Interim report
January to September 2017

innogy

At a glance

innogy Group		Jan–Sep 2017	Jan–Sep 2016	+/– %	Jan–Dec 2016
Power generation from renewable sources	billion kWh	6.9	7.7	–10.4	10.0
External electricity sales volume	billion kWh	193.1	178.7	8.1	242.5
External gas sales volume	billion kWh	153.1	159.7	–4.1	241.3
External revenue	€ million	30,792	31,461	–2.1	43,611
Adjusted EBITDA	€ million	3,075	2,919	5.3	4,203
Adjusted EBIT	€ million	2,003	1,842	8.7	2,735
Income before tax	€ million	1,072	1,601	–33.0	2,201
Net income/income attributable to innogy SE shareholders	€ million	389	1,009	–61.4	1,513
Adjusted net income	€ million	850	671	26.7	1,123
Cash flows from operating activities	€ million	1,604	1,740	–7.8	2,674
Capital expenditure	€ million	1,244	1,108	12.3	2,123
Property, plant and equipment and intangible assets	€ million	1,008	964	4.6	1,833
Financial assets	€ million	236	144	63.9	290
Free cash flow[1]	€ million	646	1,038	–37.8	1,041
		30 Sep 2017			31 Dec 2016
Market capitalisation	€ billion	20.9			18.3
Net debt	€ million	15,991			15,748
Employees[2]		42,224			40,636

1 Definition of free cash flow amended. See commentary on page 13.
2 Converted to full-time positions.

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Stand-alone credit line –

innogy clears last hurdle on the way to financial independence

S&P upgrades innogy's rating to BBB, stable outlook

January to September 2017:

Adjusted EBITDA and EBIT up 5% and 9% on previous year

Adjusted net income: €850 million

Successful placement of first green bond with a volume of €850 million

Triton Knoll offshore wind project wins tender in UK auction

innogy is sole owner since October

Outlook confirmed and adjusted net income of more than €1.2 billion expected

Major events

In the period under review

innogy sets course for the future with its '4P Strategy'. When innogy was created in 2016, we clearly defined our target position in the new energy landscape: innogy wants to be a pioneer and pace-setter for a climate-friendly, intelligent supply of energy. The brand and the strategy are focused on the three megatrends of decentralisation, digitisation and decarbonisation. As part of refining the corporate strategy, in mid-September 2017 the Executive Board elaborated the details of innogy's target picture for 2025. Priority will be given to the '4Ps', which stand for (market) **P**osition, **P**erformance, **P**ortfolio and **P**artnership. Over the long term, innogy intends to be one of the top three providers in its relevant markets (Position) and among the most profitable companies in its industry (Performance). As a result, we will carefully review and assess our activities, i.e. our Portfolio. The fourth 'P' stands for Partnership, because we want to be the Number 1 energy partner for our customers and continue to successfully work together with municipalities and our strategic business and financial partners.

Through to 2019, we plan to invest up to €1.2 billion on developing the three growth areas of e-mobility, photovoltaics and optical fibre networks (FTTx), as well as on our Innovation Hub.

By further developing the strategy, we aim to leverage the advantages gained from our successful IPO and secure our competitive edge and readiness to meet future challenges. Our goal is to be 'best in class' at all operational levels.

Impairment of the UK retail business causes earnings to fall. As part of the annual impairment test, a deterioration in commercial assumptions and tougher regulatory conditions resulted in an adjustment of the goodwill of our retail business in the United Kingdom. As a result, we recognised a goodwill impairment of €480 million. The planned merger of the retail activities of innogy and SSE in Great Britain did not lead to a different assessment of the impairment (see page 5). From an accounting perspective, this impairment occurred in the third quarter and has an impact on the pretax income and the Group's result. It does not, however, have an effect on cash and it is reported in the non-operating result.

innogy enters Irish market with onshore wind project. In August 2017, innogy took over the Dromadda Beg onshore wind project, marking the first step in entering the promising Irish growth market. Three wind turbines with an installed generation capacity of 10.2 megawatts (MW) will be erected in County Kerry in the southwest of the Republic of Ireland. Construction was already started in September 2017, with operation slated to begin in the second half of 2018.

Installation of turbines for the Nordsee One offshore wind farm completed. At the end of September 2017, the last of the 54 turbines with a capacity of 6.2 MW was installed at the site to the north of the East Frisian island of Juist, wrapping up the installation of the turbines at Nordsee One in just seven months. By the end of the year, the wind farm should be fully commissioned, at which point it will have an installed capacity of around 332 MW. This will allow it to supply the equivalent of around 400,000 households annually with green electricity. Operation and maintenance of the wind farm will be managed from the service station in Norddeich. Along with innogy SE (stake of 15%), Northland Power Inc. is the co-owner of this offshore wind farm, with a stake of 85%.

innogy secures support for the Triton Knoll offshore wind project in an auction and becomes the sole owner of the project. In the latest round of auctions in September 2017, the UK offshore wind project Triton Knoll won a tender for the promotion of renewable energy projects. The strike price awarded was £74.75 per MWh (in 2012 prices, meaning that the prices are adjusted in accordance with the development of the consumer price index), granted over a period of 15 years. With this result, Triton Knoll emerged from the auction as one of the most competitive offshore wind projects. Since April 2015, renewable energy in the United Kingdom is supported via the so-called CfD mechanism ('contract for difference'): If the price the

project achieves on the wholesale market is lower than the guaranteed remuneration awarded at the auction, the difference is reimbursed to the company. If the price is higher, the difference must be settled.

With a planned installed generation capacity of around 860 MW, the wind farm will be built around 32 km off the coast of Lincolnshire, on England's eastern coast. The location offers good wind conditions of 9.83 m/s at an altitude of 107 m, with moderate water depths averaging 18 m.

Previously, innogy and Statkraft were joint owners of the Triton Knoll offshore wind project (each with a stake of 50%). In October 2017, innogy acquired the 50% stake of the Norwegian energy company and is thus now the sole owner. The final investment decision for Triton Knoll is expected to be made in mid-2018. Until then financing of the project will be finalised and contracting agreements completed with the project's supply chain partners. In 2018, onshore work to provide the grid connection will also commence. Offshore construction is expected to begin in 2020. According to the current plans, commissioning of the wind farm is expected to begin in 2021. The planned investment volume amounts to roughly £2 billion (corresponding to around €2.2 billion at the current exchange rate).

German Lower House adopts NEMoG, paving the way for uniform transmission network fees. The German Grid Fee Modernisation Act (NEMoG) regulates parts of the grid fee structure. The new rules affect two areas in particular: they aim to apportion transmission network fees uniformly throughout the country and abolish special fees for decentralised feed-ins from volatile generation assets commonly referred to as 'avoided grid fees'.

Just before the summer break, Germany's Lower House of Parliament decided to gradually make the grid fees of transmission system operators uniform over a period of four years, based on a directive that is yet to be formulated. The equalisation is to begin in 2019 and be finalised in 2023.

Criticism has been levelled at the regulation primarily by North Rhine-Westphalia, Rhineland-Palatinate and Saarland, as the energy-intensive industries in these states in particular expect to be faced with much higher grid costs.

So far, avoided grid fees have been due whenever electricity has been fed into the distribution system from decentralised units such as renewable assets. These special fees were introduced because all decentralised feed-ins were originally expected to avoid network expansion at the next higher grid level. However, this is becoming increasingly less frequent as regards solar and wind power. Therefore, avoided grid fees will largely be abolished incrementally through to 2023. Only existing decentralised controllable plants that generate electricity for example using hydro power or combined heat and power technology will continue to receive avoided grid fees. Wind turbines that receive subsidies under the German Renewable Energy Act (REA) are not affected either, as avoided grid fees are deducted from the REA payments.

innogy receives record-setting commitment to subsidise 1,245 new charging stations. In mid-September, innogy – the leading operator of charging stations in Germany – was granted subsidies for the construction of 1,245 new charging stations (equivalent to 2,490 charging points) from the Federal Programme for Charging Infrastructure. This was the largest funding grant for the construction of charging stations ever approved by the Federal Ministry of Transport and Digital Infrastructure (BMVI).

The new 22 kW charging stations will be erected on public roads in the four Federal states of North Rhine-Westphalia, Lower Saxony, Schleswig-Holstein and Rhineland-Palatinate, with an emphasis on the urban conglomerations of Essen and Mülheim, as well as Dorsten in the Ruhr area. The charging stations and their installation will cost roughly €7.8 million in total. As part of the Funding Regulation for Charging Infrastructure for Electric Vehicles, the Ministry of Transport and Digital Infrastructure has awarded around €3.1 million for this project, representing a funding share of 40%.

The technical features and functions of the innogy charging stations exceed the requirements of the funding programme. innogy now operates 5,000 charging points in 680 cities and municipalities in Germany, of which around 2,250 are publicly accessible.

Other major events which occurred in the period from January to early August 2017 are presented in the Report on the first half of 2017 on pages 8 to 11.

After the period under review

innogy underlines its financial autonomy with a new credit line. On 6 October 2017, innogy concluded a contract securing a stand-alone credit line with a volume of €2 billion. This syndicated credit line functions as a liquidity reserve and was granted by an international consortium of 22 banks.

The term is initially set at five years (until 2022) and can be extended twice by one year each time. Furthermore, the volume can be increased by another one billion euros. Upon concluding the new credit line, innogy terminated its participation in the syndicated credit line of RWE AG.

Following the successful guarantor and creditor transfer for all outstanding senior bonds of RWE AG to innogy SE, two loans from the European Investment Bank were also transferred in July 2017. The corresponding group loans were cancelled in return. After the launch of the Commercial Paper Programme and the Debt Issuance Programme, securing this stand-alone credit line was the final step towards achieving fully independent access to financing.

innogy repays loan to RWE AG. On 12 October 2017, innogy punctually repaid a loan of €771 million to RWE. Consequently, there are only three remaining loans which were concluded between RWE and innogy in 2016. In total, these loans amount to around €1.7 billion and fall due in 2019 and 2020.

Standard & Poor's (S&P) raises innogy's rating. In October 2017, the rating agency S&P reassessed innogy SE's creditworthiness: The rating for the long-term liabilities and senior bonds of innogy SE was upgraded from BBB− with a positive outlook to BBB with a stable outlook. Short-term bonds were assigned a rating of A–2 (previously A–3). With this upgrade, S&P recognised innogy's financial independence, which has been given a solid investment grade rating by all three of the major rating agencies.

innogy issues first German benchmark-sized 'green' corporate bond. The senior bond has a volume of €850 million and a tenor of 10 years. With an annual coupon of 1.25% and an issue price of 98.987%, the annual yield to maturity amounts to 1.36%. The bond was issued by innogy Finance B.V. in October 2017, with innogy SE as the guarantor. The issuance met with keen market interest and was five times oversubscribed.

innogy established a framework for green bonds for this fixed-interest security. The internationally recognised sustainability agency Sustainalytics confirmed that innogy's framework is robust and transparent. This framework is also in alignment with the generally accepted Green Bond Principles 2017 of the International Capital Market Association. innogy's Green Bond Framework envisages investment opportunities in renewables and in projects involving energy efficiency and e-mobility.

Proceeds from the first green bond will be used for refinancing four offshore projects in the United Kingdom and Germany, as well as one onshore project in the Netherlands. The wind farms are already under construction or in operation.

First-time determination of the sectoral productivity factor by the Federal Network Agency. Within the framework of incentive-based regulation, competition components were introduced for German network operators, so that possible improvements in efficiency are passed on to consumers. This includes a company-specific determination of efficiencies (so-called benchmarking) and a sectoral productivity factor (the so-called Xgen). The latter specifies the improvement in productivity of all electricity and gas grid operators in relation to the overall economy. During the first two regulatory periods, the legislator had set this factor at annual rates of 1.25% and 1.5%, respectively. This year, for the first time, the Xgen factor will be determined by the Federal Network Agency using scientific methods, initially for the gas grids and then next year for the electricity networks. On 12 October 2017, the Federal Network Agency proposed an annual rate of 0.88% for gas grid operators for consultation. While this figure is significantly lower than the rate used in the past two regulatory periods, it means that presently and in the near future companies involved in grid operation will have to keep boosting productivity more rapidly than the overall economy. This has been criticised by the industry associations, such as the 'German Association of Energy and Water Industries' and the 'German Association of Local Utilities', and by the unions, which have unanimously called for a rate of nearly zero.

Announcement of a temporary increase in the upper limit for energy prices in the United Kingdom – draft legislation proposes additional measures. In early October, the UK's regulatory authority Ofgem (Office of Gas and Electricity Markets) announced further intervention in the residential customer market. The planned measures envisage the expansion of the current price protection for prepayment tariffs to all consumers with standard tariffs and the preservation of the so-called 'Warm Home Discount', a support programme for low income customers. This would widen the existing price cap to apply to an additional one million households starting from February 2018. The amount of the price cap will continue to be reviewed twice annually and adjusted if necessary. However, the price cap is only to be introduced as a transitional measure, lasting until 2019 at the latest.

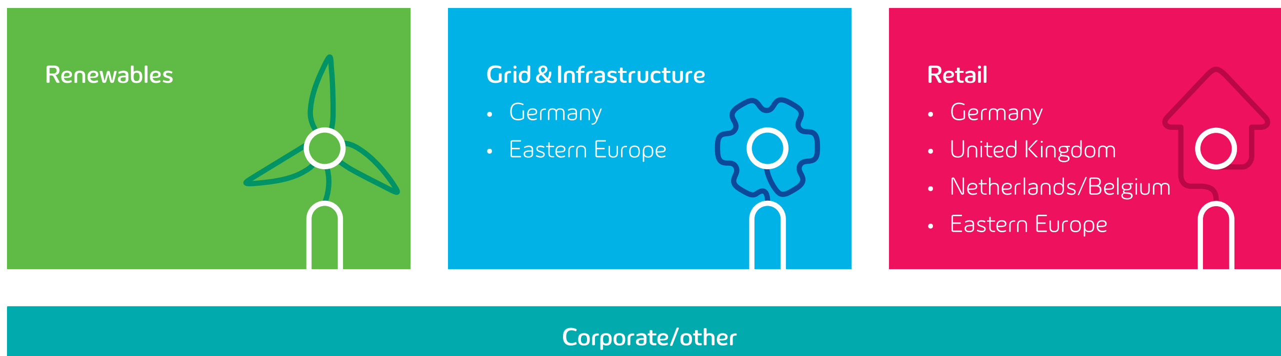
In parallel with this, on 12 October 2017 the Department for Business, Energy & Industrial Strategy (BEIS) presented a draft bill for the introduction of a price cap for all customers with standard tariffs. Customers with prepayment tariffs and ones with green electricity tariffs are excepted from this. Details on the specifics of this price cap have not yet been released. Plans call for all of the legislation and approval measures necessary for implementation to be completed by end-2018. The price cap will initially be introduced until end-2020. However, there is an option to extend the price cap until 2023, upon recommendation by Ofgem. Even though the specific features of the planned measures to expand the price caps to all customers with standard tariffs are still undecided, these measures will most likely negatively impact the earnings of utilities active in the United Kingdom and result in a further deterioration of the outlook for the UK retail business.

Retail activities of innogy and SSE in Great Britain to be combined in a new company. On 8 November 2017, innogy SE and SSE plc agreed to merge the retail activities of innogy's subsidiary npower with SSE's household energy (B2C) and Energy+ business in Great Britain. The company in which these business activities are to be merged will be listed on the stock exchange.

innogy will retain a minority share amounting to 34.4% of the combined business. SSE plans to demerge its stake to its shareholders upon completion of the transaction, with the result that the remaining 65.6% will be in free float.

The transaction requires the approval of innogy's Supervisory Board and SSE's Annual General Meeting. Moreover, the transaction is subject to approval by the competent competition authorities and regulatory bodies; it should be completed by late 2018/early 2019.

Reporting principles



As of 30 September 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, 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 they 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, Spain, the Netherlands, Poland and Italy. Our activities relating to the expansion of the solar and photovoltaic business are also included in this division. We also report on Belectric, the international solar and battery specialist acquired at the beginning of January 2017, in this division.
- **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 as well as our activities related to electric mobility. 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.

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

Business trend

External revenue slightly lower than previous year. In the first nine months of 2017, the innogy Group generated external revenue amounting to €30,792 million. This figure includes natural gas and electricity tax. Compared to the same period last year, revenue declined by around 2%.

A decline of 3% was registered in the Retail division, impacting the gas business in particular, mainly as a result of lower sales to residential and corporate customers. Furthermore, some of our retail companies reduced their prices, leading to a drop in revenue. The British pound also depreciated vis-à-vis the euro, dropping from an average of €1.24 to €1.14, which caused the revenue generated in the United Kingdom to be lower after conversion into euros. By contrast, we increased our supply volumes to German distributors, both in the electricity and gas businesses. We also increased our gas sales to residential and commercial customers in Germany and Eastern Europe, which stepped up purchases in part due to the weather. Revenue in the Grid & Infrastructure division fell by around 2%, especially in the electricity business. One of the contributing factors was a drop in sales from reselling electricity fed into our German distribution grid by operators of assets subsidised by the German Renewable Energy Act (REA) to transmission network companies. The backdrop to this is that producers increasingly market the electricity they generate from renewable sources directly to third parties or use it themselves. Furthermore, the amount of REA-subsidised electricity sold directly in the German electricity business declined overall compared to the previous year. The full consolidation of Belectric, which was acquired in early 2017, was the reason for the positive development of revenue in the Renewables division.

Disregarding all major consolidation and currency effects, external revenue decreased by 1%.

External revenue € million	Jan–Sep 2017	Jan–Sep 2016	+/– %
Renewables	682	559	22.0
Grid & Infrastructure	8,190	8,315	–1.5
Germany	7,494	7,656	–2.1
Eastern Europe	696	659	5.6
Retail	21,774	22,464	–3.1
Germany	12,216	11,529	6.0
United Kingdom	4,996	6,040	–17.3
Netherlands/Belgium	2,138	2,436	–12.2
Eastern Europe	2,424	2,459	–1.4
Corporate/other	146	123	18.7
innogy Group	**30,792**	**31,461**	**–2.1**
Natural gas tax/electricity tax	1,350	1,406	–4.0
innogy Group (excluding natural gas tax/electricity tax)	**29,442**	**30,055**	**–2.0**

Internal revenue € million	Jan–Sep 2017	Jan–Sep 2016	+/– %
Renewables	261	254	2.8
Grid & Infrastructure	2,304	2,261	1.9
Retail	356	502	–29.1

Adjusted EBITDA € million	Jan–Sep 2017	Jan–Sep 2016	+/– %
Renewables	430	480	–10.4
Grid & Infrastructure	2,090	1,864	12.1
Germany	1,502	1,309	14.7
Eastern Europe	588	555	5.9
Retail	709	699	1.4
Germany	391	364	7.4
United Kingdom	–33	–6	–450.0
Netherlands/Belgium	171	167	2.4
Eastern Europe	180	174	3.4
Corporate/other	–154	–124	–24.2
innogy Group	**3,075**	**2,919**	**5.3**

Adjusted EBIT € million	Jan–Sep 2017	Jan–Sep 2016	+/– %
Renewables	194	244	–20.5
Grid & Infrastructure	1,424	1,198	18.9
Germany	1,026	829	23.8
Eastern Europe	398	369	7.9
Retail	570	547	4.2
Germany	369	336	9.8
United Kingdom	–102	–81	–25.9
Netherlands/Belgium	137	135	1.5
Eastern Europe	166	157	5.7
Corporate/other	–185	–147	–25.9
innogy Group	**2,003**	**1,842**	**8.7**

Adjusted EBIT rises approximately 9%. During the first nine months of 2017, innogy recorded adjusted EBITDA of €3,075 million and adjusted EBIT of €2,003 million, exceeding the prior-year figures by 5% and 9%, respectively. The main driver of the growth in earnings was 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. The decline in the UK retail business amidst deteriorating market conditions, negative weather impacts on electricity generation in the Renewables division and higher project costs in the line item 'Corporate/other' had an opposite impact on earnings.

Adjusted EBIT developed as follows by division:

- **Renewables.** Adjusted EBIT fell 20% to €194 million. This was mainly due to the decline in electricity production, as water levels at our hydroelectric power stations dropped substantially during the first nine months of 2017. The depreciation of sterling versus euro also had a negative impact. In addition, adjusted EBIT in the first nine months of last year included one-off gains on the sale of small run-of-river power stations in Germany. A positive factor was that, among others, the Dutch onshore wind farms Kattenberg (10 MW, near Eindhoven) and Zuidwester (90 MW, IJsselmeer), the UK onshore wind

farm Goole 2 (35 MW, East Yorkshire in north England) and the German onshore wind farm Sommerland B (6 MW, in Schleswig-Holstein) were online at full capacity. Furthermore, improved utilisation of our existing capacities, especially in offshore wind generation, had a positive impact on earnings.

- **Grid & Infrastructure.** Adjusted EBIT rose by 19% to €1,424 million. Developments at the segment level were as follows:
  - **Grid & Infrastructure Germany.** This segment closed the reporting period 24% up year on year, in particular due to lower expenses for operating and maintaining our network infrastructure. Additionally, we had also accrued provisions for partial retirement measures in the first quarter of 2016.
  - **Grid & Infrastructure Eastern Europe.** This segment's adjusted EBIT recorded was 8% higher year on year. In Eastern Europe, at the beginning of the year we benefited from the cooler weather, which drove up volumes especially in our gas distribution network in the Czech Republic. Moreover, the delayed recognition of regulatory costs in the Czech Republic had a positive impact during the first nine months of 2017.
- **Retail.** In this division, adjusted EBIT increased by 4% to €570 million compared to the previous year. Developments at the segment level were as follows:
  - **Retail Germany.** Adjusted EBIT in this segment improved 10% to €369 million compared to the preceding year. Efficiency-enhancing measures and cost reductions had a particularly positive effect on earnings. Higher expenses for the coordination of international sales and development of the e-mobility business had an opposite effect.
  - **Retail United Kingdom.** In the UK retail business, adjusted EBIT declined by €21 million. This was mainly due to the deterioration in margins, especially in the residential business. The price increase for standard tariffs announced in early February, which were necessary due to increases in run-up and procurement costs, resulted in additional customer losses in the first quarter. Some customers could only be retained by offering them contracts at more favourable conditions. We benefited, however, from an increase in our customers' average consumption. Furthermore, the restructuring programme which was launched in early 2016 helped to additionally reduce the cost base, but it was not possible to offset the decline in margins compared to the first nine months of 2016. The competitive landscape became even more difficult, as the UK government has initiated the legislative process to introduce a general price cap for standard variable tariffs and is proposing an expansion of the existing price cap for vulnerable households.
  - **Retail Netherlands/Belgium.** The adjusted EBIT of this segment remained nearly unchanged compared to the previous year. We were able to compensate for the negative impact of mounting competitive pressures and the related lower customer figures and reduction in sales by implementing additional efficiency measures.
  - **Retail Eastern Europe.** The adjusted EBIT of the Eastern Europe segment improved by 6% to €166 million compared to the preceding year. In particular, we benefited from the cooler weather in the Czech Republic.

The non-operating result, in which we recognise certain one-off or exceptional effects which are not related to operations or are not periodic, declined by €918 million to −€529 million. During the third quarter, we recognised an impairment of €480 million on the goodwill of the Retail United Kingdom segment. This write-down resulted from an impairment test and reflected the deterioration in commercial assumptions and tougher regulatory conditions. In the period under review, in sum, the

accounting treatment of derivatives, which we use to hedge price fluctuations, led to expenses of −€31 million as opposed to income of €270 million in the same period last year. Furthermore, a €250 million compensatory payment to innogy 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 period under review. Capital gains achieved in the period under review were lower than in the previous year, which was influenced by the sale of our 33.3% stake in the UK company Zephyr Investments Limited.

Financial result € million	Jan–Sep 2017	Jan–Sep 2016
Interest income	54	173
Interest expenses	−388	−652
Net interest	**−334**	**−479**
Interest accretion to non-current provisions	−43	−90
Other financial result	−25	−61
Financial result	**−402**	**−630**
Adjustments in the financial result	−116	−49
Adjusted financial result to derive the adjusted net income	**−518**	**−679**

Financial result improves year on year. At −€402 million, our financial result was €228 million higher than the previous year's figure. This was predominantly due to the improved net interest. The previous year included higher negative one-off effects resulting from the transfer of debt and restructuring of companies. Furthermore, we recorded lower costs from interest accretion to provisions. The main reason for this was a one-off effect stemming from the adjustment of discount rates. The other financial result improved as well, mainly due to income from the disposal of securities, whereas losses were recorded in the same period last year.

Due to the transfer of debt from RWE to innogy, which was initiated in 2015, the transferred financial liabilities 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 amortised over the remaining terms to maturity. These increased again in July 2017, due to the transfer of two loans from the European Investment Bank. Recognition of these two loans resulted in an expense of −€75 million. On the whole, the amortisation of the valuation differences and currency effects had a positive impact of €172 million on the financial result in the first nine months of 2017. 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, we netted out €19 million in positive one-off effects resulting from the early redemption and derecognition of the corresponding loans from RWE, which reflected the debt transfer in economic terms ahead of the legal execution. In total, a positive effect of €116 million was netted out in the financial result in order to determine the adjusted net income.

The effective tax rate was 39% for the first nine months of 2017. The increase was caused by the impairment recognised on the goodwill of the UK retail business, which reduces pretax income, but has no tax effect. Consequently, a comparison to the previous year is of no informational value. Disregarding this exceptional effect, the tax rate would have been 27%, up 3 percentage points on the previous year. The figure for the previous year was positively influenced by income from remeasuring the recoverability of loss carryforwards in the Netherlands.

After tax, we generated income of €653 million (previous year: €1,210 million).

Non-controlling interests increased by 31% to €264 million, as there was a strong improvement in the income of some fully consolidated companies in which third parties hold minority stakes.

The developments presented above are the reason why net income decreased significantly compared to 2016, falling to €389 million compared to last year (previous year: €1,009 million). Based on the 555,555,000 innogy shares outstanding, earnings per share amounted to €0.70.

Reconciliation to net income		Jan–Sep 2017	Jan–Sep 2016
Adjusted EBITDA	€ million	3,075	2,919
Operating depreciation, amortisation and impairment losses	€ million	−1,072	−1,077
Adjusted EBIT	€ million	**2,003**	**1,842**
Non-operating result	€ million	−529	389
Financial result	€ million	−402	−630
Income before tax	€ million	**1,072**	**1,601**
Taxes on income	€ million	−419	−391
Income	€ million	**653**	**1,210**
Non-controlling interests	€ million	264	201
Net income/income attributable to innogy SE shareholders	€ million	**389**	**1,009**
Effective tax rate	%	39	24

Derivation of adjusted net income		Jan–Sep 2017	Jan–Sep 2016
Adjusted EBIT	€ million	2,003	1,842
Adjusted financial result	€ million	−518	−679
Adjusted result before tax	€ million	**1,485**	**1,163**
Taxes on income on the basis of the adjusted tax rate	€ million	−371	−291
Non-controlling interests	€ million	−264	−201
Adjusted net income	€ million	**850**	**671**
Tax rate used to calculate adjusted net income	%	25	25

Adjusted net income 27% up year on year. In the period under review, adjusted net income increased by 27% to €850 million. This rise was driven by improved earnings and above all the improvement in the adjusted financial result. Based on the 555,555,000 innogy shares outstanding, adjusted net income per share amounted to €1.53.

Adjusted net income differs from net income in that the non-operating result and – possibly – further special items are excluded. 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 the adjusted net income for the reporting period.

Capital expenditure € million	Jan–Sep 2017	Jan–Sep 2016
Capital expenditure on property, plant and equipment and on intangible assets	1,008	964
Renewables	166	134
Grid & Infrastructure	682	656
Germany	463	437
Eastern Europe	219	219
Retail	97	148
Germany	22	32
United Kingdom	38	71
Netherlands/Belgium	28	22
Eastern Europe	9	23
Corporate/other	63	26
Capital expenditure on financial assets	236	144
Total capital expenditure	**1,244**	**1,108**

Increase in capital expenditure. Our capital expenditure rose by 12% to €1,244 million year on year. This was mainly due to a €92 million increase in capital spending on financial assets to €236 million. The main factor behind this was the acquisition of the international solar and battery specialist Belectric. We spent €1,008 million on property, plant and equipment and intangible assets, representing an increase of €44 million compared to the previous year. The expansion and modernisation of our grid infrastructure continue to be a key focus of our investing activity. Along with maintenance, the emphasis was on the connection of decentralised generation assets and network expansion in relation to the energy transition. Additional capital was also invested in the expansion of our broadband activities. We also spent capital on various onshore wind projects in the United Kingdom and Germany in the Renewables division. Furthermore, higher capital expenditure was recognised in the line item 'Corporate/other', in relation to project costs for the modernisation of our IT systems.

Cash flow statement € million	Jan–Sep 2017	Jan–Sep 2016
Funds from operations	1,991	2,075
Change in working capital	−387	−335
Cash flows from operating activities	**1,604**	**1,740**
Cash flows from investing activities	−413	7,176
Cash flows from financing activities	−1,028	−8,919
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	10	−21
Net change in cash and cash equivalents	**173**	**−24**
Cash flows from operating activities	1,604	1,740
Capital expenditure on property, plant and equipment and on intangible assets[1]	−1,004	−929
Capital expenditure on financial assets[1]	−167	−118
Proceeds from disposal of assets/divestitures	213	345
Free cash flow	**646**	**1,038**

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

Cash flows from operating activities declined slightly year on year. Cash flows from operating activities fell by €136 million to €1,604 million. One-off effects in Funds from Operations were essentially the reason for the higher figure recorded in the previous year. In 2016, these included a one-time compensatory payment of €250 million, which we received from RWE Supply & Trading for the settlement of gas storage contracts. The change in working capital is roughly on par with the level of the previous year and mainly driven by seasonal factors. While electricity and gas sales are lower than average in the summer months, payments from customers are spread out evenly over the year. This explains the typical decline in change in working capital during the course of the year.

Cash outflows for investing activities in the period under review totalled −€413 million. This includes proceeds from the reduction of our holdings of securities, mainly stemming from the sale of money market funds. Cash flows from financing activities amounted to −€1,028 million, which were mainly related to the dividends paid in the second quarter, the redemption of loans and the placement of a bond. For both of these cash flow figures, a prior-year comparison has no informational value, as 2016 included significant one-off effects resulting from the creation of the desired corporate and capital structure, as part of the transfer of business units from RWE to innogy.

On balance, the presented cash flows from operating, investing and financing activities caused our cash and cash equivalents to rise by €173 million.

In early 2017, 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 and divestitures. These items were not considered in free cash flow in the past. Free cash flow amounted to €646 million in the period under review (previous year: €1,038 million). The decline results from the lower cash flow from operating activities, as well as lower divestments compared to the previous year. The prior-year figure has been adjusted to bring it in line with the new definition.

Net debt € million	30 Sep 2017	31 Dec 2016
Cash and cash equivalents	1,552	1,379
Marketable securities	2,107	2,722
Other financial assets	463	519
Financial assets	**4,122**	**4,620**
Bonds, other notes payable, bank debt, commercial paper	13,883	11,826
Hedge transactions related to senior bonds	−7	−12
Adjustment for the fair valuation of senior bonds and EIB loans	−937	−1,034
Other financial liabilities including liabilities to RWE AG	3,500	5,395
Financial liabilities	**16,439**	**16,175**
Net financial debt	**12,317**	**11,555**
Provisions for pensions and similar obligations	3,369	3,888
Surplus of plan assets over benefit obligations	−61	−29
Provisions for wind farm decommissioning	366	334
Total net debt	**15,991**	**15,748**

Net debt at €16.0 billion. As of 30 September 2017, our net debt totalled €16.0 billion, representing an increase of around €0.2 billion compared to 31 December 2016. Net financial debt rose by €0.8 billion as of 30 September 2017, as the operating cash flows did not cover the capital expenditure and dividend payments. This effect is mitigated by the decline in provisions for pensions from €3.9 billion to €3.4 billion. The main reason for this was the change in market interest levels, which is also reflected in our discount rates.

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, the leverage factor was 3.7; its presentation during the year is of no informational value.

Outlook

Outlook for 2017 confirmed. We maintain the outlook for this year's business performance, which we published in the 2016 Annual Report (see pages 102 et seqq.) and confirmed in the report on the first half of 2017 (see page 25) as regards adjusted EBITDA, adjusted EBIT and adjusted net income. We anticipate that the innogy Group will achieve about €4.4 billion in adjusted EBITDA and about €2.9 billion in adjusted EBIT. From today's perspective, adjusted net income is expected to total over €1.2 billion.

Outlook confirmed and adjusted net income of more than €1.2 billion expected

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

1 'Corporate/other' is not reported separately here.

Nevertheless, there are still some uncertainties in relation to our UK retail business in particular. The difficult market conditions and political pressure have intensified over the course of the year. Measures to reduce costs within the scope of our restructuring programme will help us to partially offset negative market effects, but we do not expect this 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. It remains to be seen, however, how the competitive situation will develop in the United Kingdom in the coming weeks. In the current regulatory environment, it appears unlikely that higher procurement and run-up costs can be passed on to customers.

In the Renewables division, we intend to continue expanding our capacities. The offshore project Nordsee One (near the island of Juist, Germany) will be fully commissioned in the fourth quarter and generating green electricity at its full capacity. We will also be connecting more and more turbines from the Galloper offshore wind farm (situated near the coast of Suffolk, England) to the grid. The negative foreign exchange trend in the United Kingdom and the non-recurrence of positive one-off effects felt last year will have an opposing impact. Moreover, below-average wind and precipitation volumes in the first nine months have a detrimental effect. We are able to confirm our outlook because we will record a positive effect of €46 million in the fourth quarter from the revaluation of our shares in the Triton Knoll offshore project. This revaluation is prompted by the acquisition of Statkraft's 50% stake in the project.

In the Grid & Infrastructure division, the development will mainly be characterised by lower costs incurred to operate and maintain 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. In the first nine months of the year, income was also generated by the remeasurement of provisions due to the adjustment of discount rates and by sales of securities. Fluctuations in market parameters can generally have an impact on the financial result with an effect on profit or loss over the remaining course of the year as well. From today's perspective, compared to our outlook issued on 11 August, we now expect a better adjusted financial result of around −€700 million (previously: −€750 million to −€800 million).

Compared to the previous year, non-controlling interests will rise significantly, as we expect a strong improvement in income at some German regional municipal utilities, in which third parties hold stakes.

In calculating adjusted net income, we apply a normalised tax rate of 25%, which is at the lower end of the range of 25% to 30%.

Interim consolidated financial statements (condensed)

Income statement

€ million	Jul–Sep 2017	Jul–Sep 2016	Jan–Sep 2017	Jan–Sep 2016
Revenue (including natural gas tax/electricity tax)	**9,087**	**8,681**	**30,792**	**31,461**
Natural gas tax/electricity tax	−269	−279	−1,350	−1,406
Revenue	**8,818**	**8,402**	**29,442**	**30,055**
Cost of materials	−7,184	−7,001	−23,432	−23,702
Staff costs	−745	−715	−2,207	−2,147
Depreciation, amortisation and impairment losses	−838	−357	−1,552	−1,280
Other operating result	−308	−346	−1,016	−1,027
Income from investments accounted for using the equity method	57	72	152	170
Other income from investments	36	111	87	162
Financial income	103	504	723	1,032
Finance costs	−327	−682	−1,125	−1,662
Income before tax	**−388**	**−12**	**1,072**	**1,601**
Taxes on income	11	−35	−419	−391
Income	**−377**	**−47**	**653**	**1,210**
of which: non-controlling interests	51	24	264	201
of which: net income/income attributable to innogy SE shareholders	−428	−71	389	1,009
Basic and diluted earnings per common and preferred share in €[1]	**−0.77**	**−0.14**	**0.70**	**3.34**

1 The number of shares in the first nine months of 2017 deviates from the number of shares in the first nine months of 2016 (see earnings per share).

Statement of comprehensive income[1]

€ million	Jul–Sep 2017	Jul–Sep 2016	Jan–Sep 2017	Jan–Sep 2016
Income	**−377**	**−47**	**653**	**1,210**
Actuarial gains and losses of defined benefit pension plans and similar obligations	131	−451	505	−1,177
Income and expenses recognised in equity, not to be reclassified through profit or loss	**131**	**−451**	**505**	**−1,177**
Currency translation adjustment	−3	50	93	1
Fair valuation of financial instruments available for sale	20	25	18	44
Prorated income and expenses of investments accounted for using the equity method		1	3	−1
Income and expenses recognised in equity, to be reclassified through profit or loss in the future	**17**	**76**	**114**	**44**
Other comprehensive income	**148**	**−375**	**619**	**−1,133**
Total comprehensive income	**−229**	**−422**	**1,272**	**77**
of which: attributable to innogy SE shareholders	−283	−431	965	−111
of which: attributable to non-controlling interests	54	9	307	188

1 Figures stated after taxes.

Balance sheet

Assets € million	30 Sep 2017	31 Dec 2016
Non-current assets		
Intangible assets	11,210	11,709
Property, plant and equipment	17,914	17,954
Investments accounted for using the equity method	2,296	2,256
Other financial assets	846	703
Receivables and other assets	1,274	979
Deferred taxes	2,459	2,638
	35,999	**36,239**
Current assets		
Inventories	508	391
Trade accounts receivable	3,388	4,022
Receivables and other assets	1,882	2,171
Marketable securities	1,999	2,688
Cash and cash equivalents	1,552	1,379
	9,329	**10,651**
	45,328	**46,890**

Equity and liabilities € million	30 Sep 2017	31 Dec 2016
Equity		
innogy SE shareholders' interest	8,947	8,931
Non-controlling interests	1,732	1,736
	10,679	**10,667**
Non-current liabilities		
Provisions for pensions and similar obligations	3,369	3,888
Other provisions	1,558	1,630
Financial liabilities	14,819	16,556
Other liabilities	2,165	1,847
Deferred taxes	545	521
	22,456	**24,442**
Current liabilities		
Other provisions	2,307	2,454
Financial liabilities	2,563	665
Trade accounts payable	3,171	4,302
Other liabilities	4,152	4,360
	12,193	**11,781**
	45,328	**46,890**

Cash flow statement

€ million	Jan–Sep 2017	Jan–Sep 2016
Income	**653**	**1,210**
Depreciation, amortisation, impairment losses/reversals	1,555	1,289
Changes in provisions	−142	−106
Deferred taxes/non-cash income and expenses/income from disposal of non-current assets and marketable securities	−75	−318
Changes in working capital	−387	−335
Cash flows from operating activities	**1,604**	**1,740**
Capital expenditure on non-current assets/acquisitions	−1,171	−1,047
Proceeds from disposal of assets/divestitures	213	345
Changes in marketable securities and cash investments	545	7,878
Cash flows from investing activities[1]	**−413**	**7,176**
Cash flows from financing activities	**−1,028**	**−8,919**
Net cash change in cash and cash equivalents	163	−3
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	10	−21
Net change in cash and cash equivalents	**173**	**−24**
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	**1,552**	**526**

1 After the initial/supplemental funding of pension plans in the amount of −€145 million (previous year: −€121 million).

Statement of changes in equity

€ million	Subscribed capital and additional paid-in capital of innogy SE	Retained earnings and distributable profit	Accumulated other comprehensive 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		−701		−701	−207	−908
Income		1,009		1,009	201	1,210
Other comprehensive income		−1,180	60	−1,120	−13	−1,133
Total comprehensive income		−171	60	−111	188	77
Withdrawals/contributions	5,321	−15,387		−10,066	−83	−10,149
Balance at 30 Sep 2016	**5,321**	**1,095**	**−645**	**5,771**	**1,709**	**7,480**
Balance at 1 Jan 2017	**7,321**	**2,291**	**−681**	**8,931**	**1,736**	**10,667**
Dividends paid		−889		−889	−247	−1,136
Income		389		389	264	653
Other comprehensive income		471	105	576	43	619
Total comprehensive income		860	105	965	307	1,272
Withdrawals/contributions		−60		−60	−64	−124
Balance at 30 Sep 2017	**7,321**	**2,202**	**−576**	**8,947**	**1,732**	**10,679**

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.

The interim consolidated financial statements for the period that ended on 30 September 2017 were approved for publication on 9 November 2017. Along with additional disclosure in the other parts of this interim statement, 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 consolidatedfinancial statements for the period that ended on 30 September 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 interim consolidated financial statements.

Provisions for pensions and similar obligations are discounted at an interest rate of 2.0% 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.

New accounting policies

The IASB has adopted further Standards, which are not yet mandatory in the European Union (EU) in fiscal 2017, the expected effects of which have already been described in the 2016 Annual Report. The following are updates on the expected effects based on the current state of implementation.

IFRS 9 Financial Instruments

innogy expects the classification and measurement of financial instruments to have effects above all on the recognition of changes in the value of financial assets that are measured at fair value and classified 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 which are reported 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

innogy is finalising the review of the results of the contract analysis with regard to the accounting treatment of these contracts pursuant to IFRS 15. In relation to the expected effects mentioned in the 2016 Annual Report, we no longer anticipate that the following items will have a significant impact:

- gifts such as thermostats, vouchers, household appliances and discounted products given to households in exchange for signing a contract;
- contracts with households which provide a warranty or guarantee to the customer.

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. Such contracts are not expected to have an impact on revenue recognition.

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 – innogy qualifies as agent under IFRS 15. In Germany, revenue in the Grid segment is 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 are no longer qualified as revenue. This will not have an impact on income.

innogy will use the modified retrospective method as a transitional method for first-time application as of 1 January 2018.

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	12	15	27
Deconsolidation	−2	−1	−3
Mergers	−3	−1	−4
Balance at 30 Sep 2017	**116**	**159**	**275**

Number of investments and joint ventures accounted for using the equity method	Germany	Abroad	Total
Balance at 1 Jan 2017	**64**	**13**	**77**
Acquisitions		1	1
Disposals			
Other changes	2		2
Balance at 30 Sep 2017	**66**	**14**	**80**

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 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 is presented in the following table, along with the assumed assets and liabilities:

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 €147 million to revenue and −€7 million to the income of the Group.

The preliminary purchase price was €74 million and included conditional payment obligations of €7 million. Negotiations on the final purchase price between the two

contractual parties were commenced in the second quarter of 2017. With confirmation of the final purchase price of €74 million, negotiations were completed on 20 October 2017.

The goodwill primarily results from the expected future benefit and synergy effects.

Impairments

As part of the annual impairment test, a deterioration in the commercial assumptions and the more difficult regulatory framework resulted in an adjustment of the goodwill of the cash-generating unit 'Retail United Kingdom' in the Retail division. A goodwill impairment of €480 million was recognised (recoverable amount: €1.5 billion). The planned merger of the retail activities of innogy and SSE in Great Britain did not lead to a different assessment of the impairment.

The fair value less costs to sell was determined using a company valuation model based on planned cash flows and an after-tax discount rate of 5.50% (previous year: 4.75%).

Based on the use of internal planning assumptions, the fair values determined were assigned to Level 3 of the fair value hierarchy.

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.

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.

Financial liabilities

At the end of February 2017, 18 bonds of various currency were transferred from RWE AG to innogy SE as part of a guarantor and debtor exchange.

On 5 April 2017, innogy SE placed 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.

In July 2017, the €645 million and £350 million loans granted by the European Investment Bank (EIB) were transferred from RWE AG to innogy SE. The corresponding group loans were cancelled in return. At the end of September 2017, this reduced the volume of group loans outstanding to €2.4 billion, which will be redeemed on schedule by 2020. Additional information can be found in the chapter on major events after the end of the period under review.

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. Figures stated for the prior-year period can only be compared to a limited extent due to the smaller average number of shares outstanding in 2016.

Earnings per share		Jan–Sep 2017	Jan–Sep 2016
Net income/income attributable to innogy SE shareholders	€ million	389	1,009
Number of shares outstanding (weighted average)	thousands	555,555	301,874
Basic and diluted earnings per common and preferred share	€	**0.70**	**3.34**

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. 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 €17,383 million (31 December 2016: €17,222 million), while the fair value amounted to €19,720 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 this 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 30 Sep 2017	Level 1	Level 2	Level 3	Total 31 Dec 2016	Level 1	Level 2	Level 3
Other financial assets	846	53	108	685	703	38	26	639
Derivatives (assets)	983		974	9	1,054	1	1,044	9
of which: used for hedging purposes	16		16		2		2	
Marketable securities	1,999	1,945	54		2,688	1,870	818	
Derivatives (liabilities)	1,188		1,179	9	1,246	3	1,234	9
of which: used for hedging purposes	5		5		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 recognised in profit or loss	Changes with a cash effect	Balance at 30 Sep 2017
Other financial assets	639	–37	9	74	685
Derivatives (assets)	9				9
Derivatives (liabilities)	9				9

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 Sep 2016
Other financial assets	485	53	11	–20	529
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–Sep 2017	Of which: attributable to financial instruments held at the balance-sheet date	Total Jan–Sep 2016	Of which: attributable to financial instruments held at the balance-sheet date
Revenue				
Cost of materials				
Other operating income/expenses	15	13	20	20
Income from investments	–6	–1	–9	–9
Financial income/finance costs				
	9	**12**	**11**	**11**

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 actually observed during the contractual term of the derivatives that has already passed.

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–Sep 2017	Jan–Sep 2016	Jan–Sep 2017	Jan–Sep 2016	Jan–Sep 2017	Jan–Sep 2016	Jan–Sep 2017	Jan–Sep 2016
Income	19	258	5,032	5,352	71	79	15	14
Expenses	258	725	9,656	12,162	14	37		

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	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016
Receivables	43	226	1,083	1,190	50	43	92	93
Liabilities	2,460	4,492	1,555	2,425	28	4	7	3

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. Most of the income and expenses involve RWE AG and the subsidiaries, joint ventures and associates of the RWE Group, as presented below:

Key items from transactions with related parties	RWE Group	
€ million	Jan–Sep 2017	Jan–Sep 2016
Income	**5,051**	**5,610**
of which: income from supply transactions	5,038	5,030
of which: income from financial transactions	5	113
of which: other	8	467
Expenses	**9,914**	**12,887**
of which: expenses from supply transactions	9,570	12,107
of which: expenses from financial transactions	8	162
of which: other	336	618

Furthermore, as of 30 September 2017, there were loans and financial receivables amounting to €169 million (31 December 2016: €176 million) and loans and financial liabilities owed to the RWE Group amounting to €2,431 million (31 December 2016: €4,329 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 30 September 2017, receivables of €565 million (31 December 2016: €963 million) and liabilities of €1,920 million (31 December 2016: €2,366 million) were due within one year. As of 30 September 2017, other obligations from executory contracts amounted to €22,769 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 in the period from 1 October 2017 until preparation of the interim financial statement on 9 November 2017:

Triton Knoll Offshore Wind Farm Limited (Triton Knoll)

In October 2017, innogy acquire control over the company Triton Knoll Offshore Wind Farm Limited in the United Kingdom, which had previously been accounted for in the consolidated financial statements using the equity method. Following the acquisition of Statkraft's 50% stake, innogy is now the sole owner of Triton Knoll, an offshore wind project with a planned capacity of 860 megawatts.

Accounting of the transaction as described below will occur during the fourth quarter of 2017. The fair value of the old shares amounted to €46 million. First-time consolidation of Triton Knoll and the related change in the status of the old shares resulted in income of €46 million, which is recognised in the line item 'Other operating income' on the income statement.

The assets and liabilities assumed as part of first-time consolidation are presented in the following table:

Balance-sheet items € million	IFRS carrying amounts (fair values) at first-time consolidation
Non-current assets	170
Current assets	5
Non-current liabilities	20
Current liabilities	83
Net assets	**72**
Cost	92
Goodwill	**20**

At the time of acquisition, the fair value of the entire consideration transferred for the acquisition of Statkraft's 50% stake amounted to €46 million. The fair value of the old shares of €46 million was added to this, with the result that €92 million was recognised as the cost in the course of first-time consolidation.

The fair value of the accounts receivable included in the non-current and current assets amounted to €2 million. The goodwill primarily results from the expected future benefit and synergy effects.

The initial accounting of the business combination has not been completed definitively due to the transaction's complex structure.

Placement of a bond

On 12 October 2017, innogy successfully issued the first German benchmark-sized corporate green bond with an investment grade rating. innogy's Green Bond Framework envisages investment opportunities in renewables and in projects for energy efficiency and e-mobility. The internationally recognised sustainability agency Sustainalytics confirmed that innogy's Framework is robust and transparent. It is in alignment with the generally accepted Green Bond Principles 2017 published by the International Capital Market Association. The proceeds from the first Green Bond will be used for refinancing four offshore projects in the United Kingdom and Germany, as well as one onshore project in the Netherlands. The wind farms are already in operation or under construction. With a volume of €850 million and a tenor of ten years, the senior bond was issued by

innogy Finance B.V. and is guaranteed by innogy SE. The bond has an annual coupon of 1.25% and an issue price of 98.987%, with a yield to maturity of 1.36% p.a.

Retail activities of innogy and SSE in Great Britain to be combined in a new company

On 8 November 2017, innogy and SSE plc ('SSE') agreed to merge the retail activities of innogy's subsidiary npower with SSE's household energy (B2C) and Energy+ business in Great Britain. The company in which these business activities are to be merged will be listed on the stock exchange.

innogy will retain a minority share amounting to 34.4% of the combined business. SSE plans to demerge its stake to its own shareholders upon completion of the transaction, with the result that the remaining 65.6% will be in free float. The transaction should be completed by late 2018/ early 2019.

The transaction requires the approval of innogy's Supervisory Board and SSE's Annual General Meeting. Moreover, the transaction is subject to approval by the competent competition authorities and regulatory bodies.

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 2018

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
10 Aug 2018	Half-year report 2018
13 Nov 2018	Interim report for January to September 2018

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