INTERIM REPORT ON THE
FIRST HALF OF 2017

- Adjusted EBITDA up 7% in first half of 2017
- Lower net debt due to nuclear fuel tax refund
- Outlook for 2017 Group result confirmed
- Adjusted EBITDA and adjusted net income likely to be in upper end of forecast range

AT A GLANCE

RWE Group – key figures		Jan – Jun 2017	Jan – Jun 2016	+/– %	Jan – Dec 2016
Power generation	billion kWh	106.1	107.1	–0.9	216.1
External electricity sales volume	billion kWh	133.7	133.5	0.1	264.6
External gas sales volume	billion kWh	141.8	145.7	–2.7	265.1
External revenue	€ million	23,321	23,898	–2.4	45,833
Adjusted EBITDA	€ million	3,213	3,011	6.7	5,403
Adjusted EBIT	€ million	2,204	1,884	17.0	3,082
Income before taxes	€ million	3,671	719	410.6	–5,807
Net income	€ million	2,669	457	484.0	–5,710
Adjusted net income	€ million	809	598	35.3	777
Earnings per share	€	4.34	0.74	–	–9.29
Adjusted net income per share	€	1.32	0.97	–	1.26
Cash flows from operating activities	€ million	1,714	–1,004	270.7	2,352
Capital expenditure	€ million	858	826	3.9	2,382
Property, plant and equipment and intangible assets	€ million	679	733	–7.4	2,027
Financial assets	€ million	179	93	92.5	355
Free cash flow[1]	€ million	1,102	–1,240	188.9	809
		30 Jun 2017	31 Dec 2016		
Net debt	€ million	21,476	22,709	–5.4	
Workforce[2]		59,200	58,652	0.9	

1 New definition; see commentary on page 13.
2 Converted to full-time positions.

Contents

Dear Shareholders and Friends of the Company,

The first year since the restructuring of RWE has gone well for us so far. I say this not only with regard to our operating business, but also due to the positive developments that have occurred in relation to nuclear power. In the first half of the year, all of the requirements were fulfilled for reorganising the responsibility for nuclear waste disposal between the Federal government and the power plant operators. Finally, on 3 July, the companies involved transferred €24.1 billion to the new nuclear energy fund and were in turn released from financial responsibility for the intermediate and final storage of radioactive waste. RWE's share amounted to €6.8 billion. While it is true that this was a massive burden for us, we nevertheless welcome the reform. Under the old rules, politically-induced cost increases could have led to incalculable burdens for the companies. This risk has now been eliminated.

In June there was good news on the nuclear fuel tax: the Constitutional Court ruled the tax to be retroactively void. We had been waiting for the decision for years and were therefore very relieved. The tax, which was levied from 2011 until 2016, cost RWE a total of €1.7 billion, exacerbating the difficult situation for our power generation business. We were refunded this money in June, and our shareholders should also benefit from this. We will propose to the Annual General Meeting on 26 April 2018 a one-off special dividend of €1.00 per share, in addition to the targeted dividend of €0.50 per share. I believe that this is fair and appropriate, especially since we asked a lot of our holders of common shares, as the payment of a dividend was suspended on the last two occasions.

Finally, let me say just a few words about our business performance in 2017. Despite declining margins in conventional power generation, adjusted EBITDA rose by 7 % to €3.2 million in the first half of the year. The main reason for this was that the Supply & Trading Division rebounded from last year's unusually weak performance. The refund of the nuclear fuel tax has no impact on adjusted EBITDA, as it is reported as an extraordinary item in the non-operating result. For 2017 as a whole, we continue to project adjusted EBITDA of €5.4 billion to €5.7 billion and adjusted net income of €1.0 billion to €1.3 billion. According to current planning, we should finish towards the upper end of these ranges, so there is a good chance that 2017 will turn out to be a good year for us.

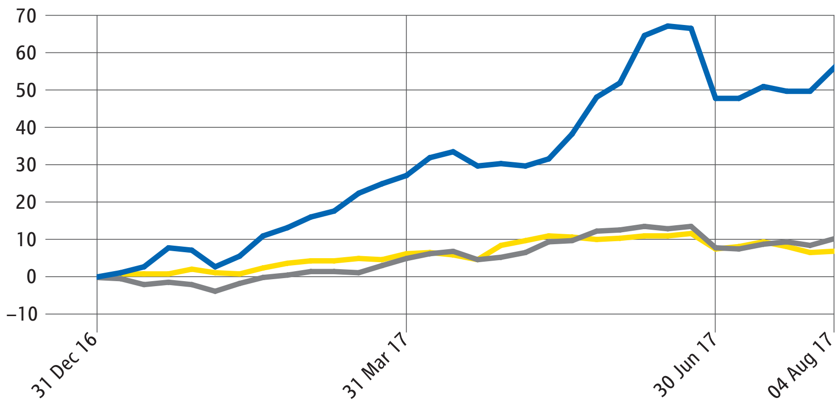
Sincerely yours,

Dr. Rolf Martin Schmitz
CEO of RWE AG
Essen, August 2017

RWE COMMON SHARE: SECOND PLACE IN THE DAX WITH A HALF-YEAR RETURN OF 48%

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

RWE common share
STOXX Europe 600 Utilities
DAX



Average weekly figures.
Source: Bloomberg.

Good mood on the stock market thanks to robust economic activity – strong performance by RWE shares

The upswing on the German stock market continued in 2017. During the first half of the year, the DAX index gained 7%, advancing to 12,325 points and closing at an all-time high of 12,889 points on 19 June. One major factor behind this was the favourable economic development in Europe and the USA. Additionally, the extremely expansive monetary policies of the leading central banks also supported the buoyant sentiment on the stock markets. Nevertheless, many believe it is possible that the ECB will begin to tighten its policies in the near future. Due to this speculation, share prices fell slightly again at the end of June.

The price of RWE shares rose much faster than the DAX: RWE common shares posted an increase of 48% to €17.45 during the first half of the year, making them the second-best performers in the DAX. Our preferred shares closed June at €12.90. Taking into account the preferred dividend of €0.13, RWE's preferred shares generated a return of 50%. The good performance of the RWE shares was partly the result of the reorganisation of the RWE Group and the successful IPO of innogy last year. Since then, investors' confidence in the solid financial position of RWE AG and the viable outlook for its core businesses has improved strongly. One important factor behind this improvement was the capital market day held at the end of March, at which the management explained RWE's strategic positioning. The event was held in London and streamed on the internet. At the start of June, when it became known that the German Constitutional Court had ruled the nuclear fuel tax to be unlawful and void, RWE's shares climbed higher again (see page 7).

ECONOMIC ENVIRONMENT

Economic recovery continues

According to initial estimates, global economic output rose by around 2.5% in the first half of 2017, compared to the same period of the previous year. Growth in the Eurozone was estimated at 1.8%, while German GDP probably increased at roughly the same rate. Consumer spending in particular was a stimulating factor. Relative to the Eurozone, economic growth in the Netherlands was marginally above average, whereas it was slightly below average in Belgium. The UK, which is our most important market outside of the currency union, recorded growth roughly on par with the Eurozone, despite negative impacts from the country's upcoming exit from the EU. Amongst other things, the UK is benefiting from expansion in the service sector. Economic performance in our main Central Eastern European markets was even stronger. However, upon finalisation of this report we only had information on the first quarter: Poland, the Czech Republic and Hungary recorded growth rates of around 4%, with Slovakia posting a rate of roughly 3%.

Temperatures in Germany stable on the whole

Whereas the economic trend primarily affects energy consumption by industrial enterprises, residential energy consumption is influenced to a great extent by weather conditions: the lower the outside temperatures, the more energy is needed for heating purposes. Accordingly, the sales and earnings of utilities such as RWE fluctuate due to seasonal factors and also from one fiscal year to the next. Meteorological data for the first half of 2017 shows that – despite a cold January – temperatures in our Continental European markets were mostly slightly above the 10-year average, whereas in the United Kingdom, they were substantially higher. Compared to the same period of the previous year, temperatures in much of Continental Europe were lower. However, they remained stable in Germany and were higher than in 2016 in the UK.

In addition to energy consumption, the generation of electricity is also influenced by weather conditions, in particular wind levels. On the whole, wind conditions during the first half of 2017 at our German, Dutch and Spanish wind farms were weaker than they were in the same prior-year period. Conversely, wind levels were higher in the United Kingdom and Poland. Weather conditions also have an effect on the utilisation of innogy's run-of-river power plants: the key factors are precipitation and melt water volumes, which fell significantly short of the 2016 levels in Germany, where most of these plants are located.

Higher energy consumption in RWE's core markets

Economic growth stimulated energy consumption in our core markets, whereas the trend towards energy savings had a slight counteracting effect. Based on preliminary calculations by the German Association of Energy and Water Industries (BDEW), German demand for electricity was up 1.6% on the previous year. An increase of about 2% was estimated for the Netherlands. Electricity consumption probably also rose slightly in Poland, Slovakia and Hungary, whereas a decline of around 2% was estimated for the United Kingdom. Somewhat stronger changes were registered for gas demand. According to the preliminary BDEW data, in Germany it rose by 3%, in part because market conditions for gas power stations improved and these stations were therefore utilised more. Demand also increased by 3% in the Netherlands and rose by as much as 9% in the Czech Republic. By contrast, gas consumption in the United Kingdom fell by around 3%, due in part to the mild weather there.

Higher prices in TTF wholesale gas trading

Following a long period of declines, prices in Western European gas trading have recovered somewhat. For the period January to June 2017, spot prices at the Dutch Title Transfer Facility (TTF) averaged €17 per megawatt hour (MWh), up by €4 compared to the previous year. In TTF forward trading, contracts for delivery in the upcoming calendar year (2018 forward) were also settled at €17 per MWh. By way of comparison, a price of €15 was paid for the 2017 forward in the preceding half year. As prices in the residential business typically track wholesale price developments with a time lag, they were still strongly influenced by the slump seen in recent years. According to the latest data, gas was 4% cheaper for German households. Compared to 2016, households in the United Kingdom and the Czech Republic paid 2% and 1% less for gas, respectively, whilst prices remained broadly stable in the Netherlands. Varying developments were seen for industrial customers: prices in the United Kingdom rose by 6% and by 5% in the Netherlands, whereas they declined modestly in Germany and significantly in the Czech Republic.

Hard coal prices continue to rise

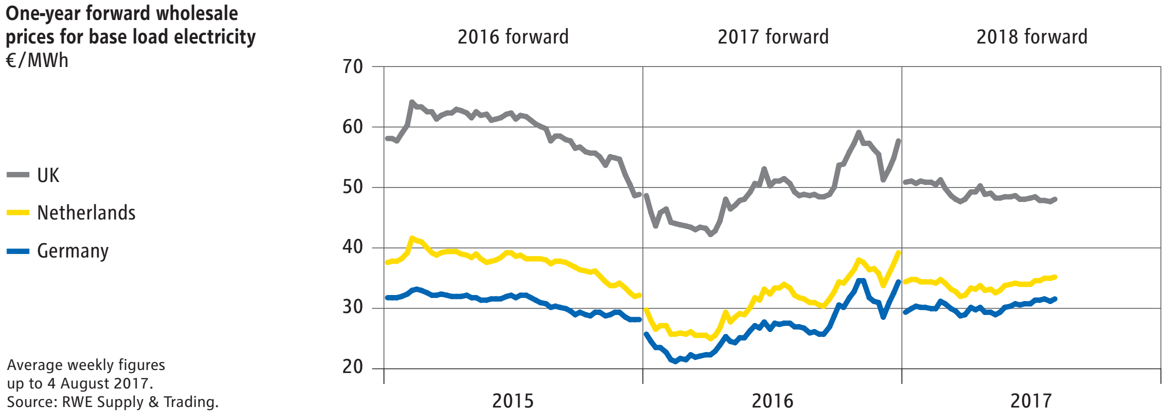
Compared to the record lows seen early last year, hard coal prices have increased substantially again in international trading. During the period under review, coal deliveries including freight and insurance to the ARA ports (Amsterdam/Rotterdam/Antwerp) were quoted at an average of US$80 (€74) per metric ton in spot trading, an increase of US$33 compared to 2016. The 2018 forward (API 2 Index) traded at US$66 per metric ton (€61), up US$22 on the comparable prior-year figure. One key factor in this regard was the strong economic activity in China and the subsequent increase in demand for coal. The regulations implemented by the government in Beijing last year to reduce domestic coal production have since been eased. Freight rates, i.e. overseas shipping costs, are an important price component in international hard coal trading. Here again, a strong upward trend has been seen. For the period January to June 2017, the standard route from South Africa to Rotterdam cost an average of US$6 per metric ton, which was almost twice as much as one year earlier. Rates rose in response to higher fuel prices, and because demand for shipping picked up due to economic developments. Furthermore, overcapacities were reduced as unprofitable vessels were scrapped.

Prices in CO_2 emissions trading remain low

There is still no end in sight to the low prices for trading in CO_2 emission allowances in Europe. The EU Allowance (EUA), which confers the right to emit one metric ton of carbon dioxide, cost an average of €5 during the first half of the year. This figure refers to forward contracts due in December 2017. By comparison, in the first six months of the previous year, the EUA for contracts in December 2016 cost an average of €6. There continues to be a surplus of emissions allowances on the market for the third trading period, which runs until 2020. In the last three years, the EU was able to reduce the surplus of certificates by cutting the amount issued on the market (known as 'backloading'), but no backloading is planned for 2017 or 2018. Although further measures will be taken to reduce the EUA surplus, such as introducing a market stability reserve, these will only start to have an effect after 2018. Until then, the large volumes at the auctions will keep prices low.

Another factor is that the utilisation of relatively low-emission gas-fired power stations increased as a result of market developments, which reduces demand for EUAs. Brexit also has a significant effect: at present it cannot be foreseen whether and, if so, when the United Kingdom will be leaving the European emissions trading system. In the event of an early exit, it is possible that companies domiciled there may place a large amount of superfluous emission allowances onto the market, creating additional downward pressure on prices.

One-year forward wholesale prices for base load electricity
€/MWh



Average weekly figures up to 4 August 2017.
Source: RWE Supply & Trading.

Wholesale electricity prices substantially higher compared to last year

After a downward trend lasting several years, wholesale electricity prices in our main generation markets rose again in the first half of the year. Higher hard coal prices were one of the main reasons for this, as hard coal-fired power plants are price-setters for many hours during the year, especially in Germany. When fuel prices for these stations increase, it is reflected in electricity prices. During the first half of 2017, the average spot price for base-load power was €36 per MWh, up €11 on the level recorded last year. Forward prices have also risen. The 2018 forward for base-load power was quoted at €30 per MWh on average during the period under review. By comparison, in the first six months of last year the 2017 forward was trading at €24.

In the United Kingdom, our second-largest generation market, wholesale prices are typically much higher than in Germany. During the reporting period, the mean spot price for base-load power was £44 per MWh (€51), reflecting an increase of £9 versus the 2016 level. The 2018 base-load forward traded at £42 (€49) per MWh, which was £6 higher than the comparable figure for the previous year.

In the Netherlands, where we have our third-largest generation position, base-load power was traded at an average of €39 per MWh on the spot market. This represents an increase of €11 compared to 2016. Forward contracts for 2018 traded for €34 per MWh, up €6 on the price paid for the 2017 forward in the same period last year.

Lower margins for coal-fired power stations

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. During the reporting period, our revenue from power generation is therefore determined by the forward contracts concluded for 2017 in the previous years. These contracts reflected the falling wholesale electricity prices seen on the markets until 2016. Accordingly, the average price for delivery contracts in 2017 was significantly lower than the price in contracts for 2016. As a result of this, the margins of our lignite and nuclear power stations, which typically have stable fuel costs, declined. Effects from the expiration of the nuclear fuel tax in Germany were not taken into account in this regard. Margins for our hard coal-fired power stations also fell. We generally sell the generation of our gas-fired plants with shorter forward dates, and consequently these plants were able to benefit from the recent rebound in wholesale prices. All in all, the margins and utilisation for these stations were higher than in the previous year.

Sharp increase in electricity prices for German industrial customers

In the retail business, tariffs are affected to a significant degree by grid costs, apportionments and taxes, especially in relation to the residential segment. In Germany and the United Kingdom, where the share of these price components is constantly increasing, electricity prices for residential customers rose by an average of 1% and 3% compared to 2016. Households in Poland paid roughly 1% more than in the same period of last year. In the Netherlands, prices remained broadly unchanged, whereas they fell by 3% in both Slovakia and Hungary. The following developments were seen in the industrial segment: electricity prices for this customer group increased by 9% in Germany, 4% in the United Kingdom and 2% in the Netherlands, whereas they fell by 6% in Slovakia, 8% in Poland and 12% in Hungary.

MAJOR EVENTS

In the period under review

German Constitutional Court declares nuclear fuel tax illegal

In mid-April, the Constitutional Court ruled that the German nuclear fuel tax was unlawful and therefore void. The ruling was announced on 7 June. The law on the nuclear fuel tax was passed by the German Parliament at the end of October 2010 without the involvement of the Upper House and expired at the end of 2016. It required the operators of nuclear power plants to pay a tax on the fuel used in their facilities. Due to doubts about conformity with EU law and the German constitution, RWE had been challenging the law since 2011. The Fiscal Court of Hamburg shared these concerns and referred the matter to the Constitutional Court. According to the Constitutional Court, the federal legislator was not authorised to introduce the nuclear fuel tax, because the tax was not a consumption tax in the sense of Article 106 of Germany's Basic Law. During the period when the tax was levied from 2011 to 2016, RWE made payments of around €1.7 billion. This amount was refunded to us in June. Furthermore, we are entitled to interest, which will probably be paid by the end of 2017. We recognise the refund of the tax in the non-operating result and the interest in the other financial result. Adjusted EBITDA and adjusted net income are not affected.

RWE AG's Executive Board plans special dividend of €1 from the nuclear fuel tax refund

Due to the refund of the nuclear fuel tax, the Executive Board of RWE AG plans to make a one-off, special dividend payment of €1 per share in early May 2018. This will be in addition to the targeted dividend of €0.50 per share. Following discussions with the Supervisory Board this was announced on 23 June. This proposal will be presented at the Annual General Meeting on 26 April 2018. With a total of 614.7 million RWE shares, including 39 million preferred shares, the planned dividend will amount to €615 million. We plan on using the bulk of the tax refund to strengthen our financial position.

New law on nuclear waste disposal enters into force – utilities make payment to the nuclear fund

Six months after being passed by the German Parliament, the law on the restructuring of responsibilities for nuclear waste disposal entered into force on 16 June 2017. Shortly before this, the EU Commission had given its approval. According to the law, the Federal government will assume responsibility for handling and financing the intermediate and final storage of radioactive waste, while responsibility for the decommissioning and dismantling of the facilities and packing of the radioactive waste shall remain with the companies. The responsibilities transferred to the Federal government will be financed from a fund, which is paid into by the plant operators. On 3 July 2017, the companies transferred the full amount of €24.1 billion to the fund's accounts at the Deutsche Bundesbank. RWE's share amounted to €6.8 billion. This ends the liability of nuclear power plant operators for the costs of intermediate and final storage. In order to provide a legal basis for this, on 26 June the companies involved concluded a public law contract with the Federal Republic of Germany. This contract provides the companies with a higher level of legal certainty related to the release from liability and also establishes details on the conditions of transferring radioactive waste to the Federal authorities. Based on this contract, numerous legal disputes between the utilities and the state over nuclear energy related issues were terminated, and the companies involved withdrew their claims.

innogy becomes new guarantor and debtor of RWE's senior bonds

At the end of February 2017, we successfully completed the legal transfer of our debt from senior bonds to innogy. This transaction had been initiated immediately after the IPO of our subsidiary. As a result, innogy has taken the place of RWE AG as the guarantor for the senior bonds and as the debtor for the privately placed bonds. With a total volume equivalent to €11 billion, this transfer of debt involving 18 bonds issued in various currencies was the largest of its kind performed by a company in Europe. It was preceded by a vote of the bondholders, as provided for in such cases by the German Act on Debt Securities. Two senior bonds to which the Act could not be applied were transferred by a bond swap in December 2016. In one case, involving a bond with a volume of €500 million maturing in 2037, a small residual amount remained with RWE AG. With completion of the change in the debtor, the corresponding intra-group loans were cancelled or reduced. Additional information on this subject can be found on page 52 et seq. of the 2016 Annual Report.

Rating agencies confirm RWE's investment-grade rating

As part of their regular rating reviews, the three leading agencies confirmed their credit ratings for RWE. At the end of June, Moody's and Standard & Poor's announced that they were maintaining RWE's long-term credit ratings at Baa3 and BBB-. In early April, the agency Fitch had also confirmed the rating of RWE, which was one notch higher at BBB. As a result, all three of the agencies continue to rate our creditworthiness in the investment-grade category. However, there were changes to RWE's rating outlook: Moody's and Fitch raised it from 'negative' to 'stable', which corresponds to the outlook of Standard & Poor's.

RWE calls hybrid bonds with volumes of CHF 250 million and CHF 150 million

In early April and at the end of July, we redeemed hybrid bonds of CHF 250 million and CHF 150 million, without issuing new hybrid capital. In both cases, RWE called the bonds on the first possible date. The bond with a volume of CHF 250 million was issued in November 2011, had a coupon of 5.25% and a theoretical tenor lasting until 2072. The bond with a volume of CHF 150 million was issued in July 2012, had a coupon of 5% and would have also matured in 2072 at the latest. RWE currently has five hybrid bonds outstanding, two of which are denominated in euros, two in US dollars and one in sterling. At the end of July, the nominal volume of these bonds was equivalent to €3.4 billion.

Framework programme created for the flexible issuance of senior debt

By updating its Debt Issuance Programme (DIP) in May, RWE AG created additional leeway for securing long-term debt financing on the capital market. The DIP is a framework prospectus for the flexible issuance of senior bonds with a total volume of €10 billion. It is the successor programme to our previous DIP with a volume of €30 billion, which pertained to the RWE Group as a whole and was suspended in 2016. Since April 2017, our subsidiary innogy has had its own DIP, which allows it to issue a total volume of €20 billion in senior bonds.

Fourth capacity auction in the United Kingdom: all RWE plants qualified

At the latest auction for the UK capacity market held from 31 January to 3 February 2017, all of the participating RWE plants with secured capacity totalling 7.9 GW qualified for capacity payments for the period from 1 October 2017 to 30 September 2018. Providers with a total generation capacity of 59.3 GW took part in the auction; stations with capacity of 54.4 GW were successful. However, at £6.95 per kilowatt the amount of the payment is much lower than the level achieved at previous auctions. Since 2014, annual capacity auctions have taken place in the United Kingdom, at which bids are invited for a certain amount of generation capacity. Participants submit a bid in the form of a minimum payment which they require to guarantee the availability of their plant for a certain period. Through the auction process, the amount of the capacity payment is determined at which the capacity offered corresponds to the amount of capacity required. The payment amount is awarded to all bidders which submitted bids below or equal to the auction clearing price. Participation at the auctions is voluntary and open to all technologies. Plants which are already subsidised in a different manner are not eligible to participate. Before 2017 three capacity auctions had been held: the first one in December 2014 related to the period October 2018 to September 2019, while the following auctions covered the subsequent two 12-month periods. In order to avoid supply shortfalls which may have occurred in the event of the early decommissioning of hard coal-fired plants as a result of market conditions, in 2016, the UK government decided to bring the start of the capacity market forward by one year. Consequently, a fourth auction was held in early 2017.

RWE to retrofit the hard coal-fired power plants Eemshaven and Amer 9 for biomass cofiring

In January and June, the Executive Board of RWE Generation decided to retrofit our two Dutch hard coal-fired power plants Amer 9 and Eemshaven for cofiring with biomass. The background for these decisions is that the Dutch state approved subsidies of up to €2.6 billion for the two plants. Along with the retrofitting, the subsidies will also finance the additional expenses for procuring fuel. We will receive these funds over a period of eight years. The subsidies are allocated so that Amer 9 can achieve a biomass ratio of 80% (instead of the previous 35%) and Eemshaven a ratio of around 15%. The Amer 9 power station has been in operation since 1993, with a net capacity of 643 MW. The twin unit at Eemshaven has a capacity of 1,554 MW and has been generating power since 2014. After comprehensive retrofitting, we plan to produce environmentally friendly electricity using a total of 2.5 million metric tons of biomass annually, allowing us to lower our CO_2 emissions by roughly 4 million metric tons. We will source the necessary biomass in Europe and North America, ensuring that the requirements of the Dutch sustainability protocol for biomass are satisfied. The protocol was developed by the Dutch government together with energy companies and non-governmental organisations; it has been proven in tests and will be enacted in legislation in 2017.

RWE sells off the Hamborn cogeneration plant

Effective as of 1 June, RWE Generation sold Unit 5 of the Hamborn cogeneration plant to thyssenkrupp Steel Europe (tkSE). This gas-fired power plant with a generation capacity of 241 MW (gross) is located on the premises of tkSE's steel works in Duisburg and is operated by tkSE. Up until the sale, tkSE was leasing the unit.

innogy acquires German solar power and battery specialist Belectric Solar & Battery

In early January 2017, innogy acquired Belectric Solar & Battery GmbH. The (still preliminary) purchase price amounts to €74 million. As a result of the acquisition, our subsidiary has advanced to become a global player in utility-scale photovoltaic plants and battery storage systems. Belectric is domiciled in Kolitzheim, Bavaria, and has a workforce of approximately 550. Since its inception in 2001, the company has built more than 280 ground-mounted and roof-mounted solar collectors with a total net installed capacity of over 1.5 GW. Furthermore, the company operates and maintains solar plants with a total capacity of more than 1.0 GW and develops turnkey, large-scale battery storage solutions.

Zuidwester wind farm officially goes online

In the Netherlands, the innogy wind farm Zuidwester with a capacity of 90 MW was opened in mid-June as part of the Noordoostpolder wind power project. Zuidwester is located at the Ijsselmeer. Its twelve onshore turbines are currently some of the most powerful in the world, capable of generating 7.5 MW each. They are replacing 50 smaller turbines installed in the 1980s and 1990s. As a result of this, the capacity of Zuidwester has increased six-fold. innogy has invested approximately €150 million in this wind farm, which has been generating electricity at full capacity since early 2017. Noordoostpolder, a large-scale project in which numerous companies are participating, features 86 turbines with capacity of around 430 MW, located nearshore in the Ijsselmeer and onshore along the dyke. Altogether the facilities have the capacity to supply around 400,000 households with electricity.

RWE suspends dividend for common shares and pays €0.13 per preferred share

RWE AG's Annual General Meeting, held on 27 April 2017, approved the dividend proposal of the Executive Board and the Supervisory Board for fiscal 2016 by a large majority. Accordingly, the payment of a dividend for holders of common shares was suspended, while holders of preferred shares received the preferred share of profit of €0.13 per share as stipulated by the Articles of Incorporation. The distribution amounted to €5 million for the total number of 39,000,000 preferred shares. The dividend proposal took into account the significant financial burdens resulting from the transfer to the nuclear energy fund.

innogy pays a dividend of €1.60 per share

innogy SE's Annual General Meeting, held on 24 April 2017, approved payment of a dividend of €1.60 per share for fiscal 2016. Taking as a basis the adjusted net income of our subsidiary in fiscal 2016, the payout ratio amounts to 79%.

EU Parliament and Environment Council present proposals for emissions trading reform

In February 2017, the European Parliament and the EU Environment Council presented their ideas about the future design of the European emissions trading system (ETS). The goal is to align the ETS with the European targets for reducing greenhouse gas emissions by 2030. The reform process started with a draft directive issued on this subject in mid-2015 by the EU Commission. The Council and the Parliament supported the Commission's proposal for an annual reduction of 2.2% in the total amount of CO_2 allowances issued during the fourth emissions trading period running from 2021 to 2030. The reduction factor is currently 1.74%. In other respects, the Council and the Parliament go beyond the Commission's draft directive: for example, they wish to reduce the existing surplus of allowances on the market more quickly than envisaged. In their proposal, this would be possible by transferring twice as many surplus allowances (compared to the current legal status) to the market stability reserve. The reserve was created by the EU in 2015 and will be used from 2019 to allow for more flexible management of the supply of emissions allowances. Furthermore, the Council and Parliament support cancelling allowances from the reserve. This was also not included in the draft directive. In relation to the allotment of free emissions certificates to energy-intensive enterprises, they want to take a more generous approach than proposed by the Commission, in order to limit cost disadvantages for industrial companies versus competitors from non-EU countries. While there is agreement on fundamentals, the Parliament and the Council still have differing positions on some details. A joint position will now be formulated in negotiations, which will also include the Commission. Experts anticipate that an agreement will be reached sometime this year.

European Union tightens threshold values for emissions of airborne pollutants

At the end of April, the EU Member States agreed on new regulations limiting emissions of airborne pollutants by power plants. For the most part, these European requirements, which will have to be fulfilled by existing stations from 2021, are reasonable and implementable. With regard to nitrogen oxides and mercury, however, they exceed what is currently technically possible. The European regulations will formally enter into effect this summer after publication in the Official Journal of the European Union. After this they will be transposed into national law, for example by an amendment of the 13th Federal Emissions Control Ordinance. The EU guidelines give Member States leeway, within which they can set their own threshold limits. We hope that, along with technical and economic feasibility, German policymakers will also take into consideration the need for a secure supply of electricity. After amendment of the Ordinance, we will be able to gauge the consequences for our portfolio. It is possible that we will be required to undertake significant retrofitting or close some plants early.

After the reporting period

Green light for changing debtor: innogy takes over two EIB loans from RWE

In mid-July, loans of €645 million and £350 million, which the European Investment Bank (EIB) had granted us, were transferred from RWE AG to innogy as part of a debtor switch. In return, two corresponding group loans were cancelled. With this move, the reallocation of RWE's capital market debt to innogy, which was agreed as part of the IPO of our subsidiary, is now completed. As discussed on page 8, innogy had already taken over the debt from RWE AG's senior bonds.

RWE sells two residential property management companies in the Rhenish lignite mining region

RWE Power sold its 50% stake in Wohnungsbaugesellschaft für das Rheinische Braunkohlenrevier GmbH (WBG) and its 15% stake in GSG Wohnungsbau Braunkohle GmbH to the real estate company Vivawest, headquartered in Gelsenkirchen. The price is in the medium double-digit million range. Together, WBG and GSG own around 1,800 rental apartments and 1,200 garages and parking spaces in 320 buildings in the Köln-Aachen-Grevenbroich region. They also manage 150 residential units for third parties. The companies were originally set up to provide housing for workers in the mining industry. Nowadays, however, there is hardly any need for this. The sale was agreed in February, but was subject to the revocation of the law on miners' settlements, which occurred in July.

Site of the former Littlebrook power station sold

At the end of July, we reached an agreement with the UK property investor Tritax Big Box REIT plc that it would purchase most of the site of our former power station Littlebrook. The transaction is expected to be completed during the course of 2017. A smaller part of the site was sold in early August to National Grid. The sales will result in total euro proceeds in the upper double-digit million range. The Littlebrook site is favourably situated on the banks of the River Thames in Dartford, east of London. Until the end of March 2015, we operated an oil-fired power station at the site, with a net capacity of 1,245 MW. Due to stricter emissions limits for large combustion plants, the station had to be shut down.

NOTES ON REPORTING

New segment structure from 1 January 2017

Our financial reporting for 2017 is based on a new divisional structure, as the segment ‘Conventional Power Generation’ has been divided into ‘Lignite & Nuclear’ and ‘European Power’. To ensure the comparability of the 2017 figures to those of the previous year, we have restated the latter in the new structure. Furthermore, from now on we refer to the former segment ‘Trading/Gas Midstream’ as ‘Supply & Trading’. However, this is only a change of name and has no impact on the activities of the segment.

As a result of the above adjustments, the Group is structured into the following four segments (divisions):

- Lignite & Nuclear: This division covers our electricity generation in Germany using lignite and nuclear power, the profitability of which is strongly dependent on the development of wholesale electricity prices. The segment also includes lignite production in the Rhineland, along with the Hungarian company Mátra, which also produces lignite and generates electricity from lignite. RWE has a 50.9 % stake in Mátra. These activities are overseen by RWE Power. The segment also includes our investment in the Dutch nuclear power plant operator EPZ (30 %) and the German company URANIT (50 %), which holds a 33 % stake in Urenco, a uranium enrichment specialist.

- European Power: This is where we report on our electricity generation using gas, hard coal and biomass in the core markets of Germany, the UK and the Netherlands/Belgium. The segment also includes the 787 MW gas-fired power plant in the western Turkish city of Denizli, in which we hold a 70 % stake, as well as RWE Technology International, which engages in project management and engineering services. These activities are steered by RWE Generation. In addition, the segment encompasses some hydroelectric plants in Germany and Luxembourg.

- Supply & Trading: This segment comprises the activities of RWE Supply & Trading, which is responsible for commodity trading as well as the gas midstream business. It also supplies some large industrial and corporate customers in Germany and neighbouring countries with electricity and gas. RWE Supply & Trading is also responsible for marketing RWE’s power generation and the short-term optimisation of power plant dispatch; however, we report the related earnings in the segments ‘Lignite & Nuclear’ and ‘European Power’.

- innogy: The Group’s business activities in renewables, grids and retail are bundled in this division. It is headed by our subsidiary innogy SE, which began operating on 1 April 2016 and was listed on the stock exchange on 7 October 2016. Via an intermediary company, RWE AG holds a stake of 76.8 % in the company, and manages it as a financial investment. innogy is a leading European producer of electricity from renewables, in particular wind and hydroelectric power, focusing on Germany, the United Kingdom, Spain, the Netherlands and Poland. The second main area of innogy’s business is the operation of distribution networks in Germany (electricity and gas), the Czech Republic (gas), and in Slovakia, Hungary and Poland (all three electricity). The supply of electricity, gas and energy solutions forms the third pillar of innogy’s business. Here the most important markets are Germany, the Netherlands, Belgium, the United Kingdom, the Czech Republic, Slovakia, Hungary, Poland and a few other Eastern European countries. innogy also owns majority stakes in a number of regional utilities in Germany. Moreover, the company has numerous minority interests in utility companies, such as German municipal utilities and the Austrian utility KELAG.

Some cross-segment activities are reported in ‘Other, consolidation’. Currently, this item mainly consists of the holding company RWE AG. Above and beyond this, it also includes our 25.1 % interest in the German electricity transmission system operator Amprion.

Terminological changes

In July 2016, the guidelines of the European Securities and Markets Authority (ESMA) on the application of alternative performance measures came into force. One goal of these guidelines is to ensure that the basic principles of transparency and comparability are followed when indicators which are not defined in binding terms in accounting standards are used. Amongst other things, they call for the use of unambiguous terms. Against this backdrop, we have changed the term for EBITDA to ‘adjusted EBITDA’ and the term for operating result to ‘adjusted EBIT’. By doing so, we highlight that important components have been removed from these indicators, which are reported in the non-operating result. There is no change in content associated with the use of the new terms.

New definition of free cash flow

In this interim report, we use a new definition of free cash flow, which presents our capital expenditure in a more comprehensive manner. Previously, free cash flow was equivalent to the cash flows from continuing operations, less capital expenditure on property, plant and equipment and intangible assets. From hereon in, we will also deduct the capital expenditure on financial assets and add in revenues from divestments and asset disposals. In the interests of ensuring comparability, we have adjusted the previous year’s figures.

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 performance can deviate from the performance expected at present. Therefore, we cannot assume responsibility for the correctness of these statements.

BUSINESS PERFORMANCE

Power generation January – June	Lignite		Hard coal		Gas		Nuclear		Renewables		Pumped storage, oil, other		Total	
Billion kWh	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Lignite & Nuclear	38.0	36.3	–	–	–	–	15.0	14.8	–	–	0.3	0.3	53.3	51.4
European Power[1]	–	–	18.1	22.8	27.3	25.0	–	–	0.5	0.5	1.2	1.2	47.1	49.5
of which:														
Germany	–	–	7.8	10.9	3.7	3.0	–	–	0.3	0.3	1.2	1.2	13.0	15.4
United Kingdom	–	–	2.6	4.0	17.3	17.4	–	–	0.2	0.2	–	–	20.1	21.6
Netherlands/ Belgium	–	–	7.7	7.9	4.2	3.1	–	–	–	–	–	–	11.9	11.0
innogy[2]	–	–	0.1	0.1	0.5	0.4	–	–	5.1	5.7	–	–	5.7	6.2
RWE Group	**38.0**	**36.3**	**18.2**	**22.9**	**27.8**	**25.4**	**15.0**	**14.8**	**5.6**	**6.2**	**1.5**	**1.5**	**106.1**	**107.1**

1 Including electricity from power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. In the first half of 2017, this amounted to 3.6 billion kWh in the European Power Division (first half of 2016: 5.3 billion kWh), of which 2.3 billion kWh was generated by hard coal-fired power plants (first half of 2016: 3.9 billion kWh).

2 Prior to the sale of our stake in Zephyr Investments Limited in the middle of last year, electricity purchases from Zephyr's wind farms are included: these amounted to 0.3 billion kWh in the first half of 2016.

Power generation slightly lower than in previous year

In the first half of 2017, the RWE Group generated 106.1 billion kWh of electricity, which was marginally less than in the same period of 2016. The contribution of hard coal to our electricity generation fell sharply, in part due to the deterioration in market conditions. Another reason was the closure of the Voerde A/B power station as of 1 April 2017. Steag owned 75% and we owned 25% of the two units. As the sole marketer, we had reported the electricity generated at this station in our figures. Generation from renewables also declined. One of the main factors here was the lower utilisation of run-of-river and hydroelectric power stations due to weather conditions. The sale of our 33.3% stake in Zephyr Investments Limited in mid-2016 also had an impact (see page 40 of the 2016 Annual Report). Prior to completion of the transaction our reporting had included a portion of the generation and capacity of Zephyr's UK wind farm portfolio. By contrast, our gas-fired power stations produced more electricity than in 2016, as market conditions improved for them. There was also an increase in the generation volume from lignite, which was curtailed in 2016 by scheduled maintenance and plant outages due to damages.

In addition to our own generation, we procure electricity from external suppliers. During the reporting period, this totalled 36.9 billion kWh (previous year: 35.0 billion kWh). In-house generation and power purchases combined for 143.0 billion kWh (first half of 2016: 142.1 billion kWh).

External electricity sales volume January – June	Residential and commercial customers		Industrial and corporate customers		Distributors		Total	
Billion kWh	2017	2016	2017	2016	2017	2016	2017	2016
Lignite & Nuclear	0.1	0.1	–	–	6.0	6.1	6.1	6.2
European Power	–	–	1.1	1.2	2.7	2.4	3.8	3.6
Supply & Trading	–	–	18.4	16.7	–	–	19.4[1]	17.2[1]
innogy	26.0	27.1	36.3	37.1	41.9	42.1	104.2	106.3
RWE Group[2]	**26.1**	**27.3**	**55.9**	**55.1**	**50.7**	**50.6**	**133.7**	**133.5**

1 Including volume effects of the sale of self-generated electricity on the wholesale market. If these sales volumes exceed the purchases made for supply purposes, the positive balance is recognised in the sales volume. In the first half of 2017, there was a positive balance of 1.0 billion kWh compared to 0.5 billion kWh in the prior-year period.

2 Including small volumes subsumed under 'Other, consolidation'.

Electricity sales remain almost unchanged

Deliveries of electricity to external customers amounted to 133.7 billion kWh, roughly on par with 2016. In the Supply & Trading segment, an increase in industrial and corporate customers resulted in higher sales. This was counterbalanced by declines at innogy, which stemmed from the retail business in the UK and the Netherlands. Intense competition in these markets caused some households and companies supplied by innogy to switch providers. Increases in customer numbers in other retail markets, in particular Germany, were unable to offset this.

External gas sales volume January – June	Residential and commercial customers		Industrial and corporate customers		Distributors		Total	
Billion kWh	2017	2016	2017	2016	2017	2016	2017	2016
Supply & Trading	–	–	13.8	13.0	0.3	0.1	14.1	13.1
innogy	59.0	60.1	36.9	43.6	31.8	28.9	127.7	132.6
RWE Group	**59.0**	**60.1**	**50.7**	**56.6**	**32.1**	**29.0**	**141.8**	**145.7**

Modest decline in gas supply volume

Compared to the previous year, our gas sales volume declined by 3% to 141.8 billion kWh. This was primarily driven by customer losses at innogy, which mainly involved industrial and corporate customers in the UK, the Netherlands and in some Eastern European markets. innogy's market position also deteriorated somewhat with British and Dutch households. However, increases in volumes were registered with German distributors, as new customers were added and supply activities with existing customers expanded.

External revenue € million	Jan – Jun 2017	Jan – Jun 2016	+/– %	Jan – Dec 2016
Lignite & Nuclear	586	555	5.6	1,193
European Power	343	386	–11.1	774
Supply & Trading	2,048	1,724	18.8	3,646
innogy	20,334	21,197	–4.1	40,149
Other, consolidation	10	36	–72.2	71
RWE Group	**23,321**	**23,898**	**–2.4**	**45,833**
Natural gas tax/electricity tax	1,148	1,220	–5.9	2,243
RWE Group (excluding natural gas tax/electricity tax)	**22,173**	**22,678**	**–2.2**	**43,590**

External revenue slightly lower than previous year

The RWE Group generated €23,321 million in external revenue, including taxes on natural gas and electricity. Compared to the same period of the previous year, our revenue declined by 2 %. Revenue from sales of electricity fell by 4 % to €15,903 million. An important driver was the declining sales to residential and commercial customers. Its impact on revenues could not be offset by increased deliveries in other segments of the retail business. By contrast, revenue from gas sales amounted to €5,901 million, up slightly on the previous year. Revenues were also influenced by exchange rate developments: sterling – our most important foreign currency – depreciated versus the euro, weakening from €1.27 to €1.16 on average, which reduced revenue from the United Kingdom after conversion into euros.

Internal revenue € million	Jan – Jun 2017	Jan – Jun 2016	+/– %	Jan – Dec 2016
Lignite & Nuclear	1,509	1,726	–12.6	3,489
European Power	2,297	2,338	–1.8	4,732
Supply & Trading	7,579	8,189	–7.4	15,734
innogy	1,130	967	16.9	1,811

Adjusted EBITDA € million	Jan – Jun 2017	Jan – Jun 2016	+/– %	Jan – Dec 2016
Lignite & Nuclear	401	471	–14.9	1,079
European Power	222	316	–29.7	377
Supply & Trading	131	–153	185.6	–139
innogy	2,439	2,385	2.3	4,203
Other, consolidation	20	–8	350.0	–117
RWE Group	**3,213**	**3,011**	**6.7**	**5,403**

Adjusted EBITDA up 7 % compared to 2016

In the period under review, we recorded adjusted earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA) of €3,213 million. This was 7 % more than in 2016. A strong improvement in energy trading was the main reason for this. Additionally, innogy reported lower expenses for the operation and maintenance of its distribution networks. However, margins in conventional electricity generation declined.

The following developments were seen in the segments:

- Lignite & Nuclear: Adjusted EBITDA fell 15% to €401 million in this division, primarily because wholesale prices for electricity produced by our lignite-fired and nuclear power plants were lower compared to 2016. We had already sold forward almost all of our electricity generation from these plants in earlier years. Additional revenue from increased production at our German lignite-fired power plants was unable to compensate for this. The earnings situation of our Hungarian subsidiary Mátra also deteriorated, owing among other things to unfavourable weather conditions which hindered lignite production. Since this company is held for sale, from 1 April 2017 we no longer include its earnings in adjusted EBITDA, as this is reported in the non-operating result. One positive factor was that we are no longer required to pay the nuclear fuel tax. Furthermore, we continue to profit from pushing ahead with our efficiency enhancement programme.

- European Power: This segment's adjusted EBITDA contracted by 30% to €222 million; in part, this was due to the fact that the previous year's figure had included high one-off income from the release of provisions and the sale of properties in the United Kingdom. Furthermore, the unfavourable development of margins in electricity generation from hard coal also had an impact. Conversely, positive effects stemmed from efficiency enhancement measures and higher margins at our gas-fired power plants. We also increased earnings from the short-term commercial optimisation of our power station dispatch.

- Supply & Trading: Adjusted EBITDA increased by €284 million to €131 million. Our trading business developed normally, after the unusually weak performance in 2016. However, the positive effect from the sale of the hard coal-fired Lynemouth power plant in the UK, which had contributed to income in the previous year, was no longer felt.

- innogy: Our subsidiary boosted its adjusted EBITDA by 2% to €2,439 million. In the grid business, it profited from declining expenses for operations and maintenance; furthermore, the result for the previous year had been burdened by the formation of provisions for old-age part-time employment measures. By contrast, the result for the renewables segment deteriorated, in part because the dry weather hampered generation by German hydroelectric plants. Additionally, the previous year's result was improved by capital gains from the sale of small run-of-river power plants on the Upper Ruhr river. The result of innogy's retail division was also lower than last year. This was mainly due to the UK business, which is managed by innogy's subsidiary npower. Due to intense competitive pressure in this market, customers switched supplier or could only be retained by offering them contracts with more favourable conditions. Additionally, npower had to deal with a rise in up-front costs. An increase in the standard tariffs for electricity and gas which came into effect from mid-March was unable to compensate for this. A positive effect was felt from cost-cutting measures taken as part of the restructuring of the UK retail business which started in early 2016. innogy also profited from efficiency enhancing measures outside of the UK, in particular in its core market of Germany.

Adjusted EBIT € million	Jan – Jun 2017	Jan – Jun 2016	+/– %	Jan – Dec 2016
Lignite & Nuclear	262	275	–4.7	664
European Power	69	115	–40.0	–37
Supply & Trading	129	–156	182.7	–145
innogy	1,725	1,666	3.5	2,735
Other, consolidation	19	–16	218.8	–135
RWE Group	**2,204**	**1,884**	**17.0**	**3,082**

Adjusted EBIT came in at €2,204 million for the first half of the year, up 17 % on the comparable figure for 2016. This percentage increase is significantly more pronounced than for adjusted EBITDA, because adjusted EBIT also takes into account operational depreciation, which declined significantly due to the high impairments recognised last year. In the consolidated financial statements for 2016, we recorded writedowns of €4.3 billion, with €3.7 billion of this applying to our German power plant portfolio (see 2016 Annual Report, page 48).

Non-operating result € million	Jan – Jun 2017	Jan – Jun 2016	+/– € million	Jan – Dec 2016
Capital gains/losses	72	4	68	94
Impact of derivatives on earnings	144	–6	150	–799
Restructuring, other	1,401	–206	1,607	–5,956
Non-operating result	**1,617**	**–208**	**1,825**	**–6,661**

The non-operating result, in which we recognise certain one-off effects not related to operations or the period under review, improved by €1,825 million to €1,617 million. The individual items developed as follows:

- Book gains from the sale of stakes and assets amounted to €72 million, versus €4 million in the prior-year period, and included proceeds from the sale of the Hamborn cogeneration plant (see page 9).

- Changes in the value of derivatives which we use to hedge against price fluctuations contributed €144 million to the result, €150 million more than in 2016. According to International Financial Reporting Standards (IFRS), the derivatives are recognised at fair value at the corresponding balance sheet date, whereas the transactions which are hedged with the derivatives are only recognised as a profit or loss when they are realised. These timing differences result in short-term effects on earnings, which are neutralised over time.

- The result for the item ‘Restructuring, other’ improved by €1,607 million to €1,401 million. This was mainly due to the refund of the nuclear fuel tax in the amount of €1.7 billion by the Federal government, as discussed on page 7. Furthermore, splitting up ‘Conventional Power Generation’ into the two segments ‘Lignite & Nuclear’ and ‘European Power’ resulted in one-off effects, which – on balance – had a positive impact (see page 38 of the Notes). Another reason for the improvement in this item was that we recognised impairments of €204 million on innogy’s gas storage facilities last year and this has now ceased to have an effect. However, we also had to recognise impairments during the reporting period, mainly related to Mátra.

Financial result € million	Jan – Jun 2017	Jan – Jun 2016	+/– € million	Jan – Dec 2016
Interest income	125	145	–20	271
Interest expenses	–421	–515	94	–914
Net interest	**–296**	**–370**	**74**	**–643**
Interest accretion to non-current provisions	–44	–386	342	–1,288
Other financial result	190	–201	391	–297
Financial result	**–150**	**–957**	**807**	**–2,228**

Our financial result improved by €807 million to –€150 million. Its components changed as follows:

- Net interest improved by €74 million to –€296 million. This was mainly due to a decline in interest expenses. The redemption of a senior bond with a nominal amount of €850 million and a coupon of 6.25% p. a. in April 2016 contributed to this decline. Other factors included the low level of market interest rates and the fact that exchange rate developments facilitated the servicing of bonds denominated in sterling.

- Interest accretion to non-current provisions fell by €342 million to €44 million. One reason for this was that – compared to last year – we now apply a significantly lower discount rate in determining the interest accretion to nuclear waste management obligations. Furthermore, no interest accretion was necessary on the sum we transferred to the new German public nuclear energy fund in early July. Moreover, adjustments of the discount rates for other non-current provisions resulted in a decline in the net present value of the obligations. This effect also lowered interest accretion.

- The 'Other financial result' rose by €391 million to €190 million. This item includes our claim to interest on the nuclear fuel tax payments, which was a major factor behind the improvement. Furthermore, losses on the sale of securities were much lower than in 2016.

Income before taxes increased from €2,952 million to €3,671 million. Our effective tax rate was 19%, which was lower than the (theoretical) normal rate of 32%. One key aspect in this regard was that we were able to offset a large amount of tax losses from previous years for which no deferred tax assets had been recognised against our current earnings. Previously, we had assumed that it would not be possible to use these tax-loss carryforwards, owing to a lack of taxable profits in the foreseeable future. Due to the earnings impact of the nuclear fuel tax refund, this is not the case in 2017.

After taxes, we reported income of €2,960 million (previous year: €663 million). Non-controlling interests increased by €87 million to €267 million. The reason for this is that since the innogy IPO in October of last year, 23.2% of the company's shares are held by third parties. The aforementioned impairment at Mátra had an opposite effect.

Reconciliation to net income		Jan – Jun 2017	Jan – Jun 2016	+/– %	Jan – Dec 2016
Adjusted EBITDA	€ million	**3,213**	**3,011**	**6.7**	**5,403**
Operating depreciation, amortisation and impairment losses	€ million	−1,009	−1,127	10.5	−2,321
Adjusted EBIT	€ million	**2,204**	**1,884**	**17.0**	**3,082**
Non-operating result	€ million	1,617	−208	–	−6,661
Financial result	€ million	−150	−957	84.3	−2,228
Income before taxes	€ million	**3,671**	**719**	**410.6**	**−5,807**
Taxes on income	€ million	−711	−56	–	323
Income	€ million	**2,960**	**663**	**346.5**	**−5,484**
of which:					
Non-controlling interests	€ million	267	180	48.3	167
RWE AG hybrid capital investors' interest	€ million	24	26	−7.7	59
Net income/income attributable to RWE AG shareholders	€ million	**2,669**	**457**	**484.0**	**−5,710**
Adjusted net income	€ million	**809**	**598**	**35.3**	**777**
Earnings per share	€	4.34	0.74	–	−9.29
Adjusted net income per share	€	1.32	0.97	–	1.26
Number of shares outstanding (average)	millions	614.7	614.7	–	614.7
Effective tax rate	%	19	8	–	6

The portion of our earnings attributable to hybrid capital investors amounted to €24 million (previous year: €26 million); this pertains to our hybrid bond with a volume of £750 million. According to IFRS, due to its theoretically unlimited tenor, it is classified as equity, whereas RWE's other hybrid bonds are classified as debt.

The developments above resulted in net income of €2,669 million, marking a strong improvement compared to 2016 (€457 million). Based on the 614.7 million in RWE shares outstanding, this corresponds to earnings per share of €4.34 (previous year: €0.74).

Reconciliation to adjusted net income **January – June** € million	Original figures 2017	Adjustment	Adjusted figures 2017	Adjusted figures 2016
Adjusted EBIT	**2,204**	**–**	**2,204**	**1,884**
Non-operating result	1,617	−1,617	–	–
Financial result	−150	−370	−520	−957
Income before taxes	**3,671**	**−1,987**	**1,684**	**927**
Taxes on income	−711	250	−461	−123
Income	**2,960**	**−1,737**	**1,223**	**804**
of which:				
Non-controlling interests	267	123	390	180
RWE AG hybrid capital investors' interest	24	–	24	26
Net income/income attributable to RWE AG shareholders	**2,669**	**−1,860**	**809**	**598**

Adjusted net income increases by 35%

Adjusted net income amounted to €809 million. It differs from net income in that the entire non-operating result and material extraordinary effects in the financial result, in taxes on income and in income attributable to non-controlling interests are removed. The effects of the one-off items on taxes on income and on non-controlling interests are also eliminated. As previously discussed, adjusted net income does not contain any effects from the refund of the nuclear fuel tax. It rose by 35% compared to 2016, thanks in part to the improvement in the business performance and financial result, whereas the higher taxes on income had a negative impact.

Capital expenditure on property, plant and equipment and on intangible assets € million	Jan – Jun 2017	Jan – Jun 2016	+/– € million	Jan – Dec 2016
Lignite & Nuclear	98	110	–12	267
European Power	38	27	11	66
Supply & Trading	1	1	–	4
innogy	541	580	–39	1,679
Other, consolidation	1	15	–14	11
RWE Group	**679**	**733**	**–54**	**2,027**

Capital expenditure on financial assets € million	Jan – Jun 2017	Jan – Jun 2016	+/– € million	Jan – Dec 2016
Lignite & Nuclear	1	1	–	1
European Power	1	1	–	4
Supply & Trading	5	15	–10	56
innogy	172	76	96	290
Other, consolidation	–	–	–	4
RWE Group	**179**	**93**	**86**	**355**

Capital expenditure slightly higher than in 2016

During the first half of 2017, the RWE Group recorded capital expenditure of €858 million, up 4% on 2016. Expenditure on property, plant and equipment and intangible assets amounted to €679 million. This represents a modest decline compared to the first six months of 2016, which was mainly due to developments in innogy's grid business. By contrast, capital expenditure on financial assets roughly doubled to €179 million. In the reporting period, this was due to innogy acquiring the solar and battery specialist Belectric Solar & Battery, as discussed on page 9.

Cash flow statement € million	Jan – Jun 2017	Jan – Jun 2016	+/– € million	Jan – Dec 2016
Funds from operations	3,537	1,623	1,914	3,013
Change in working capital	–1,823	–2,627	804	–661
Cash flows from operating activities	**1,714**	**–1,004**	**2,718**	**2,352**
Cash flows from investing activities	**4,300**	**–833**	**5,133**	**–4,570**
Cash flows from financing activities	**343**	**2,016**	**–1,673**	**4,282**
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	8	–21	29	–24
Total net changes in cash and cash equivalents	**6,365**	**158**	**6,207**	**2,040**
Cash flows from operating activities	1,714	–1,004	2,718	2,352
Minus capital expenditure[1]	–805	–762	–	–2,308
Plus proceeds from divestitures/disposals of assets[1]	193	526	–	765
Free cash flow	**1,102**	**–1,240**	**2,342**	**809**

1 Only includes items with an effect on cash.

Operating cash flow: significant increase due to nuclear fuel tax refund

Cash flows from operating activities rose by €2,718 million to €1,714 million, primarily due to the nuclear fuel tax refund in the amount of €1.7 billion. While the change in working capital had a negative effect overall, in part related to the seasonality of the retail business, this effect was not as strong as in 2016. One factor in this regard was that we had to provide less collateral for trading transactions than in the previous year.

Investment activities resulted in income of €4,300 million (previous year: –€833 million). The main reason for this was that we liquidated marketable securities and cash investments to finance the transfer to the nuclear energy fund on 3 July 2017. This was contrasted by outflows of funds for our capital expenditure on fixed and financial assets. Additionally, we further increased the funding of our pension commitments: €147 million was transferred to trustees and company pension institutions for this purpose.

Financing activities resulted in a cash flow of €343 million (previous year: €2,016 million). Most of this was accounted for by our subsidiary innogy, which issued a large amount of commercial paper. Dividends paid to co-owners of fully consolidated RWE companies and hybrid capital investors had a counteracting effect, amounting to €580 million. Of this, €206 million related to innogy's dividend payment to its minority shareholders.

On balance, these cash flows from operating, investing and financing activities caused our cash and cash equivalents to rise by €6,365 million.

The free cash flow of the RWE Group amounted to €1,102 million, compared to –€1,240 million in the comparable prior-year period. As noted on page 13, we have altered the definition of this financial indicator: we now determine free cash flow by deducting all capital expenditures from the cash flow from operating activities and adding proceeds from divestments and asset disposals. The prior-year figure has been adjusted accordingly.

Net debt € million	30 Jun 2017	31 Dec 2016	+/– € million
Cash and cash equivalents	10,904	4,576	6,328
Marketable securities	5,278	10,065	–4,787
Other financial assets	1,251	1,621	–370
Financial assets	**17,433**	**16,262**	**1,171**
Bonds, other notes payable, bank debt, commercial paper	16,651	15,921	730
Hedge transactions related to bonds	–97	–263	166
Other financial liabilities	2,082	2,263	–181
Financial liabilities	**18,636**	**17,921**	**715**
Net financial debt	**1,203**	**1,659**	**–456**
Provisions for pensions and similar obligations	5,900	6,761	–861
Surplus of plan assets over benefit obligations	–54	–29	–25
Provisions for nuclear waste management	5,547	12,699	–7,152
Liabilities to the nuclear energy fund[1]	7,035	–	7,035
Mining provisions	2,370	2,363	7
Provisions for dismantling wind farms	382	334	48
Adjustment for hybrid capital (portion of relevance to the rating)	–907	–1,078	171
Plus 50% of the hybrid capital stated as equity	455	471	–16
Minus 50% of the hybrid capital stated as debt	–1,362	–1,549	187
Net debt	**21,476**	**22,709**	**–1,233**

1 Including liabilities attributable to the minority shareholder of the Emsland power station. By contrast, the liability attributable to the minority shareholder of the Gundremmingen nuclear power station was netted against a corresponding receivable (see page 39 in the Notes).

Net debt falls to €21.5 billion

As of 30 June 2017, our net debt amounted to €21.5 billion and was therefore €1.2 billion lower than the figure recorded as of 31 December 2016. In addition to the positive free cash flow, another factor behind this was that pension provisions declined by €0.9 billion. There are two reasons for this: on the one hand, the plan assets with which we fund the majority of our pension obligations increased. On the other hand, we raised the discount rates for determining the present value of pension obligations in Germany, in accordance with the latest market developments. On average, the new discount rate is now 2.0%, compared to 1.8% in the 2016 financial statements. Along with the above factors, divestments also helped to reduce net debt, while the distribution of dividends had an opposite effect.

Group balance sheet structure	30 Jun 2017		31 Dec 2016	
	€ million	%	€ million	%
Assets				
Non-current assets	45,033	59.7	45,911	60.1
of which:				
Intangible assets	12,727	16.9	12,749	16.7
Property, plant and equipment	24,112	32.0	24,455	32.0
Current assets	30,407	40.3	30,491	39.9
of which:				
Receivables and other assets[1]	12,527	16.6	14,122	18.5
Assets held for sale	105	0.1	–	–
Total	**75,440**	**100.0**	**76,402**	**100.0**
Equity and liabilities				
Equity	10,829	14.4	7,990	10.5
Non-current liabilities	37,704	50.0	39,646	51.9
of which:				
Provisions	19,783	26.2	20,686	27.1
Financial liabilities	15,299	20.3	16,041	21.0
Current liabilities	26,907	35.6	28,766	37.6
of which:				
Provisions	4,737	6.3	12,175	15.9
Other liabilities[2]	18,626	24.7	14,449	18.9
Liabilities held for sale	110	0.1	–	–
Total	**75,440**	**100.0**	**76,402**	**100.0**

1 Including financial accounts receivable, trade accounts receivable and income tax refund claims.
2 Including trade accounts payable and income tax liabilities.

Equity ratio rises to 14.4%

The balance sheet total of the RWE Group amounted to €75.4 billion, compared to €76.4 billion at the end of the previous year. One factor behind this was that the value of derivatives fell by €3.0 billion on the assets side and €2.7 billion on the liabilities side of the balance sheet. The Federal government's refund of the nuclear fuel tax had an opposing effect by increasing the balance sheet total. Regarding the balance sheet structure, measures we took in preparation for the transfer to the nuclear energy fund on 3 July had a significant impact. As noted previously, we sold a large amount of securities in order to obtain the necessary liquidity. During the reporting period, our liquid funds increased by a total of €6.3 billion. On the liabilities side of the balance sheet, we no longer reported the transfer amount for the fund as a provision, but rather as a liability. This was the main reason that our current provisions fell by €7.4 billion, while other current liabilities increased by €4.2 billion. The equity of the RWE Group rose by €2.8 billion to €10.8 billion. Its share in the balance sheet total (equity ratio) rose to 14.4%, an increase of 3.9 percentage points compared to the figure for the previous year, mainly due to the refund of the nuclear fuel tax.

Workforce[1]	30 Jun 2017	31 Dec 2016	+/– %
Lignite & Nuclear	13,247	12,980	2.1
European Power	2,666	2,672	−0.2
Supply & Trading	1,148	1,086	5.7
innogy	41,944	40,636	3.2
Other[2]	195	1,278	−84.7
RWE Group	**59,200**	**58,652**	**0.9**
of which:			
In Germany	35,306	34,835	1.4
Outside of Germany	23,894	23,817	0.3

1 Converted to full-time positions.
2 As of 30 June 2017, this almost exclusively comprises employees of the holding company RWE AG. The figures for the previous year included 922 employees and 243 employees, respectively, of the Group's internal service providers RWE Group Business Services and RWE Service, which have since been wound up.

Additional staff due to the acquisition of Belectric

As of 30 June 2017, the RWE Group had 59,200 people on its payroll. Part-time positions were considered in these figures on a pro-rata basis. During the first half of the year, in total 548 employees were added to the company, of which 471 were employed in Germany and 77 worked at facilities abroad. The main reason for this was innogy's acquisition of the German solar power and battery specialist Belectric Solar & Battery in early 2017. Excluding consolidation effects of this kind, the headcount remained almost unchanged. However, there were transfers between the segments. This was because we merged RWE Group Business Services and RWE Service (reported in the item 'Other') into an RWE subsidiary and transferred most of their staff to our operating Group companies.

OUTLOOK

Earnings forecast for 2017	2016 actual € million	Previous forecast (May 2017[1])	Adjusted forecast (August 2017)
Adjusted EBITDA	5,403	€5.4 billion to €5.7 billion	–
of which:			
Lignite & Nuclear	1,079	Significantly below previous year	–
European Power	377	Significantly below previous year	Significantly above previous year
Supply & Trading	−139	Significantly above previous year	–
innogy	4,203	Moderately above previous year	–
Adjusted net income	777	€1.0 billion to €1.3 billion	–

1 See Interim statement on the first quarter of 2017, page 13.

Forecast for Group result confirmed

Our earnings outlook for this fiscal year, which was published in the 2016 Annual Report and then confirmed in our interim statement on the first quarter of 2017, remains in place for the Group as a whole: we continue to expect adjusted EBITDA of €5.4 billion to €5.7 billion and adjusted net income of €1.0 billion to €1.3 billion. These two figures are expected to be in the upper end of the respective ranges. As discussed previously, the refund of the nuclear fuel tax has no impact on these. At the segment level, however, adjustments to the outlook were necessary, because the previous segment 'Conventional Power Generation' was divided into 'Lignite & Nuclear' and 'European Power'. Furthermore, the prospects for earnings in the segment European Power have improved. This is contrasted by additional burdens in generation from lignite.

Our forecast for the segments is now as follows:

- Lignite & Nuclear: the adjusted EBITDA of this segment is expected to decline significantly, mainly due to lower realised electricity prices. Additionally, generation volumes will be lower due to outages at Units F and G of Neurath lignite-fired power station, which was not included in the previous plans. Furthermore, the earnings of the Hungarian firm Mátra will be much lower than last year. As this company is for sale, from 1 April 2017 we no longer recognise its earnings contributions in adjusted EBITDA, but rather in the non-operating result. However, we no longer have to pay the nuclear fuel tax and are making further progress in implementing our efficiency enhancement programme.

- European Power: We now project a strong rise in adjusted EBITDA, whereas we had previously forecast a decline. The main reason for this was the unexpectedly good results from the short-term optimisation of our power plant dispatch. Furthermore, the income from the sale of the Littlebrook power station site, which should be completed in 2017, will result in a book gain (see page 11). While margins for gas-fired power stations should be higher than in 2016, we expect a sharp decline in margins at our hard coal-fired stations. Efficiency enhancement measures, however, should have positive effects.

- Supply & Trading: We also expect a substantial improvement in the earnings of this division. We assume that the trading business will be considerably more profitable this year, compared to the weak performance in 2016.

- innogy: From the current perspective, our subsidiary will close with a result moderately higher than in the previous year. The main reason for this is the improvement in earnings from the grid business, which should profit from declining operating and maintenance expenses. For the renewables business, adjusted EBITDA is expected to be on par with last year's results. The same holds true for the retail division, even though the outlook for the UK retail business is less certain, as there is a risk of further regulatory intervention to the detriment of the utilities (see next page).

Net debt expected to decline – outlook for capital expenditure and workforce confirmed

Due to the refund of the nuclear fuel tax, we now expect that net debt at the end of 2017 will be lower than the figure for last year (€22.7 billion). Previously, we had anticipated that net debt would remain stable. Our outlook is based on the assumption that we will not have to significantly lower the discount rates for determining provisions this year. With regard to capital expenditure, we still project a volume in the order of €2.5 billion to €3.0 billion, including spending on financial assets. The outlook for our workforce also remains unchanged: we anticipate a mild increase compared to the end of 2016, primarily due to the acquisition of Belectric Solar & Battery.

DEVELOPMENT OF RISKS AND OPPORTUNITIES

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

Within the framework of last year's restructuring of the RWE Group, we also reorganised our risk management activities. With its public listing in October 2016, innogy SE took over responsibility for managing and monitoring its own risks and the risks of its subsidiaries, while RWE AG remained responsible for the risks of the other Group companies. Detailed information on the structure and processes of our risk management, the responsible organisational units, the major risks and opportunities as well as our measures to control and monitor risks is presented on page 77 et seqq. of our 2016 Annual Report. Due to further developments this year, however, this information must be updated in certain regards:

- RWE's risk situation in relation to nuclear energy has improved significantly. In the first half of the year, the deadlines were met for all of the necessary measures required for the reorganisation of responsibility for nuclear waste disposal between the Federal government and the power plant operators (see page 7), as decided by Parliament in 2016. With the transfer of funds to the accounts of the new nuclear energy fund on 3 July, the liability of nuclear power plant operators for the costs of intermediate and final storage ended. Additional legal certainty is provided by the public law contract which was concluded with the Federal Republic of Germany at the end of June. We now expect that we will not be exposed to any risks from the mainly politically-driven cost increases for intermediate and final storage.

- One of our key opportunities materialised with the ruling of the Constitutional Court that the German nuclear fuel tax law was incompatible with the Basic Law and was therefore void (see page 7). We have already received a full refund of the tax payments in the amount of €1.7 billion.

- In the UK retail business, the risk of state intervention in price-setting has risen again. Prior to the general election on 8 June 2017, Prime Minister Theresa May – who was re-elected – stated her support for a cap on household energy costs. It remains unclear if the new government will implement measures of this kind and which customer groups would be affected. If a cap on tariffs is implemented, the already difficult situation for innogy's UK retail operations could become even tougher.

- As set out on page 8, Standard & Poor's, Moody's and Fitch confirmed their long-term ratings for RWE. Consequently, all three agencies continue to have an investment-grade rating for RWE, with a consistently stable rating outlook. If RWE had dropped out of this rating category, it could have resulted in additional costs when raising capital and hedging trading transactions. This risk has declined.

Current risk indicators

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

In the trading business of RWE Supply & Trading, the VaR is limited to €40 million for commodity positions. From January to June 2017, it averaged €12 million, compared to €24 million for the same period last year. The highest daily level was €15 million (previous year: €34 million). In mid-2017, we combined responsibility for the management of our gas portfolio and our liquefied natural gas (LNG) business in a new organisational unit. The maximum allowed VaR of this unit amounts to €12 million.

One of the most significant financial risk factors is the development of interest rates. For example, rising interest rates can lead to falling prices for securities held by RWE. This primarily relates to fixed-interest bonds. The VaR for securities price risk averaged €7 million in the first half of 2017 for the capital investments of RWE AG and €4 million for the capital investments of innogy. The prior-year figure for the RWE Group as a whole was €13 million. Moreover, increases in interest rates cause our financing costs to rise. We measure this risk using the cash flow at risk. We apply a confidence level of 95% and a holding period of one year. The cash flow at risk averaged €1 million at RWE AG and €8 million at innogy (previous year for the RWE Group: €7 million).

RWE AG and innogy also have equities in their holdings of securities. The annual average VaR for the risk associated with changes in the price of these instruments was €1 million at RWE AG and €4 million at innogy (previous year for the RWE Group: €7 million). The figure for RWE does not take into account the equity price risk for our majority stake in innogy.

The RWE Group is also exposed to risks from fluctuations in exchange rates. This stems from the international nature of our operations. Furthermore, energy commodities such as coal and oil are traded in US dollars. During the reporting period, the VaR for RWE AG's foreign currency position was less than €1 million, but was around this figure for innogy. The prior-year figure for the Group as a whole fell below €1 million.

RESPONSIBILITY STATEMENT

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

Essen, 10 August 2017

The Executive Board

Schmitz Krebber

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONDENSED)

Income statement

€ million	Apr – Jun 2017	Apr – Jun 2016	Jan – Jun 2017	Jan – Jun 2016
Revenue (including natural gas tax/electricity tax)	**10,027**	**10,241**	**23,321**	**23,898**
Natural gas tax/electricity tax	−386	−391	−1,148	−1,220
Revenue	**9,641**	**9,850**	**22,173**	**22,678**
Cost of materials	−7,205	−8,135	−15,999	−17,019
Staff costs	−1,172	−1,107	−2,328	−2,369
Depreciation, amortisation and impairment losses	−808	−561	−1,335	−1,330
Other operating result	1,359	−208	1,110	−482
Income from investments accounted for using the equity method	81	76	147	157
Other income from investments	25	19	53	41
Financial income	1,053	757	1,386	1,061
Finance costs	−977	−1,123	−1,536	−2,018
Income before tax	**1,997**	**−432**	**3,671**	**719**
Taxes on income	−321	105	−711	−56
Income	**1,676**	**−327**	**2,960**	**663**
of which: non-controlling interests	−57	60	267	180
of which: RWE AG hybrid capital investors' interest	10	16	24	26
of which: net income/income attributable to RWE AG shareholders	**1,723**	**−403**	**2,669**	**457**
Basic and diluted earnings per common and preferred share in €	**2.80**	**−0.66**	**4.34**	**0.74**

Statement of comprehensive income

€ million[1]	Apr – Jun 2017	Apr – Jun 2016	Jan – Jun 2017	Jan – Jun 2016
Income	**1,676**	**–327**	**2,960**	**663**
Actuarial gains and losses of defined benefit pension plans and similar obligations	273	–291	805	–865
Income and expenses of investments accounted for using the equity method (pro rata)	–17	7	–17	5
Income and expenses recognised in equity, not to be reclassified through profit or loss	**256**	**–284**	**788**	**–860**
Currency translation adjustment	71	–98	91	–84
Fair valuation of financial instruments available for sale	3	70	22	80
Fair valuation of financial instruments used for hedging purposes	53	–23	–447	–293
Income and expenses of investments accounted for using the equity method (pro rata)	3	–2	3	–2
Income and expenses recognised in equity, to be reclassified through profit or loss in the future	**130**	**–53**	**–331**	**–299**
Other comprehensive income	**386**	**–337**	**457**	**–1,159**
Total comprehensive income	**2,062**	**–664**	**3,417**	**–496**
of which: attributable to RWE AG shareholders	2,037	–730	2,994	–568
of which: attributable to RWE AG hybrid capital investors	10	16	24	26
of which: attributable to non-controlling interests	15	50	399	46

1 Figures stated after taxes.

Balance sheet

Assets € million	30 Jun 2017	31 Dec 2016
Non-current assets		
Intangible assets	12,727	12,749
Property, plant and equipment	24,112	24,455
Investment property	55	63
Investments accounted for using the equity method	2,895	2,908
Other financial assets	1,099	1,055
Receivables and other assets	1,489	1,797
Deferred taxes	2,656	2,884
	45,033	**45,911**
Current assets		
Inventories	1,804	1,968
Trade accounts receivable	5,241	4,999
Receivables and other assets	7,286	9,123
Marketable securities	5,067	9,825
Cash and cash equivalents	10,904	4,576
Assets held for sale	105	
	30,407	**30,491**
	75,440	**76,402**

Equity and liabilities € million	30 Jun 2017	31 Dec 2016
Equity		
RWE AG shareholders' interest	5,757	2,754
RWE AG hybrid capital investors' interest	910	942
Non-controlling interests	4,162	4,294
	10,829	**7,990**
Non-current liabilities		
Provisions	19,783	20,686
Financial liabilities	15,299	16,041
Other liabilities	2,015	2,196
Deferred taxes	607	723
	37,704	**39,646**
Current liabilities		
Provisions	4,737	12,175
Financial liabilities	3,434	2,142
Trade accounts payable	4,240	5,431
Other liabilities	14,386	9,018
Liabilities held for sale	110	
	26,907	**28,766**
	75,440	**76,402**

Cash flow statement

€ million	Jan – Jun 2017	Jan – Jun 2016
Income	2,960	663
Depreciation, amortisation and impairment losses/reversals	943	1,345
Changes in provisions	–298	–273
Deferred taxes/non-cash income and expenses/income from disposal of non-current assets and marketable securities	–68	–112
Change in working capital	–1,823	–2,627
Cash flows from operating activities	**1,714**	**–1,004**
Capital expenditure on non-current assets/acquisitions	–805	–762
Proceeds from disposal of assets/divestitures	193	526
Changes in marketable securities and cash investments	4,912	–597
Cash flows from investing activities[1]	**4,300**	**–833**
Cash flows from financing activities	**343**	**2,016**
Net cash change in cash and cash equivalents	6,357	179
Effect of changes in foreign exchange rates and other changes in value on cash and cash equivalents	8	–21
Net change in cash and cash equivalents	**6,365**	**158**
Cash and cash equivalents at beginning of the reporting period	4,576	2,536
of which: reported as 'Assets held for sale'		–14
Cash and cash equivalents at beginning of the reporting period as per the consolidated balance sheet	4,576	2,522
Cash and cash equivalents at end of the reporting period	10,941	2,694
of which: reported as 'Assets held for sale'	–37	
Cash and cash equivalents at end of the reporting period as per the consolidated balance sheet	**10,904**	**2,694**

1 After the initial/subsequent transfer to plan assets in the amount of €147 million (prior-year period: €198 million).

Statement of changes in equity

€ million	Subscribed capital and additional paid-in capital of RWE AG	Retained earnings and distributable profit	Accumu-lated other comprehensive income	**RWE AG shareholders' interest**	RWE AG hybrid capi-tal investors' interest	Non-controlling interests	**Total**
Balance at 1 Jan 2016	**3,959**	**3,612**	**−1,724**	**5,847**	**950**	**2,097**	**8,894**
Repayment of capital						−79	−79
Dividends paid		−5		−5	−67	−205	−277
Income		457		457	26	180	663
Other comprehensive income		−748	−277	−1,025		−134	−1,159
Total comprehensive income		−291	−277	−568	26	46	−496
Other changes		3		3	2		5
Balance at 30 Jun 2016	**3,959**	**3,319**	**−2,001**	**5,277**	**911**	**1,859**	**8,047**
Balance at 1 Jan 2017	**3,959**	**−652**	**−553**	**2,754**	**942**	**4,294**	**7,990**
Repayment of capital						−41	−41
Dividends paid		−5		−5	−60	−457	−522
Income		2,669		2,669	24	267	2,960
Other comprehensive income		676	−351	325		132	457
Total comprehensive income		3,345	−351	2,994	24	399	3,417
Other changes		14		14	4	−33	−15
Balance at 30 Jun 2017	**3,959**	**2,702**	**−904**	**5,757**	**910**	**4,162**	**10,829**

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 2017, including the additional information in the other parts of this half-year financial report, have been prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable in the EU. The statements were approved for publication on 10 August 2017.

In line with IAS 34, the scope of reporting for the presentation of the interim consolidated financial statements for the period ended 30 June 2017 was condensed compared with the scope applied to the consolidated financial statements as of 31 December 2016. With the exception of the changes and new rules described below, this half-year financial report was prepared using the accounting policies applied in the consolidated financial statements for the period ended 31 December 2016. For further information, please see the Group's 2016 Consolidated Annual Report, which provides the basis for this half-year financial report.

The discount rate applied to provisions for nuclear waste management is 0.6% (31 December 2016: 0.4%), and 4.4% (31 December 2016: 4.4%) for mining-related provisions. Provisions for pensions and similar obligations are discounted at an interest rate of 2.0% in Germany and 2.4% abroad (31 December 2016: 1.8% and 2.5%, respectively).

Changes in accounting regulations

The International Accounting Standards Board (IASB) has approved several amendments to existing International Financial Reporting Standards (IFRSs), which – pending adoption into EU law – become effective for the RWE Group as of fiscal 2017:

- Amendments to IAS 7 Disclosure Initiative (2016)
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (2016)
- Annual Improvements to IFRS Standards 2014–2016 Cycle (2016), in relation to the amendments and clarifications to IFRS 12 contained in this collective standard

These new policies do not have any material effects on the RWE Group's consolidated financial statements.

New accounting standards

The IASB has adopted further standards and amendments to standards, which are not yet mandatory in the European Union (EU) in fiscal 2017. The anticipated effects of these were described in the 2016 Consolidated Annual Report. Based on the current state of implementation, the anticipated effects are updated as follows:

IFRS 9 Financial Instruments
Regarding the classification and measurement of financial instruments, RWE expects effects above all on the recognition of changes in the value of financial assets that are measured at fair value and stated as 'Financial assets available for sale' in accordance with IAS 39. In the future, changes in the fair value of a large portion of these instruments will be recognised in the income statement instead of – as previously – in other comprehensive income. Non-derivative financial instruments stated as 'loans and receivables' according to IAS 39 will primarily be measured at amortised cost pursuant to IFRS 9 as well.

IFRS 15 Revenue from Contracts with Customers
RWE is currently finalising its review of the results of the contract analysis with regard to the accounting treatment pursuant to IFRS 15. In relation to the expected effects mentioned in the 2016 Consolidated Annual Report, we no longer anticipate any significant impact on the following items:

- Free gifts such as thermostats, vouchers, household appliances and discounted products given to households as an incentive for signing a contract;
- Contracts with households which provide a warranty or guarantee.

Updates and additional findings regarding the expected effects since the 2016 Annual Report was published are presented below:

Supply of energy to households
If the customer can cancel the contract on a monthly basis, the contract term according to IFRS 15 is considered to be one month only. For such contracts, no impact on revenue recognition is expected.

Principal-Agent relations
With respect to regulatory charges especially in the field of renewable energy, a few cases have been identified in which – unlike under IAS 18 – RWE qualifies as the agent under IFRS 15. In Germany, both revenue and the cost of materials of the grid division in the innogy segment are expected to decline by some €2.5 billion, because some performance bonuses received by the transmission system operator under the direct marketing model of the German Renewable Energy Act no longer qualify as revenue. This will not have an impact on income.

RWE will apply the modified retrospective method for first-time application starting 1 January 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.

Number of fully consolidated companies	Germany	Abroad	Total
Balance at 1 Jan 2017	**135**	**180**	**315**
First-time consolidation	9	11	20
Deconsolidation	−2		−2
Mergers	−5	−1	−6
Balance at 30 Jun 2017	**137**	**190**	**327**

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

Number of investments and joint ventures accounted for using the equity method	Germany	Abroad	Total
Balance at 1 Jan 2017	**70**	**17**	**87**
Acquisitions			
Disposals			
Other changes	2		2
Balance at 30 Jun 2017	**72**	**17**	**89**

Furthermore, six companies are presented as joint operations (31 December 2016: six companies).

Acquisitions

In early January 2017, innogy SE acquired 100 % of the shares in Belectric Solar & Battery GmbH (previously: Belectric Solar & Battery Holding GmbH) and thus obtained control. The company is active in the field of Operations & Maintenance (O & M) for solar farms, along with turn-key construction of solar farms and battery storage solutions (EPC services).

The initial accounting of the business combination has not been completed definitively due to the transaction's complex structure. The assumed assets and liabilities are presented in the following table:

Balance-sheet items € million	IFRS carrying amounts (fair values) at first-time consolidation
Non-current assets	56
Current assets	87
Non-current liabilities	7
Current liabilities	63
Net assets	**73**
Cost	74
Goodwill	**1**

The fair value of the receivables included in non-current and current assets amounted to €24 million.

Since its first-time consolidation, the company has contributed €81 million to the Group's revenue and −€3 million to the Group's income.

The tentative purchase price amounts to €74 million and includes a conditional payment obligation of €7 million. Negotiations on the final purchase price were commenced during the second quarter of 2017, but the purchase price has still not yet been finalised. This process is expected to be completed during the third quarter of 2017. The goodwill is largely associated with expected future use and synergy effects.

Disposals

As of 31 May 2017, RWE Generation sold the gas-fired cogeneration plant Hamborn 5 to thyssenkrupp Steel Europe (tkSE). The plant, which had been leased and operated by tkSE, is thus now also legally owned by the company. Within the RWE Group, this asset belonged to the segment European Power.

Assets held for sale and disposal groups

In the second quarter of 2017, the management decided to sell several companies from the segment 'Lignite & Nuclear'. The sale will likely be completed in the course of 2017.

As of 30 June 2017, the assets and liabilities of these investments were reported in the balance sheet as 'held for sale'.

At the time of classification as 'held for sale', impairments of €301 million were recognised in depreciation, amortisation and impairment losses.

Revenue

Revenue generated by energy trading operations is stated as net figures, i. e. only reflecting realised gross margins.

Reimbursement of the nuclear fuel tax

On 7 June 2017, the German Constitutional Court notified RWE in writing that the nuclear fuel tax levied until 31 December 2016 was not compatible with the constitutional rules and was retroactively void. After deduction of the €100 million portion economically attributable to E.ON, repayment of the nuclear fuel tax paid in previous periods, which had already occurred by the balance-sheet date, increased both cash and other operating income by €1.7 billion each. The claim to interest on the nuclear fuel tax which was paid resulted in financial income of €254 million. An other receivable of €254 million was recognised for this, as reimbursement did not occur prior to the balance-sheet date.

Share-based payment

The consolidated financial statements for the period ended 31 December 2016 presented the share-based payment system for executives of RWE AG and subordinate affiliates. As part of the Long-Term Incentive Plan for executives entitled 'Strategic Performance Plan' (SPP), RWE AG and innogy SE each issued another tranche during the first quarter of 2017.

Impairments and provisions

On 1 January 2017, the previous segment 'Conventional Power Generation' was split into the two new segments 'Lignite & Nuclear' and 'European Power'. This resulted in the previous cash-generating unit for the power plant portfolio being split up. An impairment test was conducted for this reason, leading to the reversal of an impairment loss of €401 million for the new cash-generating unit 'Lignite & Nuclear' (recoverable amount: €1.4 billion). As a counteracting effect, impairments were recognised (recoverable amount: €0 billion) and provisions for contingent losses were formed in the amount of €321 million for the new cash-generating unit 'European Power'. The recoverable amounts were determined on the basis of fair value less costs to sell, using the same valuation models and parameters as for 31 December 2016.

Use of provisions, liabilities and receivables from the Disposal Fund Act

As a result of the Disposal Fund Act (EntsorgFondsG), which entered into force in June 2017, the amount to be transferred to the nuclear energy fund on 3 July 2017 was known as of the balance-sheet date. Accordingly, the provision for nuclear waste management of €7.0 billion was used, and an other liability of €7.8 billion was recognised vis-à-vis the nuclear disposal fund. The obligation includes the obligations of the nuclear power plant operators and thus contains the minority shares of E.ON in the Emsland, and the Gundremmingen A, B and C plants, as well as Kahl experimental nuclear power plant. E.ON provided liquid funds of €0.2 billion, and an other receivable of €0.8 billion was recognised vis-à-vis E.ON in relation to the transfer amount of €1.0 billion which is attributable to E.ON in an economic sense.

Dividend distribution

RWE AG's Annual General Meeting, held on 27 April 2017, decided to pay a dividend of €0.13 per individual, dividend-bearing preferred share for fiscal 2016 (previous year: €0.13). The dividend payment totalled €5 million (previous year: €5 million). As in the previous year, no dividend was paid for common shares.

Financial liabilities

On 5 April 2017, innogy issued its first senior bond. With a volume of €750 million and a tenor of eight years, the bond was issued by innogy Finance B.V., with a guarantee by innogy SE. The bond has an annual coupon of 1.00% and an issue price of 99.466%, with a yield of 1.07% p.a.

A hybrid bond with a volume of CHF 250 million was called on 13 February 2017 and redeemed on 4 April 2017, without this instrument being refinanced with a new hybrid bond.

Earnings per share

		Jan – Jun 2017	Jan – Jun 2016
Net income/income attributable to RWE AG shareholders	€ million	2,669	457
Number of shares outstanding (weighted average)	thousands	614,745	614,745
Basic and diluted earnings per common and preferred share	€	4.34	0.74

Related party disclosures

The RWE Group classifies associated companies and joint ventures as related parties. In the first half of 2017, transactions concluded with material related parties generated €1,864 million in income (first half of 2016: €2,096 million) and €1,665 in expenses (first half of 2016: €1,604 million). As of 30 June 2017, accounts receivable amounted to €591 million (31 December 2016: €511 million) and accounts payable totalled €186 million (31 December 2016: €150 million). All business transactions are concluded at arm's length conditions and on principle do not differ from those concluded with other companies. Other obligations from executory contracts amounted to €1,160 million (31 December 2016: €1,203 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 in the 'Available for sale' category are recognised at fair value, and other non-derivative financial assets at amortised cost. On the liabilities side, non-derivative financial instruments principally include liabilities recorded at amortised cost.

The fair value of financial instruments 'Available for sale' which are reported under other financial assets and securities is the published exchange price, insofar as the financial instruments are traded on an active market. The fair value of non-quoted debt and equity instruments is determined on the basis of discounted expected payment flows, taking into consideration macroeconomic developments and corporate planning data. Current market interest rates corresponding to the term and 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 IAS 39. Exchange-traded products are measured using the published closing prices of the relevant exchange. Non-exchange traded products are measured on the basis of publicly available broker quotations or, if such quotations are not available, of generally accepted valuation methods. In doing so, we draw on prices on active markets as much as possible. If such are not available, company-specific planning estimates are used in the measurement process. These estimates encompass all of the market factors which other market participants would take into account in the course of price determination. Assumptions pertaining to the energy sector and the economy are the result of a comprehensive process involving both in-house and external experts.

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

As a rule, the carrying amounts of financial assets and liabilities subject to IFRS 7 are identical with their fair values. There are deviations only in relation to bonds, commercial paper, bank debt and other financial liabilities. Their carrying amounts totalled €18,733 million (31 December 2016: €18,183 million) and their fair values totalled €21,276 million (31 December 2016: €20,541 million).

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

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

Fair value hierarchy € million	Total 30 Jun 2017	Level 1	Level 2	Level 3	Total 31 Dec 2016	Level 1	Level 2	Level 3
Other financial assets	1,099	72	181	846	1,055	64	202	789
Derivatives (assets)	3,456		3,433	23	6,494	2	6,455	37
of which: used for hedging purposes	1,214		1,214		2,175		2,175	
Securities	5,067	3,401	1,666		9,825	6,776	3,049	
Derivatives (liabilities)	3,040	1	3,027	12	5,703	8	5,685	10
of which: used for hedging purposes	855		855		1,240		1,240	

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

Level 3 financial instruments: Development in 2017 € million	Balance at 1 Jan 2017	Changes in the scope of consolidation, currency adjustments and other	Changes: Recognised in profit or loss	Changes: With a cash effect	Balance at 30 Jun 2017
Other financial assets	789	10	9	38	846
Derivatives (assets)	37	–1	–6	–7	23
Derivatives (liabilities)	10			2	12

Level 3 financial instruments: Development in 2016 € million	Balance at 1 Jan 2016	Changes in the scope of consolidation, currency adjustments and other	Changes: Recognised in profit or loss	Changes: With a cash effect	Balance at 30 Jun 2016
Other financial assets	608	31	3	–4	638
Derivatives (assets)	57	1	–4	–39	15
Derivatives (liabilities)	21		27	–48	

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 2017	Of which: attributable to financial instruments held at the balance-sheet date	Total Jan – Jun 2016	Of which: attributable to financial instruments held at the balance-sheet date
Revenue			1	1
Cost of materials	–6	–6	–32	–32
Other operating income/expenses	14	12	4	4
Income from investments	–5	–5	–1	–1
	3	**1**	**–28**	**–28**

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

Events after the balance-sheet date

The following major events occurred in the period from 1 July 2017 until preparation of the interim financial statement on 10 August 2017:

Sale of property

At the end of July 2017, an agreement was concluded with Tritax Big Box REIT plc on the sale of most of the former Littlebrook power station site. The transaction is expected to be completed this year. A smaller part of the property was sold to the transmission system operator National Grid. This transaction was already completed in early August. These sales resulted in total euro proceeds in the upper double-digit million range. The former power station site is part of the RWE Group segment 'European Power'.

Cancellation of a hybrid bond

A hybrid bond with a volume of CHF 150 million which was issued in July 2012 was called on 9 June 2017, and redeemed on 26 July 2017, without this instrument being refinanced with a new hybrid bond. This bond had been fully recognised as debt under IFRS.

Sale of residential property management companies

Based on a contract of sale dated 9 February 2017, RWE Power AG sold its 50-per cent interest in Wohnungsbaugesellschaft für das Rheinische Braunkohlenrevier Gesellschaft mit beschränkter Haftung and its 15-per cent interest in GSG Wohnungsbau Braunkohle GmbH to Vivawest GmbH. The sale resulted in total euro proceeds in the medium double-digit range. As of the balance-sheet date, it still depended on the revocation of the Act on Miners' Housing of 10 March 1930. On 24 July 2017, revocation of the Act was promulgated in the Federal Gazette.

Transfer to the nuclear energy fund

A payment of € 7.8 billion was made to the nuclear energy fund on 3 July 2017 (including €1.0 billion which is attributable to E.ON in an economic sense). With this payment, the liability vis-à-vis the nuclear energy fund which was recognised on 30 June 2017 was settled completely. The liability recognised vis-à-vis E.ON as of the balance-sheet date has also been settled completely in the meantime.

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, 2017 to June 30, 2017 which are part of the half-year financial report pursuant to § (Article) 37w 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, August 11, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

FINANCIAL CALENDAR 2017/2018

14 November 2017	Interim statement on the first three quarters of 2017
13 March 2018	Annual report for fiscal 2017
26 April 2018	Annual General Meeting
2 May 2018	Dividend payment
15 May 2018	Interim statement on the first quarter of 2018
14 August 2018	Interim report on the first half of 2018
14 November 2018	Interim statement on the first three quarters of 2018

This document was published on 14 August 2017. It is a translation of the German interim report on the first half of 2017. In case of divergence from the German version, the German version shall prevail.

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