Interim report
January to March 2017

innogy

At a glance

innogy Group		Jan–Mar 2017	Jan–Mar 2016	+/– %	Jan–Dec 2016
Power generation from renewable sources	billion kWh	2.8	3.4	−17.6	10.0
External electricity sales volume	billion kWh	67.7	65.1	4.0	242.5
External gas sales volume	billion kWh	88.8	89.9	−1.2	241.3
External revenue	€ million	12,370	13,257	−6.7	43,611
Adjusted EBITDA	€ million	1,617	1,555	4.0	4,203
Adjusted EBIT	€ million	1,261	1,195	5.5	2,735
Income before tax	€ million	1,121	1,285	−12.8	2,201
Net income/income attributable to innogy SE shareholders	€ million	632	806	−21.6	1,513
Adjusted net income[1]	€ million	684	–	–	1,123
Cash flows from operating activities	€ million	−663	−606	−9.4	2,674
Capital expenditure	€ million	323	286	12.9	2,123
Property, plant and equipment and intangible assets	€ million	215	252	−14.7	1,833
Financial assets	€ million	108	34	217.6	290
Free cash flow[2]	€ million	−823	−676	−21.7	1,041
		31 Mar 2017	31 Dec 2016		
Market capitalisation	€ billion	19.7	18.3	7.7	–
Net debt	€ million	16,575	15,748	5.3	–
Employees[3]		41,854	40,636	3.0	–

1 As major transactions required to establish the envisaged capital structure were still pending and the legal reorganisation of the innogy Group had not yet been completed, we have not presented adjusted net income for the first quarter of 2016.
2 Definition of free cash flow amended. See commentary on page 13.
3 Converted to full-time positions.

Content

Major events	2
Reporting principles	5
Business trend	7
Outlook	15
Interim consolidated financial statements (condensed)	16
Income statement	16
Statement of comprehensive income	17
Balance sheet	18
Cash flow statement	19
Statement of changes in equity	20
Notes	21
Legal disclaimer	28
Financial calendar 2017/2018	29

Adjusted EBITDA and EBIT up 4% and 6% year on year

Adjusted net income: €684 million

Outlook for 2017 confirmed and adjusted net income of over €1.2 billion expected

€20 billion Debt Issuance Programme launched

Successful issuance of first bond with a volume of €750 million

Dividend of €1.60 per share for fiscal 2016

Major events

In the period under review

innogy acquires international solar and battery specialist Belectric

At the beginning of January 2017, innogy SE successfully completed the acquisition of the international solar and battery specialist Belectric Solar & Battery GmbH (formerly Belectric Solar & Battery Holding GmbH). The preliminary purchase price is €74 million and includes a €7 million conditional payment obligation. As a result of the acquisition of Belectric, innogy advanced to become a global player on the market for utility-scale photovoltaic power plants and battery storage systems. These technologies make a significant contribution towards the development of the decentralised, renewable energy system of the future. The acquisition is therefore a perfect fit with innogy's strategy of becoming a pioneer of efficient, climate-friendly and intelligent energy solutions. Belectric is domiciled in Kolitzheim, Bavaria, and had approximately 550 people on its payroll the world over as of 31 March 2017.

innogy acquires majority stake in Croatian gas utility and further expands international distribution system business

The contracts for taking a 75% interest in the gas utility of the town of Koprivnica for a purchase price of about €6.9 million were signed on 7 February 2017. The Croatian Cartel Office approved the transaction in April, enabling it to be implemented. Ownership of the remaining 25% stays with the municipal company Komunalac. The acquisition puts innogy in the role of pioneer, as this is the first privatisation on the Croatian gas market. The takeover increases our customer base by 13,000 and extends our gas network by about 450 kilometres. In the next three years, innogy intends to own 10% of the Croatian gas market. innogy has been active on the country's electricity market since 2013 and is the second-largest electricity provider in Croatia, with approximately 110,000 customers.

eprimo's customer service is outstanding

The financial magazine Focus-Money published its second 'German Energy Atlas' (issue 6/2017). The study lists the best electricity providers in 160 cities, based on service. The five best energy suppliers in each city were determined by a reader survey. As last year, the clear winner was eprimo: our online electricity and gas provider ranks first in 42 cities, second in 34 and scored a total of 109 top 5 placements.

In addition, the readers of the computer magazine CHIP attested to eprimo's high quality of service and good availability. In the latter category, the energy provider received the best grades of all suppliers.

Europe's largest guarantor and creditor exchange of €11 billion in corporate bonds successfully implemented

innogy laid the cornerstone of its financial autonomy through its independence under company law and successful IPO at the beginning of October 2016. Soon thereafter, the guarantor and creditor transfer of all RWE AG senior bonds outstanding to innogy SE was initiated and successfully completed in February 2017. With a total volume of an equivalent of €11 billion, this transaction, which encompassed 18 bonds of various currencies, was the largest of its type by a company in Europe.

innogy teams up with seven energy suppliers to launch 'Free Electrons', a global startup programme

At innogy's initiative, in early February, eight international energy utilities launched the first global 'startup accelerator' in the energy sector called the 'Free Electrons' programme. Promising startups were invited to partner with leading energy companies the world over. The goal is to jointly develop innovative business models for a total of 73 million customers of the partner companies in more than 40 countries. The initiative is backed by leading energy companies and startup specialists aiming to find young businesses that will revolutionise the energy market of the future with their ideas. A total of 450 startups from 51 countries applied for one of the coveted spots in the 'Free Electrons' contest. Twelve promising technology firms were recognised as winners at the end of April. The selected startups are from greatly differing world regions: four are based in the USA and two in Israel, with the remainder coming from Germany, Ireland, Portugal, India, the United Kingdom and Switzerland. Additional information is available at **www.freelectrons.co.**

innogy and Kiwigrid develop IoT (Internet of Things) platform for the energy market of the future

More than 1.3 million small and large renewable energy generation assets and decentralised storage facilities are already connected to Germany's distribution networks. The rising number of decentralised generation units requires flexible feed-ins. Therefore, generation assets must be managed intelligently. This also benefits consumers because we provide customers with clever solutions for controlling and optimising their energy consumption. As an innovative company, innogy invests globally in forward-looking technologies. For example, within the scope of a financing round early in the year, innogy acquired the stake in Dresden-based Kiwigrid GmbH previously owned by Innogy Venture Capital, which had held it since 2013. Based in Saxony, the young technology company develops and operates an open communication and control platform for intelligent energy management and was elected to the 'Global Cleantech 100' list for 2016. The ranking is updated once a year and denotes the most innovative and promising companies in the renewable energy sector.

The energy platform developed by Kiwigrid takes the energy transition right to the customer: powerful software enables photovoltaic (PV) installations, heat pumps, storage units and EV charging stations to be monitored and controlled. For example, customers can manage their energy consumption efficiently and reduce their costs by selling the electricity they generate from their roof-mounted PV units themselves or use it to charge electric cars in their garage. Additional information is available at **www.kiwigrid.com.**

After the period under review

innogy pays dividend of €1.60 per share for fiscal 2016

innogy successfully places first bond with a total volume of €750 million

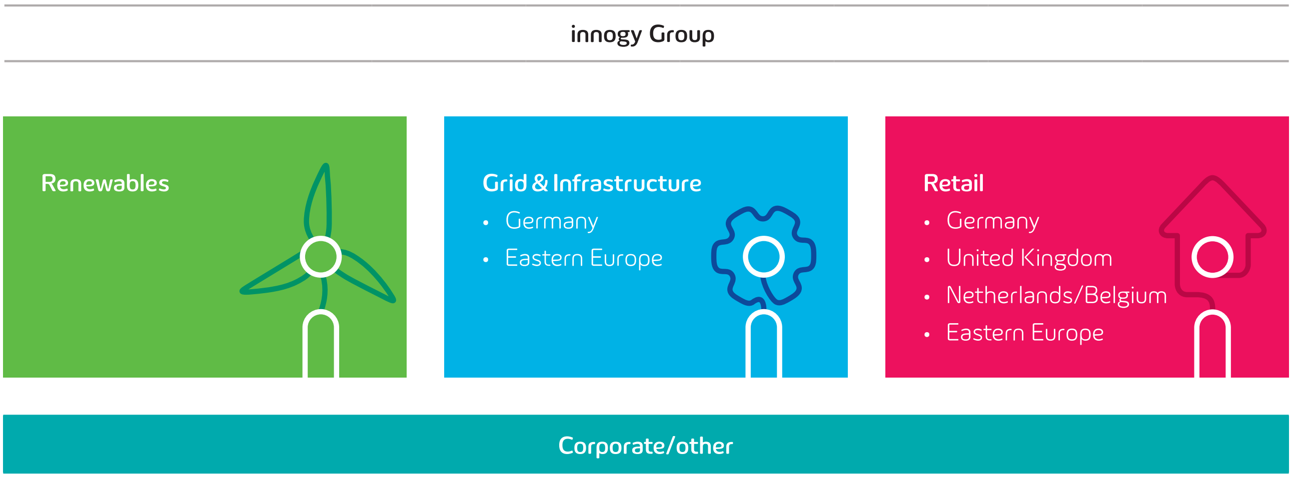
innogy SE placed its first senior bond at the beginning of April, six months after the IPO. The bond, which has a volume of €750 million and a tenor of eight years, was issued by innogy Finance B.V. and backed by innogy SE. With an annual coupon of 1.00% and an issue rate of 99.466%, the yield amounted to 1.07% per annum. The issuance met with keen interest and was several times oversubscribed. The placement was the first under the €20 billion debt issuance programme, which we launched in the spring of 2017. The proceeds from the issuance will be used to refinance liabilities due as well as general business activities.

innogy pays dividend of €1.60 per share – Supervisory Board confirmed

On 24 April 2017, the Annual General Meeting of innogy SE approved the dividend proposed by the Executive and Supervisory Boards for fiscal 2016. It envisaged a payment of €1.60 per dividend-bearing share. The payout ratio is thus about 80% of adjusted net income of fiscal 2016.

In addition, the Annual General Meeting confirmed the candidates put up for election as employee and shareholder representatives to the Supervisory Board. After the Annual General Meeting, the Supervisory Board held its constituting session and re-elected Dr. Werner Brandt Chairman of the Supervisory Board. Frank Bsirske remains Deputy Chairman of the Supervisory Board. You will find more detailed information on the outcomes of all of the votes at **www.innogy.com/agm-2017.**

Reporting principles



As of 31 March 2017.

Group structure features three divisions

Our financial reporting reflects our Group structure, which includes three functionally distinct divisions: Renewables, Grid & Infrastructure and Retail. Taking account of the geographical footprint in addition, the Group is divided into seven operating segments. Pursuant to IFRS 8.12, operating segments can be combined to form a division or reporting segment if the operating segments have similar commercial features and can be compared to one another in respect of product type and customer group, among other things.

The following is a presentation of the divisions:

- **Renewables.** This is where we report on our activities relating to electricity generation from renewable sources. Besides the operation of green energy assets, this also includes construction and project development. Our current focus is on onshore and offshore wind as well as hydroelectric power. Our major production sites are located in Germany, the United Kingdom, the Netherlands, Poland, Spain and Italy. Our activities relating to the expansion of the solar and photovoltaic business are also included in this division. This is the item under which we also report on Belectric, the international solar and battery specialist acquired at the beginning of January 2017 (see page 2).

- **Grid & Infrastructure.** This division encompasses our electricity and gas distribution operations. The Grid & Infrastructure Germany segment includes the German electricity and gas distribution network business. With the exception of retail, it also contains the activities of the fully consolidated regional utilities (grid operation, power generation, water, etc.), our gas storage business as well as our non-controlling interests in utilities (e. g. German municipal utilities and Austria-based KELAG). The Grid & Infrastructure Eastern Europe segment encompasses our gas distribution network and gas storage operations in the Czech Republic as well as our electricity distribution network business in Poland, Hungary and Slovakia.

- **Retail.** This is where we present our energy retail activities which, in addition to the sale of electricity and gas, include the provision of innovative energy solutions to meet existing demands. Geographically, we distinguish among the four following operating segments: Retail Germany, Retail United Kingdom, Retail Netherlands/Belgium and Retail Eastern Europe. The last segment in this list comprises activities in the Czech Republic, Slovakia, Hungary, Poland, Slovenia, Croatia and Romania. We also recognise the small share in power generation of individual retail companies in Germany and abroad in this division.

We present certain groupwide activities and consolidation effects outside the divisions in the 'Corporate/other' line item. This also contains the holding activities of innogy SE and our internal service providers.

innogy's capital structure was changed fundamentally as part of the extensive reorganisation of the RWE Group, from which innogy emerged. Major transactions required to create the envisaged capital structure were pending as of 31 March 2016 and the legal reorganisation of the innogy Group had not yet been completed by then. Therefore, we have not presented an adjusted financial result, adjusted net income or adjusted earnings per share for the first quarter of 2016.

Business trend

External revenue 7% down year on year

In the first quarter of 2017, the innogy Group achieved €12,370 million in external revenue. This figure includes natural gas and electricity tax. Our revenue declined by about 7% compared to the same period last year. We recorded a drop of 9% in the Grid & Infrastructure division. The main reason for this was a decline in sales from reselling electricity that operators of renewable energy plants feed into innogy's German distribution network. This is because the producers increasingly market the electricity they generate from renewable sources directly or use it themselves. Furthermore, revenue in the Retail division decreased by 6%, particularly in the gas business. The main reason were sales shortfalls caused by industrial and corporate customers, primarily in Eastern Europe as well as in the Netherlands/Belgium. Electricity revenue also dropped, in part due to sales shortfalls in the Netherlands/Belgium and in the United Kingdom. Moreover, the British pound depreciated vis-à-vis the euro, dropping from an average of €1.28 to €1.17, and revenue achieved in the United Kingdom was lower when converted to euros.

By contrast, we increased supply volumes to German distributors, both in the electricity and gas businesses. We also posted a gain in gas sales to our residential and commercial customers in Germany and several Eastern European countries, which stepped up purchases in part due to the weather.

Disregarding all major consolidation and currency effects, external revenue decreased by 5%.

External revenue € million	Jan–Mar 2017	Jan–Mar 2016	+/– %
Renewables	260	236	10.2
Grid & Infrastructure	2,551	2,807	−9.1
Germany	2,275	2,563	−11.2
Eastern Europe	276	244	13.1
Retail	9,509	10,157	−6.4
Germany	5,182	4,987	3.9
United Kingdom	2,132	2,619	−18.6
Netherlands/Belgium	1,140	1,492	−23.6
Eastern Europe	1,055	1,059	−0.4
Corporate/other	50	57	−12.3
innogy Group	**12,370**	**13,257**	**−6.7**
Natural gas tax/electricity tax	726	781	−7.0
innogy Group (excluding natural gas tax/electricity tax)	**11,644**	**12,476**	**−6.7**

Internal revenue € million	Jan–Mar 2017	Jan–Mar 2016	+/– %
Renewables	106	114	−7.0
Grid & Infrastructure	920	796	15.6
Retail	141	266	−47.0

Adjusted EBITDA € million	Jan–Mar 2017	Jan–Mar 2016	+/– %
Renewables	214	233	−8.2
Grid & Infrastructure	930	766	21.4
Germany	656	528	24.2
Eastern Europe	274	238	15.1
Retail	535	595	−10.1
Germany	272	225	20.9
United Kingdom	57	154	−63.0
Netherlands/Belgium	104	113	−8.0
Eastern Europe	102	103	−1.0
Corporate/other	−62	−39	−59.0
innogy Group	**1,617**	**1,555**	**4.0**

Adjusted EBIT € million	Jan–Mar 2017	Jan–Mar 2016	+/– %
Renewables	134	154	−13.0
Grid & Infrastructure	708	548	29.2
Germany	499	372	34.1
Eastern Europe	209	176	18.8
Retail	490	540	−9.3
Germany	265	209	26.8
United Kingdom	34	130	−73.8
Netherlands/Belgium	93	103	−9.7
Eastern Europe	98	98	–
Corporate/other	−71	−47	−51.1
innogy Group	**1,261**	**1,195**	**5.5**

Adjusted EBITDA and adjusted EBIT 4% and 6% up year on year

In the first quarter of 2017, innogy increased adjusted EBITDA by 4% to €1,617 million and adjusted EBIT by 6% to €1,261 million, compared to the same period last year. The main drivers of this earnings growth were reduced costs incurred to operate and maintain our networks in Germany. Furthermore, we had also accrued provisions for partial retirement measures in the first quarter of 2016 in this segment. A counteracting effect was felt above all from the decline in earnings in the UK retail business against the backdrop of an increasingly tough market environment.

Adjusted EBIT developed as follows by division:

- **Renewables.** Adjusted EBIT declined by 13% to €134 million. This was mainly because electricity production decreased as average wind levels at our main sites were some 15% down on the long-term average and below the year-earlier level as well. Another reason for the drop was the reduction in water levels at our run-of-river power stations at the beginning of the year. Moreover, the devaluation of the British pound compared to the euro also had a negative impact. In addition, adjusted EBIT in the first quarter of last year included a one-off gain on the sale of small run-of-river power stations in Germany. A positive effect was felt from the fact that the Dutch onshore wind farms Kattenberg (10 megawatts (MW), near Eindhoven) and Zuidwester (90 MW, Ijsselmeer) have been online at full capacity since the beginning of the year.

- **Grid & Infrastructure.** At €708 million, the division’s adjusted EBIT was 29% up year on year. Developments at the segment level were as follows:

  - **Grid & Infrastructure Germany.** Here, we closed the reporting period 34% up year on year, in part due to lower expenses for operating and maintaining our network infrastructure. Furthermore, we accrued provisions for partial retirement measures in 2016.

  - **Grid & Infrastructure Eastern Europe.** Adjusted EBIT recorded by this segment was 19% higher year on year. In Eastern Europe, we benefited from positive weather-related effects, which drove up volume especially on our gas distribution network in the Czech Republic. Moreover, the delayed recognition of regulatory costs in the Czech Republic and Slovakia had a positive impact on the first quarter of 2017.

- **Retail.** At €490 million, adjusted EBIT in the retail business was 9% down year on year. Developments by segment were as follows:

  - **Retail Germany.** Here, we recorded a gain of 27%. Efficiency-enhancing measures and cost reductions had a particularly positive effect on earnings. We also improved earnings from sales of innovative products related to intelligent energy solutions.

  - **Retail United Kingdom.** In the UK retail business, adjusted EBIT declined by 74%. The recovery plan launched in early 2016 continues to make progress as scheduled and is leading to a reduction in the cost base. However, the competitive landscape remains very tough. In addition, further regulatory intervention, for example by way of an extension of price caps on the standard tariff, is being discussed by the UK government, further unsettling the market participants. Compared to the first quarter of 2016, we lost customers and some customers could only be retained by offering them contracts at much more favourable conditions. Moreover, run-up costs rose and the increase in standard tariffs announced in early February only took effect as of 16 March 2017. Therefore, it has not yet had a notable influence on earnings. Furthermore, sales shortfalls and higher procurement costs came to bear in the commercial and corporate customer business.

  - **Retail Netherlands/Belgium.** We experienced a decline of 10% in this segment. This was due to a drop in customer figures and sales compared to the same quarter last year, which was only partially offset by lower costs and efficiency measures.

  - **Retail Eastern Europe.** In this segment, we closed the quarter at the year-earlier level.

The non-operating result, in which we recognise certain one-off effects which are not related to operations or are not periodic, declined by €256 million to −€48 million. In the period under review, the accounting treatment of derivatives, which we use to hedge price fluctuations, led to expenses of −€36 million as opposed to income of €158 million in the same period last year. Furthermore, a €250 million compensatory payment from RWE Supply & Trading from the settlement of gas storage contracts and charges resulting from €204 million in impairments recognised for our German gas storage facilities last year did not recur in the quarter being reviewed. Capital gains achieved in the period under review were minor and on a par year on year.

Financial result € million	Jan–Mar 2017	Jan–Mar 2016[1]
Interest income	17	78
Interest expenses	−103	−160
Net interest	**−86**	**−82**
Interest accretion to non-current provisions	−12	−27
Other financial result	6	−9
Financial result	**−92**	**−118**
Adjustments in the financial result	−59	–
Adjusted financial result to derive the adjusted net income	**−151**	**–**

1 We have not presented an adjusted financial result for the first quarter of 2016 (see page 6).

Financial result up year on year

At −€92 million, the financial result was €26 million higher than in the first quarter of 2016. This was due to improvements in the interest accretion to non-current provisions in part owed to one-off effects after adjustments to the discount rates and an improved other financial result. The latter primarily stemmed from the proceeds on the sale of securities as opposed to the losses recorded in the same period last year. Income from the valuation of financial transactions had a counteracting effect.

Net interest deteriorated slightly, dropping by €4 million to −€86 million, but last year's comparable figure is of limited informational value, as major transactions required to achieve the envisaged capital structure were still pending (see page 6).

Due to the transfer of liabilities from RWE to innogy, which was initiated in 2015, the transferred bonds must be accounted for at fair value at their respective transfer dates. The differences to the carrying amounts formerly stated in the RWE Group are reversed over their remaining terms to maturity. They amounted to €981 million as of 31 March 2017. In the first quarter of 2017, the reversal had a positive effect on net interest of €53 million. The impact of currencies arising from the difference in the valuation of our foreign-currency bonds was immaterial in the period under review. As these effects on earnings do not affect the actual payment obligations, we adjust the financial result by excluding them to calculate adjusted net income. Furthermore, in the first quarter of 2017, we netted out €6 million in positive one-off effects on net interest resulting from the transfer of four further bonds from RWE to innogy and the early redemption of the corresponding loans from RWE, which reflected the debt transfer in economic terms ahead of the legal execution.

At 30%, the effective tax rate was 2 percentage points higher than in last year's comparable period. The main reason for the rise was that German companies made a larger contribution to pretax income in the period under review than in the same quarter last year. We currently expect the effective tax rate for the full year to be about 25%.

After tax, we generated income of €780 million (first quarter of 2016: €921 million).

The non-controlling interest in income increased by 29% to €148 million, because some fully consolidated companies, in which entities not belonging to the Group hold a significant stake, generated more income than in the first quarter of last year.

The developments presented above are the reason why net income decreased to €632 million. Based on 555,555,000 innogy shares outstanding, earnings per share amounted to €1.14.

Reconciliation to net income		Jan–Mar 2017	Jan–Mar 2016
Adjusted EBITDA	€ million	**1,617**	**1,555**
Operating depreciation, amortisation and impairment losses	€ million	−356	−360
Adjusted EBIT	€ million	**1,261**	**1,195**
Non-operating result	€ million	−48	208
Financial result	€ million	−92	−118
Income before tax	€ million	**1,121**	**1,285**
Taxes on income	€ million	−341	−364
Income	€ million	**780**	**921**
Non-controlling interests	€ million	148	115
Net income/income attributable to innogy SE shareholders	€ million	**632**	**806**
Effective tax rate	%	30	28

Derivation of adjusted net income		Jan–Mar 2017	Jan–Mar 2016[1]
Adjusted EBIT	€ million	1,261	1,195
Adjusted financial result	€ million	−151	–
Adjusted result before tax	€ million	**1,110**	**–**
Taxes on income on the basis of the adjusted tax rate	€ million	−278	–
Non-controlling interests	€ million	−148	–
Adjusted net income	€ million	**684**	**–**
Tax rate used to calculate adjusted net income	%	25	–

1 We have not presented adjusted net income for the first quarter of 2016 (see page 6).

Adjusted net income of €684 million

In the period under review, adjusted net income totalled €684 million. Based on the average of 555,555,000 innogy shares outstanding, adjusted net income per share amounted to €1.23.

Adjusted net income differs from net income in that the non-operating result and – possibly – further special items are excluded from it. In particular, certain interest and currency effects that are reflected in the financial result are excluded as exceptional effects (see page 10).

We applied a normalised tax rate of 25% in calculating adjusted net income for the reporting period.

As major transactions required to create the envisaged capital structure were pending and the legal reorganisation of the innogy Group had not yet been completed, we have not presented adjusted net income for the first quarter of 2016 (see page 6).

Capital expenditure € million	Jan–Mar 2017	Jan–Mar 2016
Capital expenditure on property, plant and equipment and on intangible assets	215	252
Renewables	49	23
Grid & Infrastructure	127	163
Germany	90	125
Eastern Europe	37	38
Retail	32	52
Germany	8	9
United Kingdom	12	23
Netherlands/Belgium	10	10
Eastern Europe	2	10
Corporate/other	7	14
Capital expenditure on financial assets	108	34
Total capital expenditure	**323**	**286**

Increase in capital expenditure

Our capital expenditure rose by 13% to €323 million year on year. This was largely due to a €74 million increase in capital spending on financial assets to €108 million. This was due to the acquisition of the international solar and battery specialist Belectric. We spent €215 million on property, plant and equipment and intangible assets. This represents a drop of €37 million compared to the first quarter of 2016.

The expansion and modernisation of our grid infrastructure continue to be a focal point of our investing activity. Besides maintenance, the focus was on the connection of decentralised generation assets and network expansion in relation to the energy transition. In addition, we spent capital on various onshore wind projects in the United Kingdom and Germany in the Renewables division.

Cash flow statement € million	Jan–Mar 2017	Jan–Mar 2016
Funds from operations	1,273	1,590
Change in working capital	−1,936	−2,196
Cash flows from operating activities	**−663**	**−606**
Cash flows from investing activities	−296	302
Cash flows from financing activities	1,019	202
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	12	−10
Net change in cash and cash equivalents	**72**	**−112**
Cash flows from operating activities	−663	−606
Capital expenditure on property, plant and equipment and on intangible assets[1]	−215	−217
Capital expenditure on financial assets[1]	−73	−13
Proceeds from disposal of assets/divestitures	128	160
Free cash flow	**−823**	**−676**

1 This item solely includes capital expenditure with an effect on cash.

Cash flows from operating activities down year on year

First-quarter cash flows from operating activities are usually negative. For seasonal reasons, electricity and gas sales volumes are above average, whereas payments received from customers are spread over the year. This is reflected in a strong rise in working capital. In addition, there are significant effects relating to cut-off dates, for example depending on the timing of changes to retail tariffs and when we buy large amounts of electricity and gas for our customers. Cash flows from operating activities decreased by €57 million to −€663 million compared to the same period last year. The settlement of gas storage contracts with RWE Supply & Trading, which led to the receipt of a compensatory payment of €250 million last year, also came to bear here.

Cash outflows for investing activities in the period under review totalled €296 million. Cash flows from financing activities were positive, amounting to €1,019 million, and predominantly stemmed from the issuance of €1,222 million in commercial paper. Comparisons of these two items to last year's corresponding figures are of no informational value since major transactions required to establish innogy's envisaged capital structure were pending as of 31 March 2016.

On balance, the presented cash flows from operating, investing and financing activities caused our cash and cash equivalents to increase by €72 million.

In the present report, we adjusted the definition of free cash flow in order to present innogy's business model more transparently and allow for the reconciliation to net debt. In addition to capital expenditure on property, plant and equipment and intangible assets, free cash flow now also reflects capital expenditure on financial assets as well as proceeds from the disposal of assets/divestitures. These items were not considered in free cash flow in the past. Free cash flow amounted to −€823 million compared to −€676 million in the same period last year. The prior-year figure has been adjusted to bring it in line with the new definition.

Net debt € million	31 Mar 2017	31 Dec 2016
Cash and cash equivalents	1,451	1,379
Marketable securities	2,793	2,722
Other financial assets	482	519
Financial assets	**4,726**	**4,620**
Bonds, other notes payable, bank debt, commercial paper	13,394	11,826
Hedge transactions related to senior bonds	−28	−12
Adjustment for the fair valuation of senior bonds	−981	−1,034
Other financial liabilities including liabilities to RWE AG	4,913	5,395
Financial liabilities	**17,298**	**16,175**
Net financial debt	**12,572**	**11,555**
Provisions for pensions and similar obligations	3,648	3,888
Surplus of plan assets over benefit obligations	−29	−29
Provisions for wind farm decomissioning	384	334
Total net debt	**16,575**	**15,748**

Net debt rises to €16.6 billion due to negative free cash flow

As of 31 March 2017, our net debt totalled €16.6 billion, up €827 million compared to 31 December 2016. The rise in net financial debt was primarily due to the seasonally-induced, negative cash flows from operating activities. Compared to the first quarter of 2016, provisions for pensions declined from €3.9 billion to €3.6 billion. With imputed interest remaining essentially flat, this was mainly due to the transfer of additional financial assets to the external pension trust. As this measure reduced provisions for pensions and financial assets equally, it did not have an impact on net debt.

We control our debt using the 'leverage factor', which represents the ratio of net debt to adjusted EBITDA. This key performance indicator is more meaningful than the absolute level of liabilities, as it considers innogy's earnings power, and in turn, its capacity to service debt. We aim for a leverage factor of about 4.0. As of 31 December 2016, it was 3.7; its presentation during the year is of no informational value.

Outlook

Outlook for 2017 confirmed and adjusted net income of over €1.2 billion expected

Outlook for 2017 confirmed

We confirm the outlook on the 2017 business performance, which we published on pages 102 et seqq. of the 2016 Annual Report. We anticipate that the innogy Group will achieve about €4.4 billion in adjusted EBITDA and about €2.9 billion in adjusted EBIT.

However, the prospects in the Retail United Kingdom segment have clouded considerably. The worsening of the market environment against the backdrop of persistent, extremely fierce competition will have an impact on earnings for the full year. We no longer expect the segment to generate positive adjusted EBIT in 2017. Overall, in the Retail division, we intend to counter this with additional efficiency measures and therefore currently maintain our outlook. The forecast does not take account of potential further regulatory intervention in the UK retail business, for example by way of a price cap on standard tariffs.

Outlook € million	2016 actual	Outlook for 2017 (March 2017)	Outlook for 2017 (May 2017)
Adjusted EBITDA	4,203	About 4,400	About 4,400
Adjusted EBIT[1]	2,735	About 2,900	About 2,900
Renewables	359	About 350	About 350
Grid & Infrastructure	1,708	About 1,900	About 1,900
Retail	844	About 850	About 850
Adjusted net income	1,123	Over 1,200	Over 1,200

1 'Corporate/other' not stated separately.

In the Renewables division, we will commission new capacity. The negative foreign exchange trend and the non-recurrence of positive one-off effects felt last year will have an opposing impact. We assume that weather conditions will normalise in the remaining nine months, following below-average wind and precipitation levels in the first quarter.

In the Grid & Infrastructure division, the development will mainly be characterised by lower costs incurred to maintain and operate our grids. Furthermore, we accrued provisions for partial retirement measures last year.

In the reconciliation to adjusted net income, we will benefit from lower costs in the financial result. We now expect an adjusted financial result of between −€750 million and −€800 million. We previously anticipated costs in the range of −€800 million to −€850 million. We maintain the target range for the normalised tax rate of 25% to 30% for calculating adjusted net income. However, we expect the rate for the full year to be at the lower end of this range.

Interim consolidated financial statements (condensed)

Income statement

€ million	Jan–Mar 2017	Jan–Mar 2016
Revenue (including natural gas tax/electricity tax)	**12,370**	**13,257**
Natural gas tax/electricity tax	−726	−781
Revenue	**11,644**	**12,476**
Cost of materials	−9,074	−9,595
Staff costs	−719	−757
Depreciation, amortisation and impairment losses	−356	−563
Other operating result	−350	−228
Income from investments accounted for using the equity method	47	51
Other income from investments	21	19
Financial income	123	139
Finance costs	−215	−257
Income before tax	**1,121**	**1,285**
Taxes on income	−341	−364
Income	**780**	**921**
of which: non-controlling interests	148	115
of which: net income/income attributable to innogy SE shareholders	632	806
Basic and diluted earnings per common and preferred share in €[1]	**1.14**	

1 No earnings per share are presented for the first quarter of 2016 (see earnings per share).

Statement of comprehensive income[1]

€ million	Jan–Mar 2017	Jan–Mar 2016
Income	**780**	**921**
Actuarial gains and losses of defined benefit pension plans and similar obligations	206	−481
Income and expenses recognised in equity, not to be reclassified through profit or loss	**206**	**−481**
Currency translation adjustment	28	−4
Fair valuation of financial instruments available for sale	13	
Income and expenses recognised in equity, to be reclassified through profit or loss in the future	**41**	**−4**
Other comprehensive income	**247**	**−485**
Total comprehensive income	**1,027**	**436**
of which: attributable to innogy SE shareholders	876	311
of which: attributable to non-controlling interests	151	125

1 Figures stated after taxes.

Balance sheet

Assets € million	31 Mar 2017	31 Dec 2016
Non-current assets		
Intangible assets	11,728	11,709
Property, plant and equipment	17,840	17,954
Investments accounted for using the equity method	2,309	2,256
Other financial assets	791	703
Receivables and other assets	822	979
Deferred taxes	2,534	2,638
	36,024	**36,239**
Current assets		
Inventories	416	391
Trade accounts receivable	5,412	4,022
Receivables and other assets	2,189	2,171
Marketable securities	2,702	2,688
Cash and cash equivalents	1,451	1,379
	12,170	**10,651**
	48,194	**46,890**

Equity and liabilities € million	31 Mar 2017	31 Dec 2016
Equity		
innogy SE shareholders' interest	9,754	8,931
Non-controlling interests	1,795	1,736
	11,549	**10,667**
Non-current liabilities		
Provisions for pensions and similar obligations	3,648	3,888
Other provisions	1,687	1,630
Financial liabilities	15,273	16,556
Other liabilities	1,678	1,847
Deferred taxes	528	521
	22,814	**24,442**
Current liabilities		
Other provisions	2,704	2,454
Financial liabilities	3,034	665
Trade accounts payable	3,864	4,302
Other liabilities	4,229	4,360
	13,831	**11,781**
	48,194	**46,890**

Cash flow statement

€ million	Jan–Mar 2017	Jan–Mar 2016
Income	780	921
Depreciation, amortisation, impairment losses/reversals	355	564
Changes in provisions	199	297
Deferred taxes/non-cash income and expenses/income from disposal of non-current assets and marketable securities	−61	−192
Changes in working capital	−1,936	−2,196
Cash flows from operating activities	**−663**	**−606**
Capital expenditure on non-current assets/acquisitions	−288	−230
Proceeds from disposal of assets/divestitures	128	160
Changes in marketable securities and cash investments	−136	372
Cash flows from investing activities[1]	**−296**	**302**
Cash flows from financing activities	**1,019**	**202**
Net cash change in cash and cash equivalents	60	−102
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	12	−10
Net change in cash and cash equivalents	**72**	**−112**
Cash and cash equivalents at the beginning of the reporting period	**1,379**	**550**
Cash and cash equivalents at the end of the reporting period	**1,451**	**438**

1 After the initial/supplemental funding of pension plans in the amount of €134 million (first quarter of 2016: €125 million).

Statement of changes in equity

€ million	Subscribed capital and additional paid-in capital of innogy SE	Retained earnings and distributable profit	Accumulated other comprehen-sive income	**innogy SE shareholders' interest**	Non-controlling interests	**Total**
Balance at 1 Jan 2016		**17,354**	**−705**	**16,649**	**1,811**	**18,460**
Dividends paid		−525		−525	−67	−592
Income		806		806	115	921
Other comprehensive income		−504	9	−495	10	−485
Total comprehensive income		302	9	311	125	436
Withdrawals/contributions		−2,112		−2,112		−2,112
Balance at 31 Mar 2016		**15,019**	**−696**	**14,323**	**1,869**	**16,192**
Balance at 1 Jan 2017	**7,321**	**2,291**	**−681**	**8,931**	**1,736**	**10,667**
Dividends paid					−65	−65
Income		632		632	148	780
Other comprehensive income		208	36	244	3	247
Total comprehensive income		840	36	876	151	1,027
Withdrawals/contributions		−53		−53	−27	−80
Balance at 31 Mar 2017	**7,321**	**3,078**	**−645**	**9,754**	**1,795**	**11,549**

Notes

Accounting policies

innogy SE, headquartered at Opernplatz 1, 45128 Essen, Germany, is the parent company of the innogy (Sub-) Group ('innogy' or 'Group'). innogy is a supplier of energy in Europe.

At the beginning of 2016, innogy SE operated as RWE Downstream AG, which was initially renamed RWE International SE on 11 March 2016 and then innogy SE on 1 September 2016. During the first six months of 2016, the innogy Group was created by transferring entities from companies of the RWE Group to the innogy Group.

The legal reorganisation from which innogy emerged and the transfer of business activities to the innogy Group were completed as of 30 June 2016. Since then, innogy SE has controlled the business activities pooled in the innogy Group pursuant to IFRS 10. innogy exercised the discretionary right to account for business combinations under joint control using predecessor accounting with retrospective presentation. This means that the assets and liabilities of the business activities included in the consolidated financial statements are recognised at the amounts historically reported in RWE's IFRS consolidated financial statements.

Information on comparisons drawn to prior-year figures in the consolidated financial statements for the period ending on 31 March 2017 are designated 'consolidated' and correspond to the presentation in the combined financial statements.

The consolidated interim financial statements for the period that ended on 31 March 2017 were approved for publication on 10 May 2017. Along with additional disclosure in the other parts of this interim report, they were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU.

In line with IAS 34, the scope of reporting for the presentation of interim consolidated financial statements for the period that ended on 31 March 2017 was condensed compared to the scope applied to the consolidated financial statements for the period that ended on 31 December 2016. With the exception of the changes and new rules described below, these interim consolidated financial statements were prepared using the accounting policies applied in the consolidated financial statements for the period ending on 31 December 2016. For further information, reference is made to the consolidated financial statements for the period ending on 31 December 2016, which form the basis for these consolidated interim financial statements.

Provisions for pensions and similar obligations are discounted at an interest rate of 1.8% in Germany and 2.5% abroad (31 December 2016: 1.8% and 2.6%, respectively).

Changes in accounting policies

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

- 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) regarding the amendments and clarifications to IFRS 12 contained in the collective standard

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

Scope of consolidation

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

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

Number of fully consolidated companies	Germany	Abroad	Total
Balance at 1 Jan 2017	**109**	**146**	**255**
First-time consolidation	9	7	16
Deconsolidation	−2	−1	−3
Mergers	−1		−1
Balance at 31 Mar 2017	**115**	**152**	**267**

Number of investments and joint ventures accounted for using the equity method	Germany	Abroad	Total
Balance at 1 Jan 2017	**64**	**13**	**77**
Acquisitions			
Disposals			
Other changes	2		2
Balance at 31 Mar 2017	**66**	**13**	**79**

Furthermore, five companies are presented as joint operations.

Acquisitions

Belectric

At the beginning of January 2017, innogy SE acquired a 100 % stake in and gained control of Belectric Solar & Battery GmbH. The company is active in the operation & maintenance (O & M) of solar farms and the construction of turnkey solar farms and battery storage facilities (EPC business).

The initial recognition of the business combination has not been finalised due to the complex structure of the transaction. 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 accounts receivable included in the non-current and current assets amounted to €24 million.

Since its first-time consolidation, the company has contributed €21 million to revenue and −€2 million to the earnings of the Group.

The preliminary purchase price amounts to €74 million and includes conditional payment obligations of €7 million. The final purchase price will probably be determined in the second quarter of 2017. The goodwill primarily results from the expected future benefit and synergy effects.

Provisions for pensions and similar obligations

Within the scope of project Phoenix, the former functional governance of RWE AG in relation to innogy SE on the one hand and to the other Group companies on the other hand was changed as a result of the IPO of innogy SE. Among other things, this affected management, support and service functions that are to be provided by innogy itself. Therefore, several transfer agreements pursuant to Section 613a of the German Civil Code have been entered into by RWE and innogy since 1 July 2016. In the first quarter of 2017, this separation was continued through the conclusion of additional transfer agreements with effect from 1 January 2017. They essentially related to transfers of employees from RWE GBS GmbH and RWE Service GmbH to innogy SE. In this context, personnel and pension provisions as well as fund assets falling under the netting obligation for covering the pension provisions were also transferred to innogy SE.

Share-based payment

A report on share-based payment systems for executives of innogy SE and subordinated affiliates was included in the consolidated financial statements for the period that ended on 31 December 2016. A further tranche was issued as part of the long-term incentive plan for executives ('Strategic Performance Plan') in the first quarter of 2017.

Earnings per share

Basic and diluted earnings per share are calculated by dividing the portion of net income attributable to innogy shareholders by the average number of shares outstanding; treasury shares are not taken into account in this calculation.

		Jan–Mar 2017
Net income/income attributable to innogy SE Shareholders	€ million	632
Number of shares outstanding (weighted average)	thousands	555,555
Basic and diluted earnings per share	€	**1.14**

As innogy's capital structure had not been finalised yet in the first quarter of 2016, no earnings per share are shown for the previous year.

Reporting on financial instruments

Financial instruments are divided into non-derivative and derivative. Non-derivative financial assets essentially include other non-current 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. Current market interest rates corresponding to the remaining maturity are used for discounting.

Derivative financial instruments are recognised at their 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 market factors which other market participants would take into account in the course of price determination. Assumptions pertaining to the energy sector and economy are made within the scope of a comprehensive process with the involvement of both in-house and external experts.

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 within the scope of IFRS 7 are identical to their fair values. As regards financial liabilities, there are only deviations in relation to bonds, bank debt, and other financial liabilities. The carrying amount of these was €18,306 million (31 December 2016: €17,222 million), while the fair value amounted to €20,825 million (31 December 2016: €19,540 million). For financial assets, there are no deviations between carrying amounts and fair values.

The following overview presents the 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 in 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 31 Mar 2017	Level 1	Level 2	Level 3	Total 31 Dec 2016	Level 1	Level 2	Level 3
Other financial assets	791	40	90	661	703	38	26	639
Derivatives (assets)	698		689	9	1,054	1	1,044	9
of which: used for hedging purposes	4		4		2		2	
Marketable securities	2,702	1,917	785		2,688	1,870	818	
Derivatives (liabilities)	916		901	15	1,246	3	1,234	9
of which: used for hedging purposes	10		10		12		12	

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		Balance at 31 Mar 2017
			recognised in profit or loss	with a cash effect	
Other financial assets	639	13	8	1	661
Derivatives (assets)	9		−1	1	9
Derivatives (liabilities)	9			6	15

Level 3 financial instruments: Development in 2016 € million	Balance at 1 Jan 2016	Changes in the scope of consolidation, currency adjustments and other	Changes		Balance at 31 Mar 2016
			recognised in profit or loss	with a cash effect	
Other financial assets	485	9	3	−6	491
Derivatives (assets)	27				27
Derivatives (liabilities)	30				30

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

Level 3: financial instruments: Amounts recognised in profit or loss € million	Total Jan–Mar 2017	Of which: attributable to financial instruments held at the balance-sheet date	Total Jan–Mar 2016	Of which: attribu-table to financial instruments held at the balance-sheet date
Revenue				
Cost of materials	−1	−1		
Other operating income/expenses	8	8	4	4
Income from investments			−1	−1
Financial income/finance costs				
	7	**7**	**3**	**3**

Level 3 derivative financial instruments essentially consist of weather derivatives to hedge temperature-dependent fluctuations in demand. The valuation of such depends on the development of temperatures in particular. As a rule, all other things being equal, rising temperatures cause the fair values to increase and vice-versa. Assumptions that the future development of average temperatures will differ from the past long-term average over the derivatives' remaining term to maturity may only be made for extremely short periods of time. Therefore, the fair values are primarily determined based on the temperatures.

Related party disclosures

The innogy Group classifies the parent company RWE AG and its subsidiaries, associates and joint ventures as well as associates and joint ventures of the innogy Group as its related parties. Business and financial transactions were concluded with RWE AG, its subsidiaries, associates and joint ventures as well as with major associates and joint ventures of the innogy Group, resulting in the following items in innogy's consolidated financial statements:

Key items from transactions with related parties	RWE AG		Subsidiaries, joint ventures and associates of the RWE Group		Associates of the innogy Group		Joint ventures of the innogy Group	
€ million	Jan–Mar 2017	Jan–Mar 2016	Jan–Mar 2017	Jan–Mar 2016	Jan–Mar 2017	Jan–Mar 2016	Jan–Mar 2017	Jan–Mar 2016
Income	26	37	1,442	2,392	26	19	6	3
Expenses	16	166	4,194	5,154	6	8		

Key items from transactions with related parties	RWE AG		Subsidiaries, joint ventures and associates of the RWE Group		Associates of the innogy Group		Joint ventures of the innogy Group	
€ million	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
Receivables	140	226	888	1,190	42	43	95	93
Liabilities	4,039	4,492	1,985	2,425	27	4	2	3

The items resulting from transactions with related parties mainly stemmed from supply and service as well as financial transactions with RWE Group companies. innogy Group companies entered into contracts with RWE Group companies, in particular with RWE Supply & Trading, to purchase or supply commodities, mainly electricity and gas. In addition, services were provided by RWE Group companies to the innogy Group and by the innogy Group to RWE Group companies based on service level agreements.

During the first quarter of 2017, supply transactions/services and other transactions led to income in the amount of €1,443 million and €21 million, respectively (first quarter of 2016: €1,897 million and €528 million, respectively) and expenses of €4,173 million and €39 million, respectively (first quarter of 2016: €5,112 million and €156 million, respectively).

In the first quarter of 2017, finance transactions led to income in the amount of €4 million (first quarter of 2016: €4 million) and expenses of €1 million (first quarter of 2016: €51 million).

All transactions were completed at arm's length conditions; i. e. on principle the conditions of these transactions did not differ from those with other enterprises. As of 31 March 2017, receivables of €709 million (31 December 2016: €963 million) and liabilities of €3,088 million (31 December 2016: €2,366 million) were due within one year. As of 31 March 2017, other obligations from executory contracts amounted to €21,444 million (as of 31 December 2016: €20,886 million).

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

Events after the balance-sheet date

The following major events occurred between 1 April 2017 and 10 May 2017, the date on which the consolidated financial statements were approved for publication:

Placement of a senior bond

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

Dividend distribution

innogy SE's 24 April 2017 Annual General Meeting decided to pay a dividend of €1.60 per individual, dividend-bearing share for fiscal 2016. The dividend payment totalled €889 million.

Legal disclaimer

This document contains forward-looking statements. These statements reflect the current views, expectations and assumptions of the management, and are based on information currently available to the management. Forward-looking statements do not guarantee the occurrence of future results and developments and are subject to known and unknown risks and uncertainties. Therefore, actual future results and developments may deviate materially from the expectations and assumptions expressed in this document due to various factors. These factors primarily include changes in the general economic and competitive environment. Furthermore, developments on financial markets and changes in currency exchange rates as well as changes in national and international laws, in particular in respect of fiscal regulation, and other factors influence the company's future results and developments. Neither the company nor any of its affiliates undertakes to update the statements contained in this notification.

Financial calendar 2017/2018

11 Aug 2017	Half-year report 2017
13 Nov 2017	Interim report for January to September 2017
12 Mar 2018	Annual report for the fiscal 2017
24 Apr 2018	Annual General Meeting
27 Apr 2018	Dividend payment
14 May 2018	Interim report for January to March 2018
13 Aug 2018	Half-year report 2018
13 Nov 2018	Interim report for January to September 2018

This document was published on 12 May 2017. It is a translation of the German Interim report January to March 2017. In case of divergence from the German version, the German version shall prevail.

innogy SE

Opernplatz 1
45128 Essen
Germany

T +49 201 12-02
I www.innogy.com

Investor Relations

T +49 201 12-44794
I www.innogy.com/ir
E invest@innogy.com