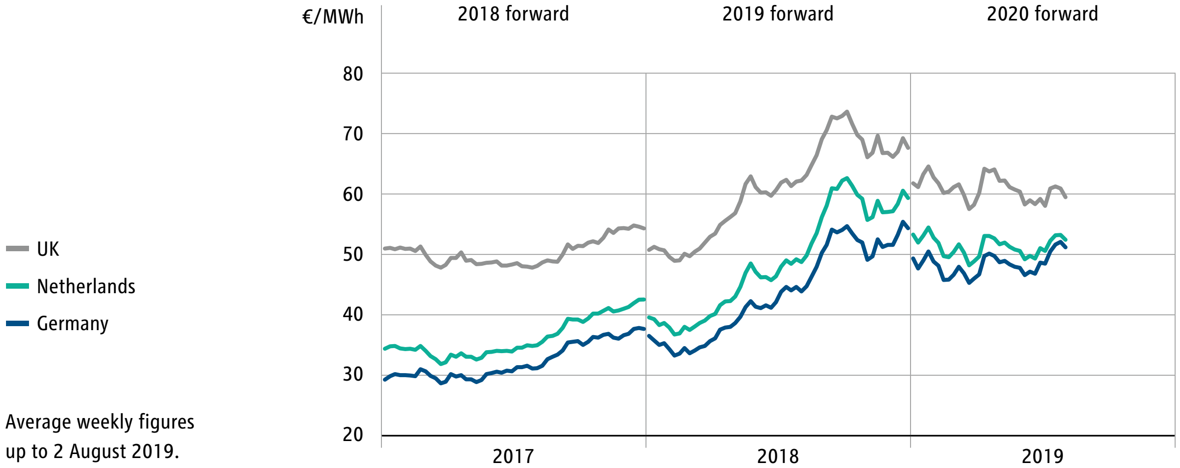
Declining demand curbs hard coal prices

Spot prices paid for hard coal used in power plants (steam coal) also declined substantially. In the period being reviewed, deliveries to the ARA ports (ARA = Amsterdam, Rotterdam, Antwerp) including freight and insurance were settled for an average of US$65/metric ton (€57), as opposed to US$88/metric ton in the same period last year. One reason for this was that little use was made of coal-fired power stations in Europe, leading to a corresponding reduction of steam coal consumption. Furthermore, import restrictions in China and the reactivation of Japanese nuclear power plants curtailed demand from Asia. Quotations on the forward market also dropped owing to the aforementioned factors. The 2020 forward (API 2 Index) cost an average of US$74/metric ton (€66) in the reporting period. By comparison, US$83/metric ton was paid for the 2019 forward in the first six months of 2018.

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

An important cost factor of fossil fuel-fired power stations is the procurement of CO_2 emission allowances, which have increased substantially in price since the middle of 2017. An EU Allowance (EUA), which confers the right to emit one metric ton of carbon dioxide, cost an average of €24 in the first half of 2019, twice as much as in the same period in 2018. These figures relate to contracts for delivery that mature in December of the following year. The considerable rise in price is due to the fundamental reform of the EU Emissions Trading System. The new regulations will result in a gradual reduction from 2019 onwards of the oversupply of emission allowances that has long existed on the market. Many participants in emissions trading therefore expect a shortage of available EUAs and made early purchases. This resulted in a massive surge in prices even before the reform package came into effect.

One-year forward prices of base-load electricity on the wholesale market



Average weekly figures up to 2 August 2019.
Source: RWE Supply & Trading.

Higher prices on electricity forward markets

The steep decline in the price of coal imports and the unusually low prices in gas spot trading weighed on quotations on electricity wholesale markets, whereas the rise in the price of emission allowances had a price-increasing effect. In the first half of the year, base-load power traded for an average of €38/MWh on the German spot market, which was slightly more than in the same period in 2018 (€36/MWh). By contrast, spot prices declined by £6 to £47/MWh (€53/MWh) in the United Kingdom and by €2 to €44/MWh in the Netherlands. Prices in forward trading trended upwards in all key markets. In Germany, the 2020 base-load forward cost an average of €48/MWh, €11 more than what was paid for the 2019 forward in the first six months of 2018. In the United Kingdom, the price of the one-year forward rose by £5 to £53/MWh (€61/MWh), and in the Netherlands it increased by €9 to €51/MWh.

Electricity forward sales for 2019: much lower margins for hard coal power plants

We sell forward most of the output of our power stations and secure the prices of the required fuel and emission allowances in order to reduce short-term volume and price risks. Therefore, our electricity revenue in the period under review was determined by the conditions at which we concluded forward contracts for 2019 in earlier years. We conducted such sales for our lignite and nuclear power plants, which mostly cover the need for base-load electricity, starting as early as 2016. In doing so, the average margins we realised were slightly higher than for contracts for 2018. We typically conduct forward sales of electricity produced by hard coal and gas-fired power stations with a shorter lead time. Therefore, the realised electricity prices were higher, but there was also an increase in costs due to the significant rise in fuel prices through to 2018. The increase in the price of emission allowances also came to bear. As a result, overall earnings from electricity production using hard coal worsened. Conversely, the margins of our gas-fired power plants in the United Kingdom were roughly as high as in 2018; they improved in Germany and the Netherlands.

Wind conditions better than in 2018

The availability and profitability of facilities that produce electricity from renewable energy sources greatly depend on weather conditions. This is why wind speeds are extremely important to innogy. In north eastern and central Europe as well as in large parts of southern Europe, they exceeded the long-term average, whereas they occasionally remained far below it in the United Kingdom, Ireland and the Netherlands. Wind speeds similar or higher relative to the first half of last year were measured at nearly all innogy sites in Continental Europe, with the exception of Spain. Wind speeds were also up year on year in the UK and Ireland; only in the southern-most part of England were they lower than in 2018. The utilisation of run-of-river power stations strongly depends on precipitation and melt water volumes. In Germany, where most of the RWE Group’s run-of-river power plants are located, these volumes were slightly below the long-term average, but were marginally higher than in the first six months of 2018.

MAJOR EVENTS

In the period under review

European Commission approves RWE's part of the planned asset swap with E.ON

We have continued to make progress implementing the asset swap agreed with E.ON in March 2018. We registered the acquisition of the relevant business activities and equity interests with the European Commission on 22 January 2019 and received clearance from Brussels on 26 February. National competition authorities also issued their approvals: Germany's Federal Cartel Office, the UK's Competition and Markets Authority (CMA) and the US Federal Trade Commission (FTC) gave the go-ahead on 26 February, 8 April and 22/31 May, respectively. Now the only approval pending is from the European Commission for E.ON's part of the deal. As soon as this clearance has been granted, the transaction will be completed in two steps: first, E.ON will receive our 76.8 % stake in innogy and a payment of €1.5 billion, while we will obtain a financial investment in E.ON (16.67 %) and take over E.ON's minority interests in the Gundremmingen (25 %) and Emsland (12.5 %) nuclear power plants. This is expected to occur in September 2019. In the second step, E.ON will then transfer its own renewable energy activities and those belonging to innogy to RWE. From innogy's portfolio we will also receive the gas storage business and the minority interest in the Austrian energy utility Kelag (37.9 %). Additional information on the transaction can be found on pages 18 and 35 et seq. of our 2018 Annual Report.

RWE acquires stake in Czech grid business from innogy for resale to Macquarie

At the end of February, we purchased the 50.04 % interest in the Czech gas network operator innogy Grid Holding (IGH) held by innogy SE, as we had committed to do so in the framework of the asset swap with E.ON. We had also agreed to sell on the stake in IGH to E.ON. However, the MIRA consortium led by the Australian financial service provider and infrastructure investor Macquarie, which already held the remaining shares in IGH, decided to exercise a right of first refusal. Accordingly, instead of E.ON, MIRA will now acquire the 50.04 % equity interest. The sale price is around €1.8 billion. We bought the stake at the same conditions and would have transferred it to E.ON at these conditions. The IGH transaction was approved by the European Commission at the end of June. However, it will only be executed if E.ON purchases our shareholding in innogy.

Commission for structural change proposes roadmap for German coal phase-out

An accelerated coal phase-out is materialising in Germany, our most important generation market. In January 2019, following lengthy consultations, the Growth, Structural Change and Employment Commission established by the German government presented a concept for the country achieving its climate protection goals in the energy sector avoiding structural upheaval and social hardship while safeguarding security of supply. The body, consisting of representatives from industry, trade unions, the scientific community, associations, civic initiatives and environmental organisations, recommends that Germany phase out electricity generation from coal by no later than 2038. However, it envisages reviewing the feasibility of this goal in 2032 and possibly bringing the exit date forward to 2035.

In addition, the Commission has set milestones for the coal phase-out: it envisages the total capacity of lignite and hard coal-fired power stations on the market (excluding back-up capacity) being reduced to 15 GW each by the end of 2022 through shutdowns or conversions. Compared to the end of 2017, this represents a decrease of 7.7 GW from hard coal and nearly 5 GW from lignite. These figures include closures that have already occurred or have been announced as well as lignite-fired units which had not yet been placed on security standby at the end of 2017. By 2030, the objective is to have lignite and hard coal-fired power plants with total capacities of only 9 GW and 8 GW on the market.

Moreover, the Commission recommends considering the additional CO_2 savings in the European Emissions Trading System by reducing the national auction budget, as otherwise the certificates no longer needed for the decommissioned power plants would be available to other companies, enabling additional emissions from their assets. The Commission further proposes that the German government conduct reviews in 2023, 2026 and 2029 involving an analysis of the effects of measures taken by then on security of supply, climate protection, electricity prices and structural development in the affected regions and that countermeasures be initiated if necessary. It is recommended that policymakers implement the phase-out roadmap in agreement with the operators and grant them appropriate compensation. Layoffs and undue social and economic disadvantages for employees should be prevented, in part by paying them a state adjustment allowance. In addition, the Commission deems it desirable that Hambach Forest be preserved. With respect to relocations in the opencast mining regions, the states are being asked to enter into dialogue with the affected residents in order to avoid social and financial hardship.

By and large, the Commission's proposals met with the approval of politicians and stakeholder groups. It was viewed positively that widespread consensus has now been reached, which can serve as a basis for policymakers in order to establish planning certainty for companies, employees and regions. Observers therefore anticipate that the German government will implement the main points of the Commission's concept. This would have serious ramifications for our Rhenish lignite business. RWE has already taken four power plant units offline prematurely under the security standby scheme, with a further block to follow at the end of September 2019. Additional shutdowns will therefore be all the more difficult and result in burdens going far beyond the lost electricity revenue. For instance, we would have to implement substantial job cuts and introduce redundancy programmes for the affected workers at short notice. If opencast mines were closed early, we would have to develop new recultivation concepts. As a result and due to the early use of mining provisions, these would have to be increased significantly. Additional costs would be incurred if Hambach Forest was preserved. In addition, substantial investments are needed in order to adapt opencast mines and power plants to a new operating concept. We can only reliably estimate the burdens we will face if the government's current talks with us lead to concrete proposals and the legislative process for the coal phase-out progresses. However, we welcome the fact that the Commission has recognised the need to pay power plant operators adequate compensation and has also considered the knock-on costs for the opencast mines.

Decision on Hambach Forest: Cologne Administrative Court rejects lawsuit by BUND

On 12 March, the Cologne Administrative Court ruled that Hambach Forest is not a potential special area of conservation according to the EU Directive on the conservation of natural habitats and of wild fauna and flora. Consequently, the lawsuit filed by the environmental activist group Bund für Umwelt und Naturschutz Deutschland e. V. (BUND) was rejected. In the opinion of the judges, the approval of the 2018–2020 main operational plan for the Hambach opencast mine by the Arnsberg District Council was legal. This plan includes the clearance of Hambach Forest. Clearance will not occur for the time being, however, because the ruling of the Cologne court does not affect the preliminary injunction against clearance issued by the Münster Higher Administrative Court on 5 October 2018. In the next step, the court in Münster will have to reach its own decision on the legal conservation status of Hambach Forest. Furthermore, RWE Power announced that it would not proceed with clearance until the end of September 2020. In view of the sometimes violent protests at Hambach Forest, this is our contribution to de-escalating the situation.

EU limits participation of coal-fired power plants in capacity mechanisms

The European Parliament and the Council of Ministers passed a reform of EU legislation on the electricity market in March and May 2019, respectively. Some of the new rules will take effect from 1 January 2020 (Electricity Market Regulation). Other provisions (Electricity Market Directive) will have to be transposed into national law by the member states by the end of 2020. One core component of the reform is guidelines on designing capacity market mechanisms. The new Electricity Market Regulation envisages that power stations with CO_2 emissions of more than 550 g/kWh will only be able to participate in such mechanisms to a very limited degree. One prerequisite for this is that they do not emit more than 350 kg of CO_2 per kilowatt of installed capacity per year. Consequently, coal-fired power plants can no longer participate in a general capacity market with full utilisation, but can participate in reserve schemes which only involve a low number of operating hours. This means that Germany's security standby scheme for lignite would still be permissible. The emission caps for new power stations will enter into effect on 1 January 2020. Transitional regulations apply to existing generation facilities until the middle of 2025. Existing capacity agreements and contracts that are concluded this year would remain completely unaffected by the threshold values.

RWE rules out construction of new coal-fired power plants – BoAplus project cancelled

We announced at the end of April that we will no longer be pursuing plans for a new, highly efficient lignite-fired power station to replace older, more emissions-intensive plants. We had long considered investing in a lignite-fired unit using optimised plant engineering (BoAplus) at the site in Niederaussem near Cologne. However, new coal-fired power stations are no longer part of our strategy. RWE is committed to the European and national climate protection targets. In the last six years, the company has already lowered its CO_2 emissions by one third.

RWE ends hard coal firing at Werne power station

On 29 March 2019, we decommissioned the hard coal-fired part of the combined unit K at the Gersteinwerk station in Werne (Westphalia), meaning that hard coal is no longer used for electricity generation at this plant. The shutdown was motivated by economic considerations: the investments needed as part of upcoming maintenance work would not have paid off. Unit K consists of a topping gas turbine (K1) with a net capacity of 112 MW and the (decommissioned) steam turbine (K2), which ran on steam generated by firing hard coal and had a capacity of 620 MW. Electricity is still being produced at Gersteinwerk: along with the aforementioned K1 turbine, we have two natural gas combined units and another topping gas turbine at our disposal. These assets have a combined capacity of around 1,000 MW.

STEAG acquires majority stake in Bergkamen hard coal-fired power plant from RWE

As of 1 January 2019, we sold our 51 % shareholding in the Bergkamen hard coal-fired power station to the Essen-based energy utility STEAG. The buyer previously owned 49 % of the plant and exercised a contractual purchase option. The parties agreed to keep the price confidential. This power station has been in operation since 1981, with a net capacity of 720 MW. RWE was responsible for the commercial management of this plant, while STEAG handled technical operations. The disposal of the stake goes hand in hand with the termination of a contract that obliged us to purchase electricity produced by the station.

RWE sells Belgian CHP station

We sold the Inesco CHP station in Belgium to the UK chemicals group INEOS at the end of February 2019. This gas-fired power plant has a generation capacity of 133 MW and is located in a chemical park operated by INEOS near Antwerp. In addition to electricity, it also supplies steam and demineralised water to the companies in the chemical park. One of the reasons for our decision to sell the station was its tight integration in the business activities of INEOS.

German government takes over interim storage for highly radioactive waste from RWE

As of 1 January 2019, we transferred the interim storage facilities for highly radioactive waste on the sites of our Emsland, Biblis and Gundremmingen nuclear power plants to BGZ, the state-owned company responsible for interim storage. The legal basis for this is the law on the reassignment of responsibility for nuclear waste disposal which was passed at the end of 2016, pursuant to which the government took charge of processing and financing interim and final nuclear waste storage. In exchange, German power plant operators gave the government €24.1 billion, which was paid into a public-law fund for financing nuclear waste disposal. Responsibility for shutting down and safely dismantling the stations remains with the companies. They are also accountable for packaging the radioactive waste properly before it is handed over to BGZ. A total of eleven decentralised interim storage facilities were transferred from the nuclear power plant operators to BGZ as of 1 January 2019. The interim storage facilities for low- and medium-level radioactive waste are to follow at the beginning of 2020, including two at RWE's Biblis site.

UK government allows further capacity auction

Despite the suspension of the UK capacity market, a capacity auction was held in mid-June for the delivery period from 1 October 2019 to 30 September 2020. Power plants with a total capacity of 3.6 GW qualified for a payment of an exceptionally low £0.77/kW. An invitation to tender for the same delivery period had already taken place at the end of 2015. At this call for bids, stations with a combined 46.4 GW, including 8.0 GW from RWE, qualified for a payment of £18/kW. The recent auction, which had actually been scheduled for the beginning of 2019, was held to close remaining capacity gaps. Given that the delivery period begins as early as October, there was an oversupply of secured capacity, because many stations will be available for this period anyway. RWE's two small power plants Grimsby and Cowes 2 submitted bids, but were unsuccessful. We will continue to operate these stations nevertheless.

However, the outcome of the auction of June 2019 will only be valid if the UK capacity market can be continued. It has been on hold since the middle of November 2018 when the General Court of the European Court of Justice declared the state aid approval given in 2014 null and void as it had not been preceded by a thorough investigation. This is being done now. Capacity payments could be resumed if the European Commission granted the UK's original request for approval again. We are confident that the UK capacity market will be reinstated with its current design and that the payments due during the suspension will be made retroactively.

Conversion of RWE preferred shares to common shares completed

We converted RWE's 39,000,000 preferred shares to voting common shares in the middle of the year. The transaction was conducted at a ratio of 1:1 without an additional payment. The corresponding resolution was passed by the company's Annual General Meeting and a Preferred Shareholders Meeting on 3 May 2019 at the recommendation of the Executive Board and the Supervisory Board. The necessary amendment to the Articles of Incorporation was entered in the Commercial Register at the Essen District Court on 28 June 2019. The preferred shares were delisted at the close of trading on the same day. Depositary banks reclassified the RWE preferred shares held by their customers at the beginning of July. The reduction to a single share class increased the number of RWE common shares to 614,745,499. We believe that this bolsters our corporate governance as institutional investors are of the opinion that each share in a company should bear a voting right (known as the 'One Share – One Vote' principle). RWE now does justice to this.

RWE cancels £750 million hybrid bond

We cancelled a hybrid bond with a volume of £750 million on 20 March 2019, without replacing it with fresh hybrid capital. This reflects RWE's solid financial standing. The bond had been issued seven years earlier with a 7 % coupon and a theoretically perpetual tenor. We exercised our right to cancel it on the first call date.

Banks increase RWE's credit line to €5 billion

In mid-April 2019, we replaced our syndicated credit line of €3 billion with an agreement for €5 billion. This was motivated by the planned restructuring of the RWE Group, as a result of which our operations will be expanded to include the renewable energy activities of E.ON and innogy. The increased credit line is being granted by a consortium of 27 international banks. It consists of two tranches: one with a volume of €3 billion and a term of five years and one with a volume of €2 billion and a two-year term. If the banks agree, the first tranche can be extended twice, by one year each time. For the second tranche, this option is available once for one year; the banks' approval is not necessary. Syndicated lines of credit help us to ensure liquidity. So far, we have not drawn on them.

RWE pays dividend of €0.70 per share for fiscal 2018

On 3 May 2019, the Annual General Meeting of RWE AG approved the dividend proposal by the Executive Board and the Supervisory Board for fiscal 2018. We therefore paid a dividend of €0.70 per common and preferred share on 8 May. For fiscal 2019, the Executive Board is targeting a dividend of €0.80.

innogy pays dividend of €1.40 per share

On 30 April 2019, the Annual General Meeting of innogy SE voted for a dividend of €1.40 per share for the past fiscal year. Based on the adjusted net income of €1,026 million generated by our subsidiary in 2018, the payout ratio was 76 %.

After the period under review

Dutch government decides to phase out coal by 2030

At the beginning of July, the Dutch lower house approved a draft law envisaging the end of electricity generation from coal in the coming decade. The upper house is expected to ratify the decision after the summer recess. According to the draft law, by 2025 at the latest, coal may no longer be used as fuel in power stations built in the 1990s. For plants constructed later than this, the ban would come into effect in 2030. Compensation payments for the power utilities affected are not foreseen in the draft. At present, there are five hard coal-fired power stations still operating in the Netherlands. Two of these belong to us: Amer 9 and Eemshaven. The former plant has a net capacity of 631 MW and would have to stop firing coal at the end of 2024 according to the draft law, and the same would hold true for Eemshaven (1,554 MW) at the end of 2029. After that, these stations could only be operated with other fuels. At the moment, we are retrofitting them for co-firing with biomass. We are receiving subsidies for this to finance the capital expenditure and additional costs incurred to purchase fuel. Conversion to 100 % biomass-firing would involve significant additional expenses. In dialogue with policymakers, we are proposing compensation for the financial disadvantages we will suffer from the planned coal phase-out, and we will also take legal action if necessary.

Early shutdown of Aberthaw B hard coal power station decided

RWE will close the Aberthaw B hard coal-fired power plant in Wales early. Management passed a resolution to this effect at the end of July. The station, which has a net installed capacity of 1,560 MW, is scheduled to be taken offline at the end of March 2020. Its obligations from the UK capacity market through to the end of September 2021 will be transferred to third parties and a small proportion to other units within RWE's power plant fleet. Therefore, the available generation capacity guaranteed via the capacity market will not change. Aberthaw power station was commissioned in 1971 and has since contributed to security of supply in the United Kingdom for nearly half a century. The closure will put an end to RWE's electricity generation from coal in the United Kingdom, five years before the country's official exit date. This will be a further step in implementing our climate protection strategy.

COMMENTARY ON REPORTING

Group structure featuring four segments

In our current financial reporting, the RWE Group is divided into the following four segments: (1) Lignite & Nuclear, (2) European Power, (3) Supply & Trading and (4) innogy – continuing operations. The last segment contains the assets of innogy which will remain with RWE following completion of the asset swap with E.ON. The individual segments consist of the following business activities and equity holdings:

- Lignite & Nuclear: This segment encompasses our German electricity generation from lignite and nuclear power as well as our lignite production in the Rhineland. These activities are managed by our subsidiary RWE Power. The segment further includes our investments in the Dutch nuclear power plant operator EPZ (30 %) and the German company URANIT (50 %), which holds a 33 % stake in Urenco, a uranium enrichment specialist. In the past, this segment also included our 51 % stake in the Hungarian lignite-based power producer Mátra, which 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. It 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 under the responsibility of 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 power plant dispatch; however, earnings achieved through the latter activities are reported in the Lignite & Nuclear or European Power segment.

- innogy – continuing operations: The main business in this segment is renewable energy, a sector in which our subsidiary innogy ranks among Europe's leading companies. It operates generation assets in Germany, the United Kingdom and other European countries. In addition, it intends to establish itself in other markets such as the USA and Australia. The focus in terms of energy sources is onshore and offshore wind followed by hydro and photovoltaics. After acquiring our subsidiary, E.ON will transfer the renewable energy business back to us. We will then assume operational responsibility for it. The same applies to innogy's gas storage facilities, which are located in Germany and the Czech Republic. innogy's 37.9 % interest in the Austria-based energy utility Kelag will also be transferred back to the RWE Group and is therefore included in this segment.

Individual 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 as well as consolidation effects.

Adoption of IFRS 16: higher net debt, higher depreciation

We began applying the new accounting standard IFRS 16 Leases in fiscal 2019. Leases are now reported on the balance sheet, unless they are short-term (up to twelve months) or relate to low value assets. Consequently, 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 for all leased assets. 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 report contains forward-looking statements regarding the future development of the RWE Group and its companies as well as economic and political developments. These statements are assessments that we have made based on information available to us at the time this document was prepared. In the event that the underlying assumptions do not materialise or unforeseen risks arise, actual developments can deviate from the developments expected at present. Therefore, we cannot assume responsibility for the correctness of forward-looking statements.

BUSINESS PERFORMANCE

Power generation January – June	Gas		Lignite		Hard coal		Nuclear		Renewables		Pumped storage, other		Total	
Billion kWh	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Lignite & Nuclear	–	–	24.7	34.6	–	–	9.2	9.9	–	–	0.1	–	34.0	44.5
European Power	24.7	23.2	–	–	8.2	13.5	–	–	0.9	0.6	0.9	1.3	34.7	38.6
of which:														
Germany[1]	3.0	2.0	–	–	2.5	6.0	–	–	0.1	0.4	0.9	1.3	6.5	9.7
United Kingdom	18.0	17.2	–	–	0.4	0.4	–	–	0.2	0.2	–	–	18.6	17.8
Netherlands/Belgium	2.9	2.8	–	–	5.3	7.1	–	–	0.6	–	–	–	8.8	9.9
innogy – continuing operations	–	–	–	–	–	–	–	–	5.0	4.8	–	–	5.0	4.8
RWE Group	**24.7**	**23.2**	**24.7**	**34.6**	**8.2**	**13.5**	**9.2**	**9.9**	**5.9**	**5.4**	**1.0**	**1.3**	**73.7**	**87.9**

1 Including electricity from power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. In the first half of 2019, this amounted to 1.8 billion kWh (first half of 2018: 3.0 billion kWh).

Significant decline in electricity production from coal

In the first half of 2019, the RWE Group generated 73.7 billion kWh in electricity, 16 % less than in the same period last year. We recorded the steepest decrease with lignite (–9.9 TWh). Market conditions and overhauls played a role in the reduction in operating hours of generation assets. In addition, limitations to lignite mining resulting from the preliminary halt to the clearance of Hambach Forest also came to bear. Moreover, we switched off Units E and F of the Niederaussem lignite-fired power station on 30 September 2018 (295 MW and 299 MW, respectively) and put them into the statutory security stand-by scheme. Furthermore, production in the first half of last year included the volumes from Hungary-based Mátra, which we sold in March 2018. Electricity generation from hard coal also experienced a substantial drop (–5.3 TWh), with unfavourable market conditions and power plant outages for overhauls also coming to bear here. Further declines in volume resulted from the sale of our majority interest in the Bergkamen power station and the end of production from coal at Gersteinwerk in Werne (see page 7). Downtime caused by overhauls led to a drop in nuclear energy generation (–0.7 TWh). By contrast, gas-fired power plants produced more electricity (+1.5 TWh), benefitting from more favourable market conditions. We also posted a gain in renewable energy (+0.5 TWh). The main reason for this was the start of co-firing biomass at our Dutch Amer 9 hard coal-fired power station. In addition, innogy commissioned new wind turbines and benefitted from improved wind conditions.

In addition to our in-house generation, we procure electricity from external suppliers. In the period being reviewed, these purchases totalled 23.0 billion kWh (previous year: 24.2 billion kWh). In-house generation and power purchases combined for 96.7 billion kWh (previous year: 112.1 billion kWh).

Electricity sales down 14 %, gas up 13 %

In the period under review, the RWE Group sold 92.9 billion kWh of electricity and 40.1 billion kWh of gas. Most of these volumes are allocable to the Supply & Trading segment. Electricity sales experienced a drop of 14 %, primarily due to the decline in our generation volume and the resulting drop in the amount of in-house production sold by RWE Supply & Trading on the wholesale market. Conversely, gas deliveries were up 13 %. One reason for this was that RWE Supply & Trading stepped up its business with key accounts.

External revenue[1] € million	Jan – Jun 2019	Jan – Jun 2018	+/–	Jan – Dec 2018
Lignite & Nuclear	502	551	–49	1,132
European Power	376	531	–155	925
Supply & Trading	5,421	5,061	360	10,100
innogy – continuing operations	659	531	128	1,124
Other, consolidation	7	13	–6	17
RWE Group (excluding natural gas tax/electricity tax)	**6,965**	**6,687**	**278**	**13,298**
Natural gas tax/electricity tax	75	69	6	141
RWE Group	**7,040**	**6,756**	**284**	**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 – Jun 2019	Jan – Jun 2018	+/–	Jan – Dec 2018
Electricity revenue	**5,481**	**5,043**	**438**	**10,090**
of which:				
Lignite & Nuclear	145	158	–13	303
European Power	266	266	–	542
Supply & Trading	4,551	4,214	337	8,447
innogy – continuing operations	518	405	113	799
Gas revenue	**831**	**770**	**61**	**1,565**
of which:				
Supply & Trading	797	738	59	1,502
innogy – continuing operations	24	24	–	47
Other revenue	**653**	**874**	**–221**	**1,643**
RWE Group (excluding natural gas tax/electricity tax)	**6,965**	**6,687**	**278**	**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 is not stated separately because it is immaterial.

External revenue 4 % higher than in 2018

The RWE Group's external revenue rose by 4 % to €6,965 million (excluding natural gas tax and electricity tax). We recorded €5,481 million in revenue from our main product, electricity, corresponding to a gain of 9 %. The backdrop to this is that RWE Supply & Trading realised higher prices in electricity wholesaling and in direct business with industrial customers, whereas the reduction in wholesale volume had a counteracting effect. Our gas revenue advanced by 8 % to €831 million, mirroring the positive development displayed by gas supply volumes.

Internal revenue € million	Jan – Jun 2019	Jan – Jun 2018	+/–	Jan – Dec 2018
Lignite & Nuclear	1,056	1,177	–121	2,340
European Power	1,745	1,763	–18	3,768
Supply & Trading	2,035	2,119	–84	3,434
innogy – continuing operations	135	191	–56	386

Adjusted EBITDA € million	Jan – Jun 2019	Jan – Jun 2018	+/–	Jan – Dec 2018
Lignite & Nuclear	172	167	5	356
European Power	99	196	–97	334
Supply & Trading	434	101	333	183
innogy – continuing operations	461	368	93	699
Other, consolidation	–36	–7	–29	–34
RWE Group	**1,130**	**825**	**305**	**1,538**

Adjusted EBITDA 37 % up year on year

Our adjusted earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA) amounted to €1,130 million. This was €305 million, or 37 %, more than last year's comparable figure. The main reason for this was our exceptional success in the trading business. Since we anticipate a strong trading performance for the full year as well, we are making an upward correction to our consolidated earnings forecast for 2019. Our previous outlook, which we published on pages 83 et seq. of our 2018 Annual Report, envisaged adjusted EBITDA of €1.4 billion to €1.7 billion. We now expect it to total between €1.6 billion and €1.9 billion.

The following earnings trends were observed in the segments in the first half of the year:

- Lignite & Nuclear: Adjusted EBITDA rose by €5 million to €172 million. One positive factor here was that we realised slightly higher wholesale prices for electricity produced by our lignite-fired and nuclear power plants than in 2018. We had already sold forward nearly all of the production of these stations in earlier years. The reduction in electricity generation caused by outages for maintenance and the temporary halt of clearance work in Hambach Forest had a counteracting effect.

- European Power: This segment's adjusted EBITDA declined by €97 million to €99 million, in part because we generated less electricity from hard coal. We also recorded lower earnings from the commercial optimisation of our power plant dispatch. Moreover, we stopped receiving capacity payments for our UK power plants, as the approval for the capacity market issued by the European Commission was declared invalid by the General Court of the European Court of Justice at the end of 2018. Consequently, no payments may be made to the power plant operators until the conclusion of new approval proceedings. In the first half of 2018, we received €33 million. Despite the disappointing development of business so far, we maintain our outlook for this segment's full-year earnings, which we published on pages 83 et seq. of the 2018 Annual Report. However, adjusted EBITDA is likely to be at the bottom of the projected range of €250 million to €350 million.

- Supply & Trading: At €434 million, adjusted EBITDA posted by this segment was far above the figure achieved in the same period last year (€101 million). The decisive factor was the exceptional trading performance, with the gas business also making a substantial contribution to earnings. Furthermore, the figure for the first half of 2018 was curtailed by an impairment recognised for an investment. In view of this very encouraging development, we are making an upward adjustment to our forecast for the segment's earnings for the year as a whole. So far, we have envisaged adjusted EBITDA amounting to between €100 million and €300 million. Now we expect it to close the year significantly above €300 million.

- innogy – continuing operations: Adjusted EBITDA posted by the innogy business remaining with RWE increased by €93 million to €461 million. One reason for this was that overall capacity utilisation at innogy's wind farms was higher compared to 2018, due to favourable weather conditions. Moreover, green energy assets which are not subsidised with fixed feed-in compensation benefitted from higher wholesale electricity prices. The ongoing expansion of innogy's wind generation capacity also had a positive impact on earnings.

Adjusted EBIT € million	Jan – Jun 2019	Jan – Jun 2018	+/–	Jan – Dec 2018
Lignite & Nuclear	10	33	–23	77
European Power	–55	49	–104	37
Supply & Trading	429	99	330	177
innogy – continuing operations	270	198	72	349
Other, consolidation	–37	6	–43	–21
RWE Group	**617**	**385**	**232**	**619**

Adjusted EBIT amounted to €617 million, representing an increase of €232 million, or 60 %, compared to 2018. This figure differs from adjusted EBITDA in that it does not include operating depreciation and amortisation, which amounted to €513 million in the period under review (prior year: €440 million).

Non-operating result € million	Jan – Jun 2019	Jan – Jun 2018	+/–	Jan – Dec 2018
Disposal result	21	–25	46	–25
Effects on income from the measurement of derivatives and inventories[1]	–431	–88	–343	–146
Other	–42	–20	–22	10
Non-operating result	**–452**	**–133**	**–319**	**–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, dropped by €319 million to –€452 million. This was mainly caused by temporary effects on earnings from the valuation of derivatives and inventories. Such effects occur for example because, pursuant to IFRS, financial instruments used to hedge price risks are recognised at fair value at the corresponding balance-sheet date, whereas the hedged underlying transactions are only recognised as a profit or loss when they are realised. They also relate to temporary burdens imposed by 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 from the disposal of investments and assets improved slightly. In the period being reviewed, we achieved capital gains of €21 million, for example from the sale of the Belgian gas-fired power station Inesco (see page 8). Last year, we reported a negative disposal result (–€25 million), mainly due to the deconsolidation of our 51 % stake in Mátra.

Financial result € million	Jan – Jun 2019	Jan – Jun 2018	+/–	Jan – Dec 2018
Interest income	91	88	3	166
Interest expenses	–119	–89	–30	–180
Net interest	**–28**	**–1**	**–27**	**–14**
Interest accretion to non-current provisions	–213	–105	–108	–264
Other financial result	9	–78	87	–131
Financial result	**–232**	**–184**	**–48**	**–409**

Our financial result deteriorated by €48 million to –€232 million, especially because the interest accretion to non-current provisions rose substantially. The main reason for this was that the discount rate which we use to calculate nuclear provisions declined due to the recent development of market interest rates. The resulting increase in the present value of the obligations was partially reflected as an expense in the interest accretion. Higher interest expenses also contributed to the drop in the financial result. We registered a significant improvement in the other financial result above all due to gains on our portfolio of securities after losses in the same period last year.

Reconciliation to net income		Jan – Jun 2019	Jan – Jun 2018	+/–	Jan – Dec 2018
Adjusted EBITDA	€ million	**1,130**	**825**	**305**	**1,538**
Operating depreciation, amortisation and impairment losses	€ million	–513	–440	–73	–919
Adjusted EBIT	€ million	**617**	**385**	**232**	**619**
Non-operating result	€ million	–452	–133	–319	–161
Financial result	€ million	–232	–184	–48	–409
Income from continuing operations before taxes	€ million	**–67**	**68**	**–135**	**49**
Taxes on income	€ million	151	–86	237	–103
Income from continuing operations	€ million	**84**	**–18**	**102**	**–54**
Income from discontinued operations	€ million	1,311	539	772	1,127
Income	€ million	**1,395**	**521**	**874**	**1,073**
of which:					
Non-controlling interests	€ million	550	329	221	679
RWE AG hybrid capital investors' interest	€ million	15	30	–15	59
Net income/income attributable to RWE AG shareholders	€ million	**830**	**162**	**668**	**335**
Earnings per share	€	1.35	0.26	1.09	0.54
Number of shares outstanding (average)	millions	614.7	614.7	–	614.7

Owing to the aforementioned developments, earnings before taxes from our continuing operations amounted to –€67 million (previous year: €68 million). We achieved tax income of €151 million, which was much higher than what could have been expected given the (theoretical) normal effective tax rate. A reduction of our tax risk provision played a role. After taxes, our continuing operations generated income of €84 million (previous year: –€18 million).

Income from discontinued operations amounted to €1,311 million, significantly up on the figure recorded in the same period last year (€539 million). A major reason for this are the IFRS accounting regulations. They stipulate 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 half-year result.

Non-controlling interests in income rose by €221 million to €550 million. The substantially higher income reported for innogy's discontinued operations in RWE's consolidated financial statements came to bear here. Consequently, there was also an increase in non-controlling interests in income, attributable to the 23.2 % interest held by minority shareholders in our subsidiary.

The portion of earnings attributable to RWE hybrid capital investors amounted to €15 million (prior year: €30 million). This sum corresponds to the finance costs related to our £750 million hybrid bond, which was called on 20 March 2019 (see page 9). 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.

At €830 million, net income posted by the RWE Group was markedly up on last year's comparable figure (€162 million). Based on the 614.7 million in RWE shares outstanding, earnings per share totalled €1.35 (previous year: €0.26).

Capital expenditure on property, plant and equipment and on intangible assets € million	Jan – Jun 2019	Jan – Jun 2018	+/–	Jan – Dec 2018
Lignite & Nuclear	160	105	55	230
European Power	122	67	55	245
Supply & Trading	4	5	–1	13
innogy – continuing operations	366	103	263	592
Other, consolidation	–	–	–	–1
RWE Group	**652**	**280**	**372**	**1,079**

Capital expenditure on financial assets € million	Jan – Jun 2019	Jan – Jun 2018	+/–	Jan – Dec 2018
Lignite & Nuclear	–	–	–	–
European Power	2	2	–	4
Supply & Trading	–	34	–34	37
innogy – continuing operations	19	65	–46	141
Other, consolidation	1	–1	2	–1
RWE Group	**22**	**100**	**–78**	**181**

Capital expenditure up 77 % on 2018

RWE's capital expenditure amounted to €674 million in the first half of 2019, rising by €294 million, or 77 %, compared to 2018. Our capital expenditure on property, plant and equipment totalled €652 million, more than twice as much as in the same period last year. The strong rise was in part due to the construction of the British offshore wind farm Triton Knoll and the Australian solar farm Limondale. More detailed information on these two large-scale projects can be found on page 38 of the 2018 Annual Report. We also spent more on maintenance at our power stations. Furthermore, the adoption of IFRS 16 came to bear, as it caused rights to use leased assets to be capitalised. Conversely, at €22 million, spending on financial assets was not significant. Last year, this figure totalled €100 million, above all due to the acquisition of onshore wind projects in the USA.

Cash flow statement[1] € million	Jan – Jun 2019	Jan – Jun 2018	+/–	Jan – Dec 2018
Funds from operations	–268	70	–338	138
Change in working capital	–868	1,841	–2,709	4,473
Cash flows from operating activities of continuing operations	**–1,136**	**1,911**	**–3,047**	**4,611**
Cash flows from investing activities of continuing operations	**1,558**	**–1,287**	**2,845**	**–2,999**
Cash flows from financing activities of continuing operations	**–615**	**–957**	**342**	**–1,559**
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	8	23	–15	13
Total net changes in cash and cash equivalents	**–185**	**–310**	**125**	**66**
Cash flows from operating activities of continuing operations	–1,136	1,911	–3,047	4,611
Minus capital expenditure[2]	–560	–390	–170	–1,246
Plus proceeds from divestitures/asset disposals[2]	49	34	15	74
Free cash flow	**–1,647**	**1,555**	**–3,202**	**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 –€1,136 million. This was substantially lower than the figure for the first half of 2018 (€1,911 million), mainly due to effects reflected in the change in working capital. For example, there were substantial cash outflows related to the realisation of commodity forward transactions 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. Their influence on cash flows is temporary, however, and reverses once the transactions are realised.

Investing activities of our continuing operations resulted in a cash inflow of €1,558 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. During the first half of 2018, an outflow of €1,287 million was recorded, as we made significant purchases of securities.

Financing activities of our continuing operations led to a net cash outflow of €615 million (previous year: €957 million). In the period under review, we issued financial debt of €6,516 million and redeemed debt amounting to €5,723 million. We also called a £750 million hybrid bond (see page 9), which had an impact of –€869 million on the cash flow statement. Payments made to RWE shareholders, hybrid capital investors and co-owners of fully consolidated RWE companies totalled €531 million.

The aforementioned cash flows from operating, investing and financing activities decreased our cash and cash equivalents by €185 million.

Our free cash flow was characterised by the operating cash outflows and the increase in investing activity. It totalled –€1,647 million and was therefore much lower than in 2018 (€1,555 million).

Net debt € million	30 Jun 2019	31 Dec 2018	+/–
Cash and cash equivalents	3,265	3,523	–258
Marketable securities	2,656	3,863	–1,207
Other financial assets	2,614	2,809	–195
Financial assets	**8,535**	**10,195**	**–1,660**
Bonds, other notes payable, bank debt, commercial paper	3,318	1,657	1,661
Hedge transactions related to bonds	11	12	–1
Other financial liabilities	1,404	1,107	297
Financial liabilities	**4,733**	**2,776**	**1,957**
Net financial debt	**3,802**	**7,419**	**–3,617**
Provisions for pensions and similar obligations	3,540	3,287	253
Surplus of plan assets over benefit obligations	–137	–213	76
Provisions for nuclear waste management	6,055	5,944	111
Mining provisions	2,545	2,516	29
Provisions for dismantling wind farms	389	362	27
Adjustment for hybrid capital	–555	–88	–467
Plus 50% of the hybrid capital stated as equity	–	470	–470
Minus 50% of the hybrid capital stated as debt	–555	–558	3
Net debt of continuing operations	**8,035**	**4,389**	**3,646**
Net debt of discontinued operations	**18,798**	**14,950**	**3,848**
Net debt	**26,833**	**19,339**	**7,494**

Net debt: significant increase due to negative operating cash flows and adoption of IFRS 16

As of 30 June 2019, net debt amounted to €26.8 billion, up €7.5 billion compared to the end of 2018.

The net debt of continuing operations rose by €3.6 billion to €8.0 billion, in part due to the negative operating cash flow. The acquisition of innogy's stake in IGH presented on page 5 had an impact of €1.8 billion, but at the Group level the effect was neutral, as it resulted in a corresponding inflow of funds recorded for discontinued operations. First-time application of IFRS 16 increased the net debt of continuing operations by €0.4 billion. In addition, pension and nuclear provisions rose by €0.3 billion and €0.1 billion, largely owing to market-induced reductions in discount rates. The redemption of the £750 million hybrid bond drove up 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 subsidiary with us prior to its IPO in 2016 (see page 52 of the 2016 Annual Report).

The net debt of discontinued operations amounted to €18.8 billion, up €3.8 billion compared to the end of 2018. The first-time application of IFRS 16 was responsible for €1.9 billion of this. Other factors included the seasonally-induced €0.6 billion in negative operating cash flow, a €0.6 billion rise in provisions for pensions, and the aforementioned loan repayment to RWE AG, whereas the proceeds from the sale of IGH increased financial assets.

Group balance sheet structure	30 Jun 2019		31 Dec 2018	
	€ million	%	€ million	%
Assets				
Non-current assets	19,267	23.4	18,595	23.2
of which:				
Intangible assets	2,179	2.6	2,193	2.7
Property, plant and equipment	13,017	15.8	12,409	15.5
Current assets	63,229	76.6	61,513	76.8
of which:				
Trade accounts receivable	1,516	1.8	1,963	2.5
Receivables and other assets	11,970	14.5	10,291	12.8
Marketable securities	2,394	2.9	3,609	4.5
Assets held for sale	42,849	51.9	40,496	50.6
Total	**82,496**	**100.0**	**80,108**	**100.0**
Equity and liabilities				
Equity	12,145	14.7	14,257	17.8
Non-current liabilities	19,911	24.1	20,007	25.0
of which:				
Provisions	15,527	18.8	15,863	19.8
Financial liabilities	2,533	3.1	1,998	2.5
Current liabilities	50,440	61.2	45,844	57.2
of which:				
Provisions	2,263	2.7	2,615	3.3
Financial liabilities	2,188	2.7	766	1.0
Trade accounts payable	2,303	2.8	2,429	3.0
Other liabilities	9,163	11.2	7,238	9.0
Liabilities held for sale	34,523	41.8	32,796	40.9
Total	**82,496**	**100.0**	**80,108**	**100.0**

Equity ratio down to 14.7 %

As of the cut-off date for the financial statements, we had a balance-sheet total of €82.5 billion. The discontinued innogy operations are included in this figure. We stated them separately in the items 'assets held for sale' (€42.8 billion) and 'liabilities held for sale' (€34.5 billion). These two items were €2.4 billion and €1.7 billion higher than at the end of 2018. This was a major reason why our balance-sheet total advanced by €2.4 billion. The following material changes occurred at our continuing operations. On the assets side of the balance sheet, current receivables and other assets were up €1.7 billion, largely due to increases in the value of commodity derivatives. This was contrasted by a €1.2 billion decline recorded by the marketable securities on our books. On the equity and liabilities side, current financial liabilities increased by €1.4 billion. The backdrop to this is that we issued a large volume of commercial paper. 'Other liabilities' were €1.9 billion higher than at the end of last year, above all due to a significant rise in liabilities from commodity derivatives. Conversely, the RWE Group's equity declined by €2.1 billion to €12.1 billion. Its share of the balance-sheet total (the equity ratio) decreased by 3.1 percentage points to 14.7 %.

Workforce[1]	30 Jun 2019	31 Dec 2018	+/–
Lignite & Nuclear	11,258	11,292	–34
European Power	2,794	2,738	56
Supply & Trading	1,299	1,267	32
innogy – continuing operations	2,259	2,192	67
Other[2]	280	259	21
RWE Group	**17,890**	**17,748**	**142**

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

Headcount virtually unchanged

As of 30 June 2019, the RWE Group's continuing operations had 17,890 people on their payroll, of which 14,893 were employed in Germany and 2,997 worked at locations abroad. Part-time positions were considered in these figures on a pro-rata basis. Personnel figures were essentially the same as at the end of 2018. On balance, headcount was up 142, in part due to the expansion of innogy's offshore wind capacity.

DEVELOPMENT OF RISKS AND OPPORTUNITIES

General assessment of risks and opportunities

Information on the structure and processes of our risk management, the responsible organisational units, the major risks and opportunities as well as our measures to control and monitor risks is presented on pages 73 et seqq. of our 2018 Annual Report. This presentation reflects the information we had as of February 2019. Our assessment of the risks and opportunities has not changed significantly since then. We still classify two risk categories as 'high': 'regulatory and political risks' and 'other risks'.

- Regulatory and political risks: The earnings prospects of conventional electricity generation greatly depend on the steps taken by politicians in order to reduce greenhouse gas emissions in the energy sector. As set out on pages 5 et seq., the Growth, Structural Change and Employment Commission submitted a concept for phasing out coal in Germany by 2038, which the government now intends to enshrine in law. We welcome the intention to implement the shutdowns in agreement with the operators and in exchange for appropriate compensatory payments. The talks we are currently conducting with the German government reinforce our expectation of a constructive and fair solution. The situation in the Netherlands is slightly more difficult. As anticipated, in early July 2019 the nation's lower house approved a draft law on the Dutch exit from coal by 2030. Consequently, we will have to stop using hard coal in the Amer 9 and Eemshaven power stations starting in 2025 and 2030, respectively. Then these plants would have to be shut down or converted to fire only alternative fuels (e. g. biomass). The law does not envisage compensation for resulting financial burdens. This exposes us to the risk of substantial economic disadvantages. If the law enters into force unamended following the approval of the upper house, we will very probably take legal action, seeking to receive appropriate compensation.

- Other risks: We include the likelihood of failed planned acquisitions or divestments in this risk class. In this regard, our main focus is the asset swap with E.ON. The potential damage in the event of this transaction's failure is substantial. However, we believe it is highly unlikely that this will happen. The progress made in the approval procedure since February 2019 and the clearances obtained underpin our expectation that we will successfully complete the swap soon.

Thanks to our risk management system and the comprehensive measures for safeguarding our financial and earning power described earlier, we are confident that we can manage all current risks to RWE. At the same time, we are working to ensure that this remains the case in the future.

Current risk indicators

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

In the trading business of RWE Supply & Trading, the VaR is limited to €40 million for commodity positions. From January to June 2019, it averaged €16 million, compared to €14 million for the same period last year. The highest daily level was €22 million (previous year: €19 million).

Our LNG business and management of our gas portfolio are pooled in a dedicated organisational unit of RWE Supply & Trading. The current VaR ceiling for these activities is €14 million (previous year: €12 million). In the first half of 2019, the average was €6 million (previous year: €4 million).

The development of market interest rates is a major financial risk. If they rise, we can suffer losses on the securities on our books. This primarily relates to fixed-interest bonds. The VaR for the interest rate-driven securities price risk for the capital investments of RWE AG (without innogy) averaged €4 million in the first half of the year (previous year: €4 million). In addition, rising interest rates drive up our finance costs. We measure this risk using the cash flow at risk (CFaR). In doing so, we apply a confidence level of 95 % and a holding period of one year. The CFaR at RWE AG amounted to €8 million (previous year: €3 million).

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

RWE is also exposed to risks from fluctuations in foreign exchange rates. This results in part from our operations in the United Kingdom. Furthermore, energy commodities such as hard coal and crude oil are traded in US dollars. The average VaR for RWE AG's foreign currency position was €2 million (previous year: less than €1 million).

OUTLOOK FOR 2019

RWE raises earnings forecast for 2019

As presented on page 15, earnings in fiscal 2019 will probably be better than anticipated. Our previous outlook, which we published in the 2018 Annual Report and confirmed in the interim statement on the first quarter of 2019, envisaged the Group recording adjusted EBITDA in the range of €1.4 billion to €1.7 billion. We are lifting this range to €1.6 billion to €1.9 billion. The reason for this is the exceptionally positive development of business at Supply & Trading. We originally forecast adjusted EBITDA of €100 million to €300 million for this segment. Now we expect it to be significantly above €300 million. Our forecasts for the other segments remain unchanged. An overview of the anticipated development of EBITDA can be found in the following table.

Forecast for adjusted EBITDA € million	2018 actual	Previous forecast May 2019[1]	Adjusted outlook
RWE Group	1,538	1,400–1,700	1,600–1,900
of which:			
Lignite & Nuclear	356	300–400	–
European Power	334	250–350	–
Supply & Trading	183	100–300	Significantly above 300
innogy – continuing operations	699	800–900	–

1 See interim statement on the first quarter of 2019, page 15.

With anticipated operating depreciation, amortisation and impairment losses totalling about €1 billion, the Group's adjusted EBIT is expected to be in the order of €0.6 billion to €0.9 billion, as opposed to the €0.4 billion to €0.7 billion forecast previously.

We confirm the outlook for capital expenditure, which should be substantially higher than in 2018 (€1.3 billion). Among other things, construction of the British offshore wind farm Triton Knoll and the Australian solar farm Limondale lead to significant outlays. Our stronger investment activity is one reason we expect that the net debt of the Group's continuing operations will be significantly higher at the end of the year compared to 2018 (€4.4 billion). Another reason for this is that we received high variation margins for commodity forwards in the past and some of the positive cash effects will be reversed this year when the contracts are realised (see page 19).

RWE figures with innogy as a purely financial investment: earnings forecast also raised

For financial planning purposes, we also use Group figures in which we include innogy as a purely financial investment. In doing so, we consider our subsidiary on the income statement only with the dividend due to RWE. Additional information on how these figures are calculated can be found on page 58 of the 2018 Annual Report. Employing this methodology for fiscal 2019, RWE's adjusted EBITDA is expected to total between €1.4 billion and €1.7 billion (previous year: €1.5 billion). This is also an updated estimate. We previously anticipated a range of €1.2 billion to €1.5 billion. We also raised our forecast for adjusted net income. We now expect it to range from €0.5 billion to €0.8 billion (previous year: €0.6 billion) compared to our initial estimate of €0.3 billion to €0.6 billion.

RESPONSIBILITY STATEMENT

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

Essen, 9 August 2019

The Executive Board

Schmitz Krebber

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONDENSED)

Income statement

€ million	Apr – Jun 2019	Apr – Jun 2018[1]	Jan – Jun 2019	Jan – Jun 2018[1]
Revenue (including natural gas tax/electricity tax)	**3,132**	**3,036**	**7,040**	**6,756**
Natural gas tax/electricity tax	−36	−34	−75	−69
Revenue[2]	**3,096**	**3,002**	**6,965**	**6,687**
Cost of materials	−2,700	−2,559	−5,519	−5,067
Staff costs	−517	−503	−1,040	−974
Depreciation, amortisation and impairment losses	−259	−229	−513	−440
Other operating result	−83	65	105	−16
Income from investments accounted for using the equity method	103	54	165	102
Other income from investments	−27	−42	2	−40
Financial income	205	56	405	232
Finance costs	−338	−132	−637	−416
Income from continuing operations before tax	**−520**	**−288**	**−67**	**68**
Taxes on income	229	−25	151	−86
Income from continuing operations	**−291**	**−313**	**84**	**−18**
Income from discontinued operations	298	−112	1,311	539
Income	**7**	**−425**	**1,395**	**521**
of which: non-controlling interests	138	18	550	329
of which: RWE AG hybrid capital investors' interest		15	15	30
of which: net income/income attributable to RWE AG shareholders	**−131**	**−458**	**830**	**162**
Basic and diluted earnings per share in €	**−0.21**	**−0.75**	**1.35**	**0.26**
of which: from continuing operations in €	−0.49	−0.54	0.03	−0.15
of which: from discontinued operations in €	0.28	−0.21	1.32	0.41

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 €71 million in the first half of 2018.

2 A presentation of revenue by product and segment can be found on page 14.

Statement of comprehensive income

Amounts after tax – € million	Apr – Jun 2019	Apr – Jun 2018[1]	Jan – Jun 2019	Jan – Jun 2018[1]
Income	**7**	**–425**	**1,395**	**521**
Actuarial gains and losses of defined benefit pension plans and similar obligations	–524	–244	–606	–430
Prorated income and expenses of investments accounted for using the equity method	–1	23	–1	23
Fair valuation of equity instruments	1	13	105	–14
Income and expenses recognised in equity, not to be reclassified through profit or loss	**–524**	**–208**	**–502**	**–421**
Currency translation adjustment	–63	–170	42	–69
Fair valuation of debt instruments	30	–8	64	–13
Fair valuation of financial instruments used for hedging purposes	948	813	–396	1,748
Prorated income and expenses of investments accounted for using the equity method		–3		–3
Income and expenses recognised in equity, to be reclassified through profit or loss in the future	**915**	**632**	**–290**	**1,663**
Other comprehensive income	**391**	**424**	**–792**	**1,242**
Total comprehensive income	**398**	**–1**	**603**	**1,763**
of which: attributable to RWE AG shareholders	364	14	206	1,447
of which: attributable to RWE AG hybrid capital investors		15	15	30
of which: attributable to non-controlling interests	34	–30	382	286

1 Figures restated: pursuant to IFRS 9, €130 million in fair value changes recognised as basis adjustments are no longer recognised in total comprehensive income.

Balance sheet

Assets € million	30 Jun 2019	31 Dec 2018
Non-current assets		
Intangible assets	2,179	2,193
Property, plant and equipment	13,017	12,409
Investments accounted for using the equity method	1,516	1,467
Other non-current financial assets	404	400
Receivables and other assets	1,210	1,302
Deferred taxes	941	824
	19,267	**18,595**
Current assets		
Inventories	1,235	1,631
Trade accounts receivable	1,516	1,963
Receivables and other assets	11,970	10,291
Marketable securities	2,394	3,609
Cash and cash equivalents	3,265	3,523
Assets held for sale	42,849	40,496
	63,229	**61,513**
	82,496	**80,108**

Equity and liabilities € million	30 Jun 2019	31 Dec 2018
Equity		
RWE AG shareholders' interest	7,594	8,736
RWE AG hybrid capital investors' interest		940
Non-controlling interests	4,551	4,581
	12,145	**14,257**
Non-current liabilities		
Provisions	15,527	15,863
Financial liabilities	2,533	1,998
Other liabilities	546	508
Deferred taxes	1,305	1,638
	19,911	**20,007**
Current liabilities		
Provisions	2,263	2,615
Financial liabilities	2,188	766
Trade accounts payable	2,303	2,429
Other liabilities	9,163	7,238
Liabilities held for sale	34,523	32,796
	50,440	**45,844**
	82,496	**80,108**

Cash flow statement

€ million	Jan – Jun 2019	Jan – Jun 2018
Income from continuing operations	84	–18
Depreciation, amortisation and impairment losses/write-backs	512	485
Changes in provisions	–607	–523
Deferred taxes/non-cash income and expenses/income from disposal of non-current assets and marketable securities	–257	126
Changes in working capital	–868	1,841
Cash flows from operating activities of continuing operations	**–1,136**	**1,911**
Cash flows from operating activities of discontinued operations	–568	–112
Cash flows from operating activities	**–1,704**	**1,799**
Capital expenditure on non-current assets/acquisitions	–560	–390
Proceeds from disposal of assets/divestitures	49	34
Changes in marketable securities and cash investments	2,069	–931
Cash flows from investing activities of continuing operations [1]	**1,558**	**–1,287**
Cash flows from investing activities of discontinued operations	–260	–616
Cash flows from investing activities	**1,298**	**–1,903**
Cash flows from financing activities of continuing operations	**–615**	**–957**
Cash flows from financing activities of discontinued operations	–243	1,199
Cash flows from financing activities	**–858**	**242**
Net cash change in cash and cash equivalents	–1,264	138
Effect of changes in foreign exchange rates and other changes in value on cash and cash equivalents	8	23
Net change in cash and cash equivalents	**–1,256**	**161**
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	**3,969**	**4,119**
of which: reported as ‘Assets held for sale’	704	866
Cash and cash equivalents at end of reporting period as per the consolidated balance sheet	**3,265**	**3,253**

1 After the initial/subsequent transfer to plan assets in the amount of €42 million (prior-year period: €41 million).

Statement of changes in equity

€ million	Subscribed capital and additional paid-in capital of RWE AG	Retained earnings and distributable profit	Accumulated other comprehensive income	**RWE AG shareholders' interest**	RWE AG hybrid capital investors' interest	Non-controlling interests	**Total**
Balance at 1 Jan 2018	**3,959**	**2,393**	**371**	**6,723**	**940**	**4,283**	**11,946**
Repayment of capital						−19	−19
Dividends paid		−922		−922	−60	−494	−1,476
Income		162		162	30	329	521
Other comprehensive income		−390	1,675	1,285		−43	1,242
Total comprehensive income		−228	1,675	1,447	30	286	1,763
Other changes		6	130[1]	136		120	256
Balance at 30 Jun 2018	**3,959**	**1,249**	**2,176**	**7,384**	**910**	**4,176**	**12,470**
Balance at 1 Jan 2019	**3,959**	**1,139**	**3,638**	**8,736**	**940**	**4,581**	**14,257**
Repayment of capital					−869	−1	−870
Dividends paid		−430		−430	−61	−445	−936
Income		830		830	15	550	1,395
Other comprehensive income		−351	−273	−624		−168	−792
Total comprehensive income		479	−273	206	15	382	603
Other changes		−44	−874	−918	−25	34	−909
Balance at 30 Jun 2019	**3,959**	**1,144**	**2,491**	**7,594**		**4,551**	**12,145**

1 Pursuant to IFRS 9, separate presentation of fair value changes that are recognised as a basis adjustment and were previously presented in total comprehensive income.

NOTES

Accounting policies

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

The interim consolidated financial statements as of 30 June 2019, including the additional information in the interim Group review of operations, have been prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable in the European Union (EU). The statements were authorised for issue on 9 August 2019.

In line with IAS 34, the scope of reporting for the presentation of the interim consolidated financial statements for the period ended 30 June 2019 was condensed compared with the scope applied to the consolidated financial statements as of 31 December 2018.

With the exception of the changes and new rules described below, these interim consolidated financial statements were prepared using the accounting policies applied in the consolidated financial statements for the period ended 31 December 2018. For further information, please see the Group's 2018 Annual Report, which provides the basis for this half-year financial report.

The discount rate applied to provisions for nuclear waste management is 0.0 % (31 December 2018: 0.4 %), and 4.1 % (31 December 2018: 4.1 %) for mining-related provisions. Provisions for pensions and similar obligations are discounted at an interest rate of 1.2 % in Germany and 2.2 % abroad (31 December 2018: 1.70 % and 2.70 %, respectively).

Changes in accounting regulations

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have approved new IFRSs, several amendments to existing IFRSs and a new interpretation, which are effective for the RWE Group as of fiscal 2019:

IFRS 16 Leases (2016) replaces IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. RWE is applying the modified retrospective method in the initial adoption of the new regulations concerning lease accounting. The comparable information for fiscal 2018 has not been adjusted. RWE is adhering to its existing assessment as to whether existing contracts contain a lease in accordance with IAS 17 and IFRIC 4. Furthermore, RWE is making use of exemptions allowing for leases relating to short-term or low-value assets not to be recognised on the balance sheet as a right-of-use asset. The transition to IFRS 16 did not have any effects on equity.

The initial application of IFRS 16 had the following effects on the continuing operations of the RWE Group: Right-of-use assets in the amount of €353 million and net debt-increasing lease liabilities in the same amount were recognised as of 1 January 2019. Taking the discontinued operations into consideration, the initial application of IFRS 16 led to an increase in the balance-sheet total of €2,251 million. RWE did not apply the new regulations to leases, the terms of which end within the first twelve months from the date of initial application, at the transition date. These contracts are accounted for as short-term leases and the lease instalments are recognised in the period's current expenses. Likewise, initial direct costs were not taken into consideration in the initial valuation of the right-of-use assets at the transition date. Right-of-use assets pursuant to IFRS 16 are recognised in property, plant and equipment and amortised linearly over the shorter of the term of the lease or the period of use. Obligations entered into as part of a lease are measured at the present value of the future lease instalments and recognised in financial liabilities. The lease instalments are broken down into principal and interest components applying the effective interest method. In the period under review, depreciation and amortisation rose by €21 million and interest expenses rose by €6 million as a result of the introduction of IFRS 16. The abolishment of the recognition of the nominal lease instalments with an effect on expenses provided roughly the same amount of relief to adjusted EBITDA during the period under review, as a result of which there was no material effect on net income.

The following reconciliation to the opening balance of lease liabilities as of 1 January 2019 results from the obligations from operating leases as of 31 December 2018:

Initial application of IFRS 16: reconciliation € million	
Obligations from operating leases as of 31 Dec 2018	**572**
Simplified application for short-term leases	−10
Lease instalments related to contractually agreed leases that have not yet commenced	−67
Other differences	−3
Nominal value of lease liabilities as of 1 Jan 2019	492
Effect of discounting lease liabilities	−139
Lease liabilities recognised as of 1 Jan 2019 due to the initial application of IFRS 16	**353**
Finance lease liabilities as of 31 Dec 2018	241
Total lease liabilities as of 1 Jan 2019	**594**

The 'other differences' item essentially contains non-lease components that were not considered when recognising lease liabilities and differences due to changed estimates of terms in accordance with IFRS 16. Lease liabilities are discounted applying term and currency-specific incremental borrowing rates. The weighted average incremental borrowing rate at the initial application date of IFRS 16 was 3.7 %.

The following amendments to standards and new interpretations mandatory for the RWE Group starting in fiscal 2019 do not have any material effects on the consolidated financial statements of RWE:

- Annual Improvements to IFRS Standards, 2015-2017 Cycle (2017),
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (2017),
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (2017),
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (2018),
- IFRIC 23 Uncertainty over Income Tax Treatments (2017).

IFRS 9 Financial Instruments – Physical Settlement of Contracts to Buy or Sell a Non-financial Item

At its meeting in March 2019, the IFRS IC found within the scope of an agenda decision that contracts for forward purchases or sales of non-financial items must be realised at the market price applicable at physical settlement, as long as such contracts do not qualify for an own use scope exception according to IFRS 9 (referred to as 'failed own-use contracts'). The practice customary in the sector thus far has been to state the contracts at their settlement amount.

The effects of the IFRS IC agenda decision on the consolidated financial statements of RWE are currently being determined. It is envisaged to implement the IFRS IC agenda decision at the end of fiscal 2019.

New accounting policies

The IASB issued further standards and amendments to standards, which are not yet mandatory in the EU in fiscal 2019. These standards and amendments to standards are listed on the right and are not expected to have any material effects on RWE's consolidated financial statements:

- IFRS 17 Insurance Contracts (2017),
- Amendments to References to the Conceptual Framework in IFRS Standards (2018),
- Amendment to IFRS 3 Business Combinations (2018),
- Amendments to IAS 1 and IAS 8; Definition of Material (2018).

Scope of consolidation

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

The following summary shows the changes in the number of fully consolidated companies:

Number of fully consolidated companies	Germany	Abroad	Total
Balance at 1 Jan 2019	**141**	**215**	**356**
First-time consolidation	2	19	21
Deconsolidation	−1	−7	−8
Mergers		−3	−3
Balance at 30 Jun 2019	**142**	**224**	**366**

As at 31 December 2018, there were 21 investments and joint ventures accounted for using the equity method, of which nine were in Germany and 12 were abroad. Furthermore, six companies are presented as joint operations (31 December 2018: six companies).

Discontinued operations

E.ON-innogy asset swap

On 12 March 2018, RWE AG and E.ON SE reached a contractual agreement to transfer the 76.8 % majority stake in innogy held by RWE to E.ON as part of an extensive exchange of operations and shareholdings. The innogy assets that are to be transferred to E.ON over the long term will be stated as 'discontinued operations' until they have been sold. This mainly relates to the grid and retail business. By contrast, due to contractual arrangements, RWE will retain control over the relevant activities of the innogy operations that will remain with RWE over the long term (the renewables business, the gas storage business and the stake in the Austrian energy utility Kelag). Furthermore, RWE will be entitled to the value created by these business activities. Therefore, they will all be fully consolidated by RWE and presented under 'innogy – continuing operations' in segment reporting. The transaction values the 76.8 % stake in innogy held by RWE including the assumed dividends of innogy SE for fiscal 2017 and 2018 totalling €3.24 per share, to which RWE remains entitled, at €40.00 per share. The transaction volume thus amounts to about €17.1 billion. The Supervisory Board of RWE AG has approved the sale. The transaction is subject to authority approvals. It is envisaged to close during 2019.

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

In the middle of February 2019, RWE acquired the majority stake in the Czech distribution system operator innogy Grid Holding a.s. (IGH) held by innogy SE. The transaction concluded with E.ON envisages that E.ON acquire the stake in IGH as part of its planned acquisition of innogy SE from RWE. The execution of the deal with E.ON triggered a right of first refusal for the co-shareholder of IGH 'Macquarie Infrastructure and Real Assets (MIRA) managed consortium of investors'. MIRA exercised this right of first refusal on 29 April 2019. As a result, MIRA will purchase the 50.04 % stake at the same terms and conditions at which it would have been sold by RWE to a third party – E.ON in this case. This will make MIRA the sole shareholder of IGH. Pursuant to antitrust law, the execution of the acquisition is subject to the suspensory condition that E.ON may acquire the shares in innogy held by RWE. The sale price is approximately €1.8 billion. As the overall plan to sell the grid and retail business remains unchanged, IGH will continue to be stated under 'innogy – discontinued operations'.

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

Key figures of discontinued operations € million	30 Jun 2019	31 Dec 2018
Non-current assets		
Intangible assets	10,817	10,716
Property, plant and equipment	14,656	14,000
Other non-current assets	5,136	5,363
	30,609	**30,079**
Current assets	**12,240**	**10,417**
Non-current liabilities		
Provisions	5,101	4,557
Financial liabilities	14,180	14,147
Other non-current liabilities	2,606	3,065
	21,887	**21,769**
Current liabilities	**12,636**	**11,027**

Key figures of discontinued operations € million	Jan – Jun 2019	Jan – Jun 2018[1]
Revenue[2]	17,658	17,807
Other income[3]	1,339	717
Expenses[4]	–17,143	–17,870
Income from discontinued operations before tax	1,854	654
Taxes on income	–543	–115
Income from discontinued operations	1,311	539

1 Figures restated.
2 Including income from continuing operations in the amount of €1,247 million (prior-year period: €1,425 million).
3 Including income from continuing operations in the amount of €93 million (prior-year period: €124 million).
4 Including expenses from continuing operations in the amount of €7,663 million (prior-year period: €9,096 million).

Accumulated other comprehensive income from discontinued operations amounted to –€705 million (31 December 2018: –€773 million).

Of the share of total comprehensive income attributable to RWE AG shareholders, –€495 million (prior-year period: €1,448 million) were allocable to continuing operations and €701 million (prior-year period: –€1 million) were allocable to discontinued operations.

Share-based payment

The consolidated financial statements for the period ended 31 December 2018 presented the share-based payment systems for executives of RWE AG and subordinate affiliates. As part of the Long-Term Incentive Plan for executives entitled 'Strategic Performance Plan' (SPP), RWE AG issued another tranche for fiscal 2019.

The SPP Long-Term Incentive Plan for executives of innogy SE and subordinate affiliates was discontinued in the first quarter of 2019 and replaced by the new Long-Term Incentive Plan 2019. The new plan pays a retention bonus to the executives for fiscal 2019 and 2020 in order to retain them longer at innogy SE. The one-time tranche has a term of two years before payments are made in January 2021. The payments are fixed and are not linked to the performance of the executives or the company.

Impairments

An impairment of €514 million (previous year: €5 million) was recognised for coal and gas inventories in the period under review due to a decline in market prices.

Dividend distribution

RWE AG's Annual General Meeting, held on 3 May 2019, decided to pay a dividend of €0.70 per individual, dividend-bearing common and preferred share for fiscal 2018. The dividend payment for fiscal 2018 totalled €430 million (previous year: €922 million).

Financing measures

On 6 February 2019, RWE cancelled a £750 million hybrid bond and redeemed it as of 20 March 2019 without replacing it with fresh hybrid capital. The hybrid bond was classified as equity in accordance with IAS 32. It had a coupon of 7% and a theoretically perpetual tenor.

In mid-April 2019, RWE replaced its €3 billion syndicated credit line before the end of its term with a new agreement for €5 billion. The increased line of credit, which was agreed with a consortium of 27 international banks, consists of two tranches: one with a volume of €3 billion and a term of five years, which can be extended twice by one year each time with the banks' agreement, and one with a volume of €2 billion and a two-year term. The second tranche has a one-year extension option which does not require the banks' approval.

Earnings per share

		Jan – Jun 2019	Jan – Jun 2018
Net income/income attributable to RWE AG shareholders	€ million	830	162
of which: from continuing operations		18	−94
of which: from discontinued operations		812	256
Number of shares outstanding	thousands	614,745	614,745
Basic and diluted earnings per share	€	1.35	0.26
of which: from continuing operations	€	0.03	−0.15
of which: from discontinued operations	€	1.32	0.41

RWE AG's 39,000,000 non-voting preferred shares were converted to voting common shares as a result of a resolution passed by the Annual General Meeting and the Preferred Shareholders Meeting on 3 May 2019 and the entry of the corresponding amendment to the Articles of Incorporation in the Commercial Register on 28 June 2019. The conversion was performed at a ratio of 1:1 without an additional payment. This increased the number of common shares from 575,745,499 to 614,745,499.

Related party disclosures

The RWE Group classifies associated companies and joint ventures as related parties. In the first half of 2019, transactions concluded with material related parties generated €288 million in income (first half of 2018: €456 million). Last year's figure was restated due to a change in the recognition of feed-in payments under the German Renewable Energy Act that were passed through. These were previously stated in gross amounts in revenue and the cost of materials. Furthermore, transactions conducted with related parties led to €1,574 million in expenses (first half of 2018: €1,769 million). As of 30 June 2019, accounts receivable amounted to €459 million (31 December 2018: €204 million) and accounts payable totalled €248 million (31 December 2018: €199 million). All business transactions were concluded at arm's length conditions and on principle do not differ from transactions involving the supply of goods and services concluded with other companies. Other obligations from executory contracts amounted to €510 million (31 December 2018: €578 million).

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

Reporting on financial instruments

Financial instruments are divided into non-derivative and derivative. Non-derivative financial assets essentially include other financial assets, accounts receivable, marketable securities and cash and cash equivalents. Financial instruments are recognised at amortised cost or fair value, depending on their classification. Financial instruments are assigned to the following categories for accounting purposes:

- Debt instruments measured at amortised cost: The contractual cash flows solely consist of interest and principal on the outstanding capital and the financial instrument is intended to be held to final maturity.
- Debt instruments measured at fair value through other comprehensive income: The contractual cash flows solely consist of interest and principal on the outstanding capital and the financial instrument is intended to be held and sold.
- Equity instruments measured at fair value through other comprehensive income: The option to recognise changes in fair value in other comprehensive income is exercised.
- Financial assets measured at fair value through profit or loss: The contractual cash flows of debt instruments do not solely consist of interest and principal on the outstanding capital or the option to recognise changes in the fair value of equity instruments in other comprehensive income is not exercised.

On the liabilities side, non-derivative financial instruments principally include liabilities recorded at amortised cost.

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

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

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

As a rule, the carrying amounts of financial assets and liabilities subject to IFRS 7 are identical with their fair values. There are deviations only in relation to financial liabilities. Their carrying amounts totalled €4,053 million (31 December 2018: €2,764 million) and their fair values totalled €4,327 million (31 December 2018: €2,842 million). Due to the initial application of IFRS 16, the figures stated for financial liabilities in the current reporting period no longer include lease liabilities, whereas these were considered in the figures of last year's corresponding period.

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

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

Fair value hierarchy € million	Total 30 Jun 2019	Level 1	Level 2	Level 3	Total 31 Dec 2018	Level 1	Level 2	Level 3
Other financial assets	404	91	166	147	400	93	159	148
Derivatives (assets)	8,968		8,809	159	7,271		7,115	156
of which: used for hedging purposes	1,603		1,603		1,644		1,644	
Securities	2,391	1,827	564		3,606	1,618	1,988	
Assets held for sale	3,333	1,925	595	813	4,031	1,755	1,472	804
Derivatives (liabilities)	8,849		8,818	31	7,060		7,025	35
of which: used for hedging purposes	1,559		1,559		1,134		1,134	
Liabilities held for sale	675		675		1,343		1,343	

Due to the increased number of price quotations on active markets, securities with a fair value of €46 million (31 December 2018: €14 million) were reclassified from Level 2 to Level 1. Conversely, due to a reduction in the number of price quotations, financial assets with a fair value of €5 million (31 December 2018: €12 million) were reclassified from Level 1 to Level 2.

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

Level 3 financial instruments: Development in 2019	Balance at 1 Jan 2019	Changes in the scope of consolidation, currency adjustments and other	Changes			Balance at 30 Jun 2019
€ million			Recognised in profit or loss	Recognised in OCI	With a cash effect	
Other financial assets	148	1	−3	−2	3	147
Derivatives (assets)	156	−1	27		−23	159
Assets held for sale	804	−14	−15		38	813
Derivatives (liabilities)	35	−1	8		−11	31

Level 3 financial instruments: Development in 2018 € million	Balance at 1 Jan 2018	Changes in the scope of consolidation, currency adjustments and other	Changes			Balance at 30 Jun 2018
			Recognised in profit or loss	Recognised in OCI	With a cash effect	
Other financial assets	821	−739	9	7	66	164
Financial receivables	35	−35				
Derivatives (assets)	33	−1	12		−10	34
Assets held for sale		792				792
Derivatives (liabilities)	4	−1	2		−3	2

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

Level 3 financial instruments: Amounts recognised in profit or loss € million	Total Jan – Jun 2019	Of which: attributable to financial instruments held at the balance-sheet date	Total Jan – Jun 2018	Of which: attributable to financial instruments held at the balance-sheet date
Revenue	3	3	10	10
Cost of materials	−13	−13		
Other operating income/expenses	29	29		
Income from investments	−3	−3	−1	−1
Income from discontinued operations	−15	14	10	10
	1	**30**	**19**	**19**

Level 3 derivative financial instruments essentially consist of energy purchase and commodity agreements, which relate to trading periods for which there are no active markets yet. The valuation of such depends on the development of electricity and gas prices in particular. All other things being equal, rising market prices cause the fair values to increase, whereas declining market prices cause them to drop. A change in pricing by +/−10% would cause the market value to rise by €47 million or decline by €47 million.

Events after the balance-sheet date

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

REVIEW REPORT

To RWE Aktiengesellschaft, Essen

We have reviewed the condensed consolidated interim financial statements – comprising the condensed income statement, condensed statement of comprehensive income, condensed statement of financial position, condensed statement of cash flows, condensed statement of changes in equity and selected explanatory notes – and the interim group management report of RWE Aktiengesellschaft, Essen, for the period from January 1, 2019 to June 30, 2019 which are part of the half-year financial report pursuant to § (Article) 115 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

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

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

Essen, 9 August 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

Financial Calendar 2019/2020

14 November 2019	Interim statement on the first three quarters of 2019
12 March 2020	Annual report for fiscal 2019
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

This document was published on 14 August 2019. It is a translation of the German interim report on the first half of 2019. In case of divergence from the German version, the German version shall prevail.

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