REPORT ON THE FIRST HALF OF 2016

- RWE confirms forecast for this year's Group earnings
- H1 operating result of €1.9 billion slightly down year on year
- Subsidiary for renewables, grids and supply will be called 'innogy'
- 2016 earnings forecast for innogy published: EBITDA of €4.1 billion to €4.4 billion expected

AT A GLANCE

RWE Group – key figures		Jan – Jun 2016	Jan – Jun 2015[1]	+/– %	Jan – Dec 2015[1]
Power generation	billion kWh	107.1	101.8	5.2	213.0
External electricity sales volume	billion kWh	133.5	128.6	3.8	261.5
External gas sales volume	billion kWh	145.7	157.1	−7.3	273.0
External revenue	€ million	23,898	24,832	−3.8	48,090
EBITDA	€ million	3,011	3,186	−5.5	7,017
Operating result	€ million	1,884	2,030	−7.2	3,837
Income from continuing operations before tax	€ million	719	948	−24.2	−637
Net income	€ million	457	1,742	−73.8	−170
Adjusted net income	€ million	598	543	10.1	1,125
Earnings per share	€	0.74	2.83	−73.9	−0.28
Adjusted net income per share	€	0.97	0.88	10.2	1.83
Cash flows from operating activities of continuing operations	€ million	−1,004	664	−251.2	3,339
Capital expenditure	€ million	826	1,172	−29.5	3,303
Property, plant and equipment and intangible assets	€ million	733	989	−25.9	2,898
Financial assets	€ million	93	183	−49.2	405
Free cash flow	€ million	−1,702	−325	−423.7	441
		30 Jun 2016	31 Dec 2015		
Net debt	€ million	28,283	25,463	11.1	
Workforce[2]		59,283	59,762	−0.8	

1 Some figures adjusted; see commentary on pages 14 and 25.
2 Converted to full-time positions.

Contents

Dear Shareholders, Customers and Friends of the Company,

This year is dominated by one of the most important chapters in RWE's history. Since January, we have been working extremely hard to reorganise the Group, in order to equip ourselves for the huge challenges faced by today's energy industry. The starting point was when the decision was made at the end of 2015 to pool our renewables, grids and supply businesses into a new subsidiary and list it on the stock market. I explained the huge advantages this will have for us in the 2015 Annual Report. Approximately 1,500 people at RWE have been working towards this goal, day in, day out – and sometimes even at night. Whenever huge projects have to be implemented on a tight schedule, delays are almost unavoidable. It is therefore all the more remarkable that we are right on track. We have already passed some major milestones: on 1 April, just three-and-a-half months after the Supervisory Board gave the go-ahead to restructure the Group, the new company in charge of renewables, grids and supply began operating. Shortly thereafter, its six-member Executive Board was formed, which is presented on page 8. Another milestone was the announcement of the new company's name and brand at the end of June. It will be called 'innogy', the name of our former green energy subsidiary, and is an amalgamation of 'innovation', 'energy' and 'technology'. It is much more than just a name. As a brand, innogy stands for novel ideas, flexibility and new, attractive products. We now face the next big step: the IPO. We want to list around 10% of innogy's shares on the market via a capital increase this year. We presented the company to the public at an analyst conference on 30 June, which was simulcast on the web. What resonated especially well was that we are striving for a payout ratio of 70% to 80% of innogy's adjusted net income. The conference gave some insight on just how much the parent company, RWE, stands to benefit from the attractiveness of its new subsidiary. On the day of the conference, our common shares closed trading as the top performer in the DAX, up 7%.

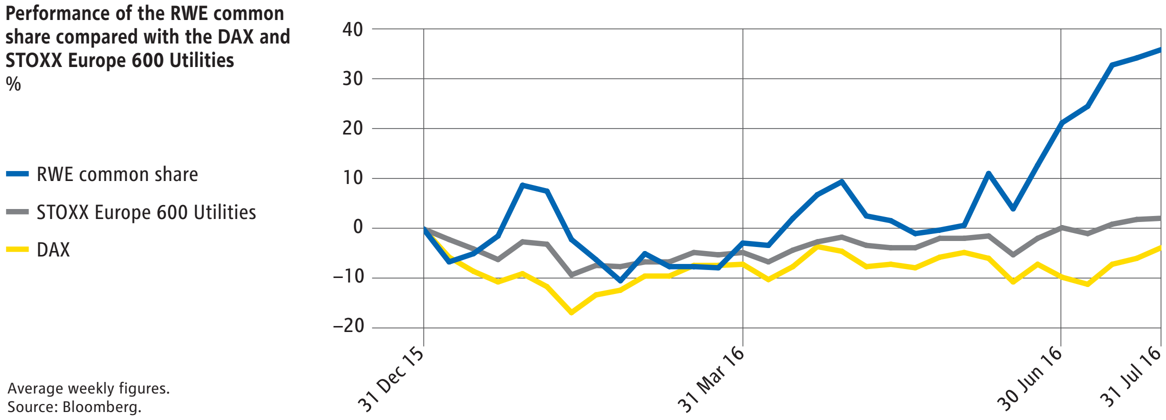
Of course, despite the huge importance of the Group's reorganisation, we are not losing sight of our daily operations. There is positive news in this regard, too. The restructuring measures we are taking to put our UK supply business back on track are already bearing fruit. Our competitive position in the UK residential sector has stabilised since the significant customer losses suffered last year. I am particularly pleased about our customers' growing satisfaction, evidenced by Ofgem's latest complaint statistics, according to which we have improved from last to third among the country's six major energy companies in this category. Our trading business was disappointing, as it recorded a substantial loss in the second quarter. However, we confirm our forecast for the 2016 earnings of the Group as a whole. We continue to expect an operating result of €2.8 billion to €3.1 billion and adjusted net income of €0.5 billion to €0.7 billion.

Sincerely yours,

Peter Terium
CEO of RWE AG
Essen, August 2016

RWE SHARES IN H1: SECOND-BEST TOTAL RETURN IN THE DAX

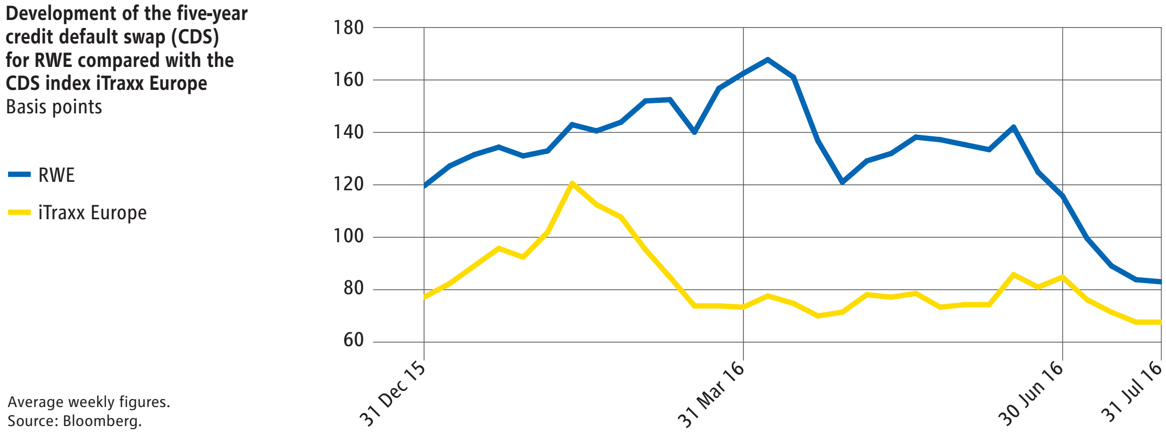
Performance of the RWE common share compared with the DAX and STOXX Europe 600 Utilities
%



Average weekly figures.
Source: Bloomberg.

Overall, the performance of the German stock market was disappointing: the DAX closed the month of June at 9,680 points, 10 % down on the end of 2015. The weakness of the Asian economy at the beginning of the year and the resulting sharper decline in commodity prices played an important role. Following a period of recovery on the commodity markets, the Brexit vote caused sentiment on the stock markets to fall to another low in June. Conversely, the quotations of RWE shares displayed positive development. The price of our common stock rose by 21 % to €14.19 in the first half of the year. Despite the suspension of the dividend, its total return, consisting of the change in price and the dividend payment, was the second-best in the DAX. Our preferred shares closed June trading at €10.21. Including the preferred dividend of €0.13, its total return was 16 %. The capital market recognised RWE's continued reorganisation of the Group as planned, through which we are establishing a more robust setup and tapping into new growth opportunities (see page 8). The slight increase in German wholesale electricity forward prices since February provided added stimulus. Their level has a strong influence on our earnings prospects in conventional power generation.

Development of the five-year credit default swap (CDS) for RWE compared with the CDS index iTraxx Europe
Basis points



Average weekly figures.
Source: Bloomberg.

The development of interest rates was primarily determined by the expansionary monetary policy of the European Central Bank (ECB). In the middle of March, the ECB lowered the key interest rate to 0% and raised the penalty interest paid by commercial banks on their ECB deposits from 0.3% to 0.4%. Furthermore, it significantly expanded its ongoing bond purchase programme. All of the aforementioned was reflected in the average yield on ten-year German government bonds, which dropped from 0.63% to –0.13% over the course of the first half of the year. The cost of hedging credit risks via credit default swaps (CDS) has remained moderate in 2016. The iTraxx Europe Index, which consists of the CDS prices of 125 major European companies, closed June at 85 basis points for five-year CDS, slightly higher than at 31 December 2015. The iTraxx had briefly shot up at the beginning of the year. The five-year CDS for RWE also trended upward initially. After hitting the 170-point mark in early April, however, it dropped considerably, reaching 116 basis points at the end of June, just below the level observed at the end of 2015. Following another substantial decline in July, it was only about half as high as at the beginning of April.

ECONOMIC ENVIRONMENT

Economic upturn continues

According to initial estimates, global gross domestic product (GDP) in the first half of 2016 was 2% higher than in last year's corresponding period. A gain of 1.5% has been estimated for the Eurozone. German GDP should have risen to the same extent, with consumer spending having a positive effect. Conversely, compared to the Eurozone, GDP may well have displayed slightly below-average growth in the Netherlands and Belgium. Based on available data, the United Kingdom, our biggest market outside the currency area, recorded a rise of about 2%, due in great part to its expanding service sector. However, the general view is that the vote to leave the EU will probably dampen growth over the remainder of the year. The positive development in our key Central European markets witnessed in 2015 appears to have continued. When this report was finalised, only information on the first quarter was available for these countries. Based on this data, GDP was up 3% in the Czech Republic, 3.5% in Slovakia, 2.5% in Poland, and 1% in Hungary.

Weather warmer than in 2015

Whereas the economic trend primarily impacts on demand for energy among industrial enterprises, residential energy consumption is influenced more by weather conditions: the lower the outside temperatures, the more energy is needed for heating purposes. Accordingly, sales volume and earnings fluctuate from one season and fiscal year to the next. Records show that the weather was relatively mild across nearly the whole of Europe in the first half of 2016. Temperatures in our major markets were higher than the ten-year average. By and large, they were also up compared to 2015.

In addition to energy consumption, the generation of electricity is also subject to weather-related influences, with wind levels playing a major role. In the first six months of 2016, our wind turbines in Germany, the United Kingdom, the Netherlands and Poland operated less than in 2015, whereas they ran more in Spain and Italy. Electricity production by our run-of-river power plants is affected by precipitation levels, which in Germany were higher year on year. Sunshine also has a significant impact on the supply of electricity, not least due to the considerable rise in German photovoltaic capacity triggered by the German Renewable Energy Act. According to figures published by the German Meteorological Service, the country had an average of 752 hours of sunshine in the first six months, as opposed to 863 a year before.

Higher energy consumption in RWE's key markets

Economic growth stimulated energy consumption in our core markets, whereas the trend towards energy savings had a dampening effect. The year-on-year comparison of consumption is affected by the fact that 2016 is a leap year, which has an additional day. According to preliminary calculations made by the German Association of Energy and Water Industries (BDEW), demand for electricity in Germany in the period being reviewed was similar to the level recorded in the same timeframe in 2015. Estimates for the Netherlands and the United Kingdom are similar, whereas marginal increases have been predicted for Poland, Slovakia and Hungary. Gas consumption displayed more dynamic development, despite the mild weather. One of the reasons was that gas has become much cheaper and was therefore used more to produce electricity. Based on surveys conducted by the BDEW, gas consumption in Germany was 7% higher year on year. The UK network operator calculated an increase of as much as 8% for the United Kingdom. A rise of 3% has been estimated for the Czech Republic, whereas the Netherlands probably experienced a slight decline, which is most likely due to the increase in the gas tax and the renewables levy.

Lower wholesale and retail gas prices

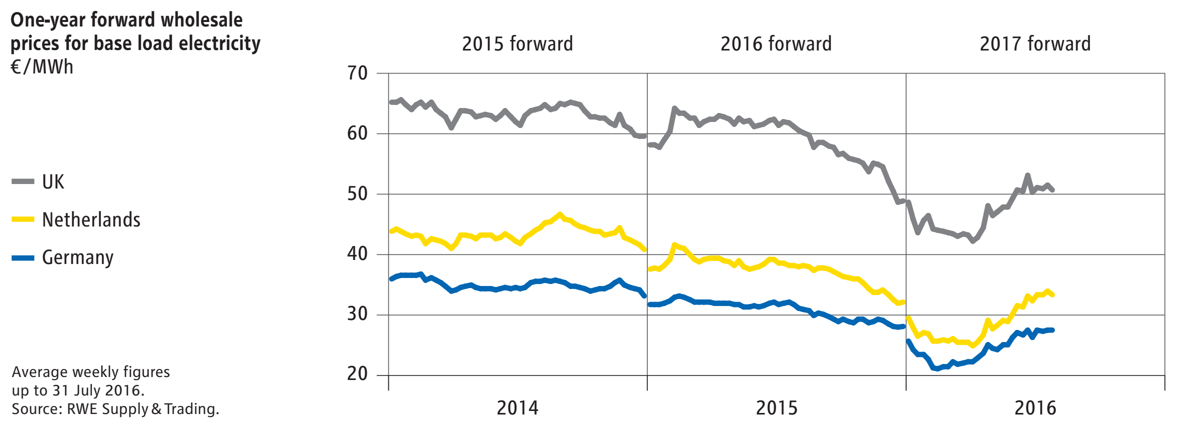
Prices in European gas trading have dropped considerably compared to 2015. Averaged for January to June 2016, spot prices at the Dutch Title Transfer Facility (TTF), the reference market for Continental Europe, amounted to €13 per megawatt hour (MWh), €8 down year on year. In TTF forward trading, contracts for delivery in the coming calendar year (2017 forward) were settled for €15 per MWh. By comparison, €21 was paid for the 2016 forward in the same period last year. The slump on the gas market was reflected in retail prices. However, residential tariffs typically react to wholesale price developments with a sizeable time lag. Based on available data, in Germany gas became 2% and 16% cheaper for households and industrial customers, respectively. Similar drops were calculated for the Czech Republic. In the United Kingdom, households and industrial enterprises paid 5% and 19% less for gas than in the first half of 2015. Only in the Netherlands did retail tariffs rise, albeit only slightly. This was due to the aforementioned increase in government levies.

Hard coal prices: slight recovery after record low at the start of the year

At the beginning of 2016, quotations in international hard coal trading fell to a new record low, after which they managed to make up some lost ground. On the whole, they were much lower year on year. Coal deliveries including freight and insurance to Amsterdam/Rotterdam/Antwerp (known as the ARA ports) were quoted at an average of US$47 (€42) per metric ton in spot trading in the first six months, US$13 less than in 2015. The 2017 forward (API 2 Index) traded at an average of US$44 per metric ton, US$15 down on last year's comparable figure. The world coal market remains oversupplied due to demand failing to keep pace with an increase in global production. In the meantime, China and the USA have significantly scaled back their coal production. Furthermore, the US coal sector has been hit by a wave of bankruptcies. The overseas transportation costs included in the ARA price are still extremely low. This is because of substantial excess shipping capacity as well as a drop in fuel prices. From January to June 2016, the standard route from South Africa to Rotterdam cost an average of just US$3 per metric ton, as opposed to US$4 in the same period last year.

Return to bear market in CO_2 emissions trading

In European trading of CO_2 emission allowances, quotations have dropped significantly following a prolonged upward trend. A European Union Allowance (EUA), which confers the right to emit a metric ton of carbon dioxide, was settled for less than €5 at the end of June, as opposed to €8 at the beginning of the year. Averaged over the first half of the year, it was quoted at €6. This data refers to forward contracts that are due in December 2016. By comparison, in the first six months of 2015, the EUA in contracts for December 2015 cost an average of €7. Experts believe that the decline in prices is connected to the development of electricity prices, which fell to new lows at the beginning of the year. It is assumed that numerous utilities therefore reduced electricity forward purchases, resulting in a decline in demand for CO_2 emission allowances. The Brexit vote also played an important role: should the United Kingdom withdraw from the EU Emissions Trading System, demand for allowances would be reduced by the volume allocable to operators of conventional power stations in the UK. In addition, UK companies could put large numbers of emission allowances they no longer needed on the market, increasing the pressure on prices.



Wholesale electricity prices significantly down year on year

The development of wholesale electricity prices in Germany is significantly affected by rising feed-ins of electricity subsidised under the German Renewable Energy Act. This forces conventional generation plant off the market, primarily gas-fired power stations, which have fairly high fuel costs. Their influence on the formation of electricity prices has decreased accordingly. Furthermore, hard coal-fired power stations, which traditionally have a substantial effect on the formation of electricity prices, are generating electricity at relatively low cost, due to the decline in hard coal prices. These two factors – the crowding-out of gas-fired power stations and the drop in the price of hard coal – were the major reason why quotations on the German wholesale electricity market have recently experienced a significant decline. From January to June 2016, the average spot price for base-load power was €25 per MWh, down €5 on the level recorded in last year's corresponding period. Quotations in forward trading dropped to new lows at the beginning of the year, before trending back up somewhat in line with the development on hard coal markets. The 2017 base-load forward averaged €24 per MWh during the first six months. By comparison, the 2016 forward traded for €32 in the same period last year.

In the United Kingdom, our second-largest generation market, gas-fired power stations account for a much larger share of electricity production than in Germany and therefore have a stronger influence on prices. For this reason, and due to the introduction of a tax on carbon dioxide in April 2013, UK wholesale electricity quotations are relatively high. Base-load power in the first half of the year was invoiced for an average of £35 (€45) per MWh on the spot market, £6 cheaper than in 2015. The 2017 forward traded at £36 (€46) per MWh, £9 below last year's comparable figure.

In the Netherlands, where we have our third-largest generation position, gas-fired power plants also play an important role in the formation of electricity prices. At the same time, German electricity exports are weighing on prices. Base-load power on the Dutch spot market was quoted at an average of €28 per MWh, €13 less year on year. Forward contracts for 2017 were also settled for an average of €28 per MWh, as opposed to €39 for the 2016 forward in the same period last year.

Power plant margins down year on year

We sell forward most of the output of our power stations and secure the prices of the required fuel and emission allowances in order to reduce short-term volume and price risks. Therefore, the most recent developments on the market had very little impact on revenue from electricity generation in the reporting period. What is more important are the conditions at which forward contracts for delivery in 2016 were concluded in preceding years. As wholesale electricity prices in Continental Western Europe have been trending downwards significantly in recent years, the average price which we realised for this year's generation was lower overall than the comparable figure for 2015. Therefore, we achieved lower margins with our German lignite and nuclear power stations, the fuel costs of which are typically stable. The margins of our gas and hard coal-fired power stations are also under pressure. However, while revenue dropped due to electricity prices, we benefited from reduced fuel quotations.

Lower electricity bills for industrial customers

Retail electricity prices displayed disparate development. Similar to gas, prices in the industrial customer segment react faster than retail tariffs to changes on the wholesale market. Moreover, the latter depend much more on grid costs, apportionments and taxes, which in Germany are constantly growing, resulting in slightly higher residential electricity tariffs than in 2015. In contrast, they were stable in the United Kingdom, Slovakia and Hungary and declined by 1% in Poland. Due to tax relief, Dutch residential customers paid about 15% less. Electricity deliveries to industry have become cheaper in all our core markets: by 1% in Poland, 2% in both Germany and the United Kingdom, 5% in Slovakia, 11% in Hungary, and 16% in the Netherlands.

MAJOR EVENTS

In the period under review

New company for renewables, grids and supply takes up operation

RWE's new subsidiary for renewables, grids and supply commenced its business activities as planned on 1 April 2016. It is temporarily called 'RWE International SE' and is scheduled to operate under its definitive name 'innogy SE' from 1 September onwards. We plan to increase its capital by about 10% via an IPO by the end of 2016. The proceeds are earmarked primarily to finance growth projects. Like RWE AG, innogy is headquartered in Essen. All Executive Board members have taken office at the new company, with Peter Terium (Chief Executive Officer), Bernhard Günther (Chief Financial Officer) and Uwe Tigges (Chief HR Officer and Labour Director) holding the same offices as at RWE AG. After the planned IPO, Messrs. Terium and Günther will resign from the Executive Board of RWE AG and only hold office at the Executive Board of innogy. Thereafter, chairmanship of the Executive Board of RWE AG will be assumed by Rolf Martin Schmitz, who is currently Deputy Chairman. Markus Krebber, the current Chairman of the Board of Directors of RWE Supply & Trading, will succeed Bernhard Günther as Chief Financial Officer of RWE AG. Uwe Tigges will remain Chief HR Officer and Labour Director of RWE AG until the end of April 2017, while concurrently holding his new positions at innogy. The six-member Executive Board of the new subsidiary also includes Hans Bünting, Hildegard Müller and Martin Herrmann. They hold operational responsibility for renewables (Bünting), grids (Müller) and supply (Herrmann). Previously, Hans Bünting was the Chairman of the Board of Directors of our former green energy subsidiary RWE Innogy, Hildegard Müller was the President of the General Executive Board of the German Association of Energy and Water Industries (BDEW), and Martin Herrmann was the Chairman of the Board of Directors of RWE East.

RWE suspends dividend on common shares – dividend of €0.13 paid per preferred share

On 20 April 2016, RWE AG's Annual General Meeting approved by a large majority the dividend proposal for the 2015 financial year made by the Executive and Supervisory Boards. The dividend for holders of common shares was suspended while preferred shareholders received the preferential share in profits of €0.13 per share stipulated by the company's Articles of Incorporation. Based on a total of 39,000,000 preferred shares, the dividend payment amounted to about €5 million. In the previous year, €1.00 was paid on each common and preferred share, equivalent to a dividend payment of €615 million. The dividend proposal for 2015 reflected political risks and the much bleaker earnings prospects in conventional electricity generation.

Commission submits proposals for nuclear exit financing

The commission tasked by the German government to review the financing of the nuclear phase-out (KFK) presented its recommendations at the end of April. It proposes that the energy utilities pay funds equalling their provisions for interim and final nuclear waste storage into an external fund. The sum is estimated to total €17.2 billion (as of the end of 2014). In contrast, it recommends that the funds required to dismantle the plants remain with the companies. In addition, it envisages allowing energy utilities to indemnify themselves from liability risks associated with potential increases in the cost of interim and final storage by paying a risk premium of about 35% (€6.1 billion) on top of the aforementioned €17.2 billion. This surcharge would be due by 2022. As a result, the payments made by RWE, E.ON, Vattenfall, EnBW and Stadtwerke München would total €23.3 billion.

The nuclear power plant operators welcomed the principle of the Commission's proposal, which envisages operational and financial responsibility being borne by the same entity. However, the suggested risk premium places a substantial strain on the profitability of the affected energy companies. RWE and the other operators are therefore in talks with the German government in order to come up with solutions for implementing the KFK proposals that are acceptable to both sides. A major issue still to be clarified from the operators' point of view are the details of the transfer of liability. Furthermore, the level and date of funding for each of the energy utilities must be determined. The German government is expected to initiate the necessary legal changes largely in line with KFK recommendations after the summer break.

CMA wants to increase competition in retail supply

At the end of June, the UK Competition and Markets Authority (CMA) published the results of its analysis of the competitive environment of the country's energy sector. It had been charged with the investigation by the regulator Ofgem in the middle of 2014. In its final report, the CMA found that the national wholesale markets are functional. It states that there are no indications of major energy utilities gaining a competitive advantage through vertical integration. By contrast, the CMA finds there are signs of insufficient competition in the supply business with retail and small commercial customers. This primarily relates to those who do not switch energy supplier. Based on CMA calculations, the annual price advantage attainable by customers of the UK's six major energy utilities by changing suppliers doubled from £164 in 2012 to £330 in 2015. Therefore, the CMA wants to oblige companies to inform Ofgem of those customers who have not switched supplier/tariff for more than three years. Ofgem would then make the data available to all competitors in order to enable them to make the individuals affected alternative offers. The CMA also decided to cap tariffs for customers with pre-payment meters until 2020. The affected customers usually have higher bills, which reflect the increased expenses of the utilities. We do not believe that the price cap is necessary as other remedies introduced will improve competition in this customer segment. We welcome the supply companies regaining the freedom to determine the number of tariffs they offer in the future. At the moment, each company is limited to four different electricity and four different gas tariffs. The UK legislator and the authorities in question are expected to implement the CMA's decisions without exception.

RWE expands gas supply business in Hungary

At the end of February, we reached an agreement with the Hungarian gas utility TIGÁZ, which belongs to the Italian ENI Group, to acquire its industrial and corporate customers. These customers were transferred to our subsidiary MÁSZ with effect from 1 April, increasing our share of the unregulated Hungarian gas market to about 10%. Over the medium term, our aim is to increase it to up to 15%. RWE restarted its Hungarian gas retail activities in the middle of 2015. It was only in April 2014 that we sold our non-controlling interest in the Budapest-based gas utility FÖGÁZ to the state-owned Hungarian energy group MVM due to the unfavourable framework conditions in the regulated retail business.

RWE withdraws from Luxembourg utility Enovos

At the beginning of March, we sold our 18.4 % stake in the Luxembourg-based energy utility Enovos. The reason for the sale was that we only had a limited influence on the management of the company. The stake was bought by a consortium led by the Grand Duchy of Luxembourg and the investment firm Ardian.

RWE reaches agreement on gas procurement contract with Gazprom

At the end of May 2016, we agreed with the Russian gas supplier Gazprom to adjust the conditions of our long-term gas procurement contract. This ensures that the contract will not expose us to price risks in the next few years. The parties to the contract agreed to keep the details confidential. Based on mutual consent, the issue was resolved in the run-up to a price review, which had been scheduled for the middle of 2016 but has now become irrelevant due to the agreement.

RWE concludes flexible gas contract with Qatargas

At the end of June, RWE Supply & Trading signed a flexible sale and purchase agreement (SPA) for liquefied natural gas (LNG) with Qatargas, which is domiciled in the Arab Emirate of Qatar. The SPA stipulates that Qatargas, the world's largest LNG provider, supply a total of up to 1.1 million metric tons of liquefied natural gas to us in northwestern Europe over a period of seven-and-a-half years. The contract is a good supplement to our gas procurement portfolio.

Moody's and Standard & Poor's downgrade RWE

Against the backdrop of the difficult economic and legislative framework conditions in the German electricity generation sector, the two leading rating agencies, Moody's and Standard & Poor's, lowered their long-term ratings for our senior bonds by one notch. In the middle of May, Moody's changed our credit rating from Baa2 to Baa3. At the same time, it raised the outlook from 'negative' to 'stable'. A month later, Standard & Poor's adjusted its rating from BBB to BBB-, maintaining its negative outlook. Both rating agencies therefore confirm our 'investment grade' creditworthiness. We intend to remain in this category through strict investing discipline, efficiency enhancements, a measured dividend policy, and the organisational realignment of the RWE Group. Our top priority is to ensure that we can raise capital on the market at acceptable conditions at all times, even during periods of crisis on financial markets.

After the period under review

Resolution on Garzweiler II confirms long term need for lignite production

At the beginning of July, the administration of the State of North Rhine-Westphalia announced its resolution on future lignite mining in the Garzweiler II opencast mine. Its main points are identical to those of the draft published in September 2015. In its resolution, the state administration underscores the importance of domestic lignite over the long term for ensuring a secure and affordable energy supply. It confirms that opencast mining in Garzweiler will remain necessary after 2030. Such a declaration is the fundamental prerequisite for continuing lignite production over the long term. However, the size of the mining area will be reduced. Accordingly, the plan to relocate certain areas of Erkelenz, which has a population of about 1,400, will be withdrawn. This includes the village of Holzweiler, and it is envisaged that a greater distance than usual be maintained between the mining area and Holzweiler. Access to the coal reserves of Garzweiler II, which have received zoning clearance and been estimated at 1.2 billion metric tons so far, will thus drop by about one third. No such limitations have been envisaged for the Hambach and Inden opencast mines. The state administration classifies them as necessary and confirms the mining borders that have already been approved. The announcement of the resolution marks the end of a difficult, lengthy process for RWE, citizen representatives, numerous stakeholder groups and experts, all of whom were engaged throughout. The decision gives planning security to RWE Power and thousands of people working in the Rhenish lignite mining region. Now it must be implemented within the scope of a multi-year lignite zoning revision procedure.

Germany reforms renewables subsidy scheme

On 8 July, the German Lower House introduced a fundamental reform to the German Renewable Energy Act designed to make subsidies more efficient and bring the expansion of generation capacity more in line with existing network infrastructure. Called ‘EEG 2017’, the amendment is subject to EU state-aid law approval, which may lead to some changes. Pursuant to the reformed Act, operators of new plant will usually receive subsidies only if they have qualified by successfully going through a public invitation to tender. So far, every investor in renewable energy has been guaranteed a fixed feed-in fee. This right will be upheld only in respect of hydroelectric power stations and small solar arrays with an installed capacity of less than 750 kilowatts. From now on, the government will determine the desired capacity expansion and call for corresponding bids. Potential investors will submit bids for certain subsidy levels at which they can offer portions of the desired capacity. The bids with the lowest cost win until the desired expansion has been achieved. For onshore wind, it is expected this annual expansion will be limited to 2,800 megawatts (MW) initially and to 2,900 MW from 2020 onwards. The figure is gross, i.e. it includes the replacement of existing plant by higher-capacity generation units. As regards offshore wind, the government envisages an average expansion of 730 MW per year. Further auctioned annual expansion caps are 600 MW for photovoltaics and 150 to 200 MW for biomass. Plant operators that have qualified for a subsidy receive the exact sum they bid at the auctions. For onshore wind projects, a location-dependent premium may be granted on top of the bid. If the price the plant operators achieve for their green energy on the wholesale market is below the subsidy rate, they are paid the difference. If it exceeds the fee, they will be obliged to make payments. The future subsidy system for renewable energy is similar to the UK model. Furthermore, it satisfies the requirement imposed by the EU Commission for member states to bring their renewable subsidies more in line with the market and to focus more on competition mechanisms such as tender procedures.

German government improves conditions for investing in networks

At the beginning of August, the German government passed an amendment to the Incentive Regulation Directive designed to improve conditions for investments by distribution system operators. The Upper House had given the go-ahead for this in July. The main thrust of the amendment is that costs incurred to finance investments will be taken into account in the revenue caps – and in turn in network fees – without delay. This has not been the case in the past. So far, the assets and capital costs of the network operators have generally only been determined just before the next five-year regulatory period. As these costs were calculated with a lead time of two years, it could take up to seven years for the investments to be reflected in network revenue. In addition, the reduction in the cost of capital caused by depreciation was considered with a time lag (referred to as the baseline impact). The reform is scheduled to come into effect for the upcoming regulatory periods for gas (from 2018) and electricity (from 2019). This will be advantageous to companies in cases where investments exceed depreciation. Vice-versa, this can reduce revenue. The new regulation may also be disadvantageous to network operators, whose investments have already experienced the disadvantage of a late adjustment to revenue and which have relied on the benefits of the baseline effect. Therefore, the government has decided that the baseline effect for investments made from 2007 to 2016 will not be abolished until after the end of the next regulatory period. Besides the immediate adjustment of the cost of capital, the new Incentive Regulation Directive also ensures increased transparency by imposing additional publication duties on the regulatory authorities. Unlike in April's draft bill, the coming regulatory periods will not be shortened to four years. The government has also abandoned its plan to give the network operators only three years to reduce inefficiencies. The Upper House had made its approval of the amendment dependent on the maintenance of the current five-year time limit.

RWE divests stake in UK wind farm portfolio Zephyr

At the end of July, we sold our 33.3 % interest in UK-based Zephyr Investments Limited along with several shareholder loans to a financial investor. Zephyr was established in 2003. The company owns and operates a portfolio of 17 wind farms, of which 16 are on mainland UK, and one is off the coast of Wales (North Hoyle). These generation assets have a total net installed capacity of 391 MW. We intend to use the proceeds from the sale to finance other renewable projects.

Settlement for damages for new hard coal power plant at Hamm finalised

At the beginning of July, the settlement of the insurance claim relating to damages to Block D of our new hard coal-fired power station at Hamm (Westphalia) was finalised by mutual agreement. Together with the insurance companies, we agreed on final compensation, which we have since received. The power plant at Hamm was originally supposed to have two blocks (D & E), but only Block E was commissioned. Block D experienced significant damage, which curtailed its profitability. This is why we decided in December 2015 against completing it (see page 40 of the 2015 Annual Report).

NOTES ON REPORTING

New segment structure as of 1 January 2016

Our reporting for the current fiscal year is based on a new segment structure. It reflects the stages of the energy value chain, on which our management model is based. We now distinguish between the five following divisions: (1) Conventional Power Generation, (2) Renewables, (3) Trading/Gas Midstream, (4) Grids/Participations/Other and (5) Supply. The last two divisions are new and cover the activities of these former segments: Supply/Distribution Networks Germany, Supply Netherlands/Belgium, Supply United Kingdom and Central Eastern and South Eastern Europe. To ensure comparability of the 2016 figures to those of the previous year, we restated the latter according to the new structure. The ongoing reorganisation of the RWE Group has no effect on reporting for the time being.

The five divisions cover the following activities:

(1) Conventional Power Generation: Our conventional electricity generation operations in Germany, the United Kingdom, the Netherlands and Turkey are subsumed under this division. It also includes the lignite mining business of RWE Power in the Rhineland and RWE Technology International, which specialises in project management and engineering services. At the beginning of this financial year, the following assets were also assigned to Conventional Power Generation: our controlling interest in Mátra, which specialises in lignite production and the generation of electricity from lignite in Hungary (formerly assigned to the Central Eastern and South Eastern Europe Division), and the Scottish biomass-fired power station Markinch (formerly part of the Renewables Division). Prior-year figures have been adjusted accordingly. All the aforementioned activities are overseen by RWE Generation.

(2) 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 their construction and project development. In terms of generation technology, we focus 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.

(3) Trading/Gas Midstream: This division covers the activities of RWE Supply & Trading. The company is responsible for trading energy and commodities, marketing and hedging the RWE Group's electricity position, as well as running the entire gas midstream business. Furthermore, it supplies some major German and Dutch industrial and corporate customers with electricity and gas.

(4) Grids/Participations/Other: Assigned to this division are the distribution network operations in Germany (electricity and gas), the Czech Republic (gas), as well as Slovakia, Hungary and Poland (all three electricity). With the exception of supply, it also includes the activities of the fully consolidated regional utilities (grid operation, power generation, water, etc.) and large parts of our gas storage business. Non-controlling interests in utilities (e.g. German municipal utilities and Austria-based KELAG) are fully disclosed under Grids/Participations/Other.

(5) Supply: This is where our retail activities in Germany, the Netherlands/Belgium, the United Kingdom, the Czech Republic, Slovakia, Hungary, Poland, Slovenia, Croatia and Romania are subsumed. Besides electricity and gas, we also offer energy solutions.

We present certain groupwide activities outside the divisions in 'Other/Consolidation'. These are the Group holding company RWE AG as well as our in-house service providers RWE IT, RWE Group Business Services and RWE Service. This item also includes our non-controlling interest in the German electricity transmission system operator Amprion.

Changed recognition of gas trading transactions

Further adjustments to reporting relate to the manner in which sales volumes and revenue from trading transactions are recognised. We are making increased use of the net disclosure method, particularly in gas trading. When using this method, purchases and sales are netted against each other. Therefore, unlike when based on gross recognition, pure trading transactions do not impact on sales volume and only their margins are recognised in revenue. This leads to commensurate reductions in sales volume and revenue in the Trading/Gas Midstream Division. The change does not affect earnings. Figures for 2015 have been adjusted.

BUSINESS PERFORMANCE

Power generation January – June	Lignite		Hard coal		Gas		Nuclear		Renewables		Pumped storage, oil, other		Total	
Billion kWh	2016	2015[1]	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015[1]
Conventional Power Generation	36.3	37.7	22.8	22.2	25.0	17.8	14.8	15.2	0.5	0.4	1.5	1.5	100.9	94.8
of which:														
Germany[2]	33.9	35.2	10.9	9.6	3.0	1.4	14.3	14.6	0.2	0.3	1.5	1.5	63.8	62.6
Netherlands/Belgium	–	–	7.9	7.8	3.1	2.8	0.5	0.6	0.1	0.1	–	–	11.6	11.3
United Kingdom	–	–	4.0	4.8	17.4	12.4	–	–	0.2	–	–	–	21.6	17.2
Hungary/Turkey	2.4	2.5	–	–	1.5	1.2	–	–	–	–	–	–	3.9	3.7
Renewables[2]	–	–	–	–	–	–	–	–	5.2	4.9	–	–	5.2	4.9
RWE Group[3]	**36.3**	**37.7**	**22.9**	**23.5**	**25.4**	**18.1**	**14.8**	**15.2**	**6.2**	**5.8**	**1.5**	**1.5**	**107.1**	**101.8**

1 Some figures adjusted; see commentary on page 13.
2 Including electricity from power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. In the first half of 2016, it amounted to 5.5 billion kWh in the Conventional Power Generation Division (first half of 2015: 4.7 billion kWh), of which 3.9 billion kWh were generated by hard coal-fired power plants (first half of 2015: 3.0 billion kWh), and 0.3 billion kWh in the Renewables Division (first half of 2015: 0.4 billion kWh).
3 Including small generation volumes of other divisions.

Power generation up 5 % year on year

In the first half of 2016, the RWE Group produced 107.1 billion kWh of electricity, 5 % more than in the same period in 2015. The main reason was that the market conditions for our gas-fired power stations improved, resulting in a substantial increase in their utilisation, especially in the United Kingdom. We also posted a slight gain in electricity generation from renewables. A contributing factor were our two new offshore wind farms Nordsee Ost and Gwynt y Môr, which we completed in the second quarter of 2015 and are being deployed at full capacity this year. There was a marginal decline in electricity produced from lignite, largely due to scheduled maintenance and outages caused by damage. We also recorded a slight drop in generation from our hard coal-fired power plants, although the technical availability of some of them improved significantly. This was contrasted by a decline in volume because market conditions worsened in the UK. In addition, our Dutch hard coal power station, Amer 8, was shut down at the end of 2015 to comply with legislative requirements. The sale of Lynemouth in the UK also came to bear. This station was acquired by RWE Supply & Trading in 2012. We did the groundwork to ensure that it can be turned into a biomass-fired power plant with state subsidies and then sold it to an investor at the beginning of 2016.

In addition to our in-house generation, we procure electricity from external suppliers. In the period under review, these purchases amounted to 35.0 billion kWh, as in 2015. In-house generation and power purchases combined for 142.1 billion kWh in total electricity production (first half of 2015: 136.8 billion kWh).

External electricity sales volume January – June	Residential and commercial customers		Industrial and corporate customers		Distributors		Total	
Billion kWh	2016	2015	2016	2015	2016	2015[1]	2016	2015[1]
Conventional Power Generation	0.1	0.1	1.2	1.2	8.5	8.6	9.8	9.9
Renewables	–	–	–	–	0.8	1.0	0.8	1.0
Trading/Gas Midstream	–	–	16.7	15.4	–	–	17.2[2]	15.4
Grids/Participations/Other	0.2	–	0.2	–	7.0	6.9	7.4	6.9
Supply	26.9	27.5	36.9	38.3	34.3	29.5	98.1	95.3
of which:								
Germany	10.6	10.9	13.0	13.8	32.7	28.0	56.3	52.7
Netherlands/Belgium	4.8	5.3	3.9	4.3	–	–	8.7	9.6
United Kingdom	6.2	6.8	14.5	15.4	1.1	1.1	21.8	23.3
Eastern Europe	5.3	4.5	5.5	4.8	0.5	0.4	11.3	9.7
RWE Group[3]	**27.3**	**27.7**	**55.1**	**54.9**	**50.6**	**46.0**	**133.5**	**128.6**

1 Some figures adjusted; see commentary on page 13.
2 Including volume effects of the sale of self-generated electricity in the wholesale market. If these sales volumes exceed the purchases made for supply purposes, the positive balance is recognised in the sales volume. This happened in the first half of 2016 (+0.5 billion kWh) unlike in the same period last year.
3 Including small volumes subsumed under 'Other/Consolidation'.

Electricity sales volume up 4%

We sold 133.5 billion kWh of electricity to external customers, 4% more than in 2015. This was primarily attributable to the Supply Division, which posted a gain of 3%. The reason for this was that in business with German distributors, we won new customers and increased sales to existing customers. Further volume increases were achieved as the Slovak energy utility VSE was fully consolidated at the end of August 2015, after previously being accounted for at equity (see page 43 of the 2015 Annual Report). This was reflected in the residential and small commercial enterprise segment as well as in the industrial and corporate customer segment. However, on the whole, the Supply Division suffered a drop in sales volume in the aforementioned segments, in part due to customer losses to competitors in the United Kingdom and the Netherlands. In addition, the trend towards saving energy came to bear. Volume increases outside the Supply Division were primarily achieved in the industrial customer business of RWE Supply & Trading.

External gas sales volume January – June	Residential and commercial customers		Industrial and corporate customers		Distributors		Total	
Billion kWh	2016	2015	2016	2015	2016	2015[1]	2016	2015[1]
Trading/Gas Midstream	–	–	13.0	13.0	0.1	2.1	13.1	15.1
Grids/Participations/Other	0.1	–	0.1	–	0.6	1.5	0.8	1.5
Supply	60.0	63.7	43.5	43.9	28.3	32.9	131.8	140.5
of which:								
Germany	14.2	14.6	9.4	10.2	24.2	28.7	47.8	53.5
Netherlands/Belgium	19.5	21.1	14.9	15.5	–	–	34.4	36.6
United Kingdom	17.5	19.0	2.2	1.9	4.0	4.0	23.7	24.9
Eastern Europe	8.8	9.0	17.0	16.3	0.1	0.2	25.9	25.5
RWE Group	**60.1**	**63.7**	**56.6**	**56.9**	**29.0**	**36.5**	**145.7**	**157.1**

1 Some figures adjusted; see commentary on page 14.

Gas supply volume 7 % lower year on year

Our gas sales volume decreased by 7 % to 145.7 billion kWh. We recorded a drop of 6 % in the Supply Division stemming in part from business with German distributors, as some of our customers increased their purchases from other energy suppliers or began buying all their gas from them. We also experienced sizeable declines in volume in the residential and small commercial enterprise segment. This was primarily due to customer losses and the trend towards energy savings, particularly in the United Kingdom and the Netherlands.

External revenue € million	Jan – Jun 2016	Jan – Jun 2015[1]	+/– %	Jan – Dec 2015[1]
Conventional Power Generation	941	1,113	–15.5	2,224
Renewables	204	176	15.9	382
Trading/Gas Midstream	1,724	1,558	10.7	3,318
Grids/Participations/Other	5,553	4,951	12.2	9,941
Supply	15,431	16,989	–9.2	32,137
Other/Consolidation	45	45	–	88
RWE Group	**23,898**	**24,832**	**–3.8**	**48,090**
Natural gas tax/electricity tax	1,220	1,208	1.0	2,242
RWE Group (excluding natural gas tax/electricity tax)	**22,678**	**23,624**	**–4.0**	**45,848**

1 Some figures adjusted; see commentary on pages 13 et seq.

External revenue by product € million	Jan – Jun 2016	Jan – Jun 2015[1]	+/– %	Jan – Dec 2015[1]
Electricity revenue	16,622	16,689	–0.4	33,840
of which:				
Trading/Gas Midstream	1,260	1,041	21.0	2,401
Grids/Participations/Other	4,779	4,196	13.9	8,616
Supply	9,956	10,769	–7.5	21,383
Gas revenue	5,810	6,637	–12.5	11,608
of which:				
Trading/Gas Midstream	271	393	–31.0	749
Grids/Participations/Other	430	447	–3.8	813
Supply	5,104	5,797	–12.0	10,046
Other revenue	1,466	1,506	–2.7	2,642
RWE Group	**23,898**	**24,832**	**–3.8**	**48,090**

1 Some figures adjusted; see commentary on page 14.

External revenue 4 % down year on year

In the first half of 2016, the RWE Group generated €23,898 million in external revenue. This figure includes natural gas and electricity tax. Our external revenue dropped by 4 % year on year, in part due to the volume shortfalls in the gas business mentioned earlier. Furthermore, Sterling lost value relative to the euro, dropping from €1.38 to €1.27 on average. Our UK revenue is thus reduced once converted to euros. The development of external revenue benefited from the full consolidation of the Slovak energy utility VSE and the ensuing rise in electricity sales volume. Disregarding all major consolidation and currency effects, external revenue decreased by 5 %.

Internal revenue € million	Jan – Jun 2016	Jan – Jun 2015[1]	+/– %	Jan – Dec 2015[1]
Conventional Power Generation	4,054	4,307	–5.9	9,005
Renewables	371	381	–2.6	776
Trading/Gas Midstream	8,189	10,103	–18.9	19,081
Grids/Participations/Other	1,684	1,365	23.4	3,284
Supply	963	1,015	–5.1	1,831

1 Some figures adjusted; see commentary on pages 13 et seq.

EBITDA € million	Jan – Jun 2016	Jan – Jun 2015[1]	+/– %	Jan – Dec 2015[1]
Conventional Power Generation	787	789	–0.3	2,285
Renewables	376	371	1.3	818
Trading/Gas Midstream	–153	84	–282.1	164
Grids/Participations/Other	1,357	1,382	–1.8	2,896
Supply	746	685	8.9	988
Other/Consolidation	–102	–125	18.4	–134
RWE Group	**3,011**	**3,186**	**–5.5**	**7,017**

1 Some figures adjusted; see commentary on page 13.

Operating result € million	Jan – Jun 2016	Jan – Jun 2015[1]	+/– %	Jan – Dec 2015[1]
Conventional Power Generation	390	290	34.5	596
Renewables	219	234	–6.4	488
Trading/Gas Midstream	–156	73	–313.7	156
Grids/Participations/Other	916	968	–5.4	1,955
Supply	640	616	3.9	830
Other/Consolidation	–125	–151	17.2	–188
RWE Group	**1,884**	**2,030**	**–7.2**	**3,837**

1 Some figures adjusted; see commentary on page 13.

Operating result 7 % down year on year

In the period under review, we achieved EBITDA of €3,011 million and an operating result of €1,884 million. These figures were 5 % and 7 % down on those recorded in the same period last year. This was primarily due to the fact that we suffered significant losses in the trading business. Despite these unexpected burdens, we confirm the Group earnings forecast for 2016, which we published on page 89 of the 2015 Annual Report. For more information, please see page 28 of this interim report.

The following is a breakdown of the development of the operating result by division:

- Conventional Power Generation: The operating result posted by this division rose by 34 % to €390 million. One of the key success factors was our ongoing efficiency-enhancement programme. In addition, we achieved income from the sale of property in the United Kingdom, some of which had been earmarked as sites for new power plants and are no longer needed. Furthermore, the German nuclear fuel tax had a less negative effect. In addition, depreciation declined, in part due to the recognition of substantial impairments for our generation portfolio in 2015. The fact that we sold our electricity generation at lower wholesale prices than in 2015 had an earnings-reducing effect. This applied above all to our lignite-fired and nuclear power stations. On the whole, the margins of our hard coal and gas-fired power plants were more stable due to a reduction in fuel prices. In some cases, they actually improved somewhat.

- Renewables: The division posted an operating result of €219 million, 6% less than in the same period last year. One reason was the significant drop in wholesale electricity prices, as some of our renewable energy assets do not receive fixed compensation for the electricity they put on the system and are therefore exposed to market risks. Furthermore, in the first half of 2015, the division realised extraordinary income from the sale of the network infrastructure of Gwynt y Môr, our new wind farm off the coast of Wales. Earnings benefited from Gwynt y Môr and Nordsee Ost, the German offshore wind farm that was also newly built, because they have both constantly been online at full capacity this year. In addition, we achieved capital gains from the sale of small run-of-river power plants on the Upper Ruhr river.

- Trading/Gas Midstream: The operating result recorded by this division deteriorated by €229 million to –€156 million. This was mostly attributable to the trading business where, after a very successful start to the year, we recorded significant losses in the second quarter. The energy trading market was characterised by strong price fluctuations. On a positive note, we reached an out-of-court settlement regarding our gas procurement contract with Gazprom. This ensures that the contract will not expose us to earnings risks over the next few years. Owing to the weak second trading quarter, we no longer anticipate that the operating result of the Trading/Gas Midstream Division for the full year will exceed that of 2015. Instead, we now expect it to decline considerably.

- Grids/Participations/Other: This division achieved an operating result of €916 million, which was down 5% year on year. Its earnings were characterised by increased expenses for grid infrastructure maintenance. Moreover, we accrued provisions for old-age part-time employment measures in Germany. A positive impact was felt from a rise in transit volumes in our Czech gas distribution network.

- Supply: Here, we grew the operating result by 4% to €640 million, in part because our supply companies generally purchased electricity and gas at lower prices. Moreover, last year's operating result in the United Kingdom was curtailed by process and system-related billing problems. We launched a comprehensive restructuring programme that is already bearing fruit. However, a negative effect was felt from the fact that we lost UK residential customers in 2015 and some customers could only be retained by offering them contracts at more favourable conditions. The associated sales and earnings shortfalls have fully come to bear this year. The operating result achieved in the Netherlands was affected by the non-recurrence of a positive one-off effect resulting from the reversal of a provision for legal risks last year. This was contrasted by improved earnings in the retail business. In the German supply business, we experienced a rise in up-front costs (network usage fees, taxes and levies) which overshadowed the aforementioned price advantages in sourcing electricity and gas. In Eastern Europe, the initial full consolidation of Slovakia-based VSE drove up the operating result. We now expect the operating result from the supply business to be of the order achieved in 2015, having originally anticipated a moderate decline. One of the reasons for raising the forecast is the progress being made in the United Kingdom.

The non-operating result, in which we recognise certain one-off effects which are not related to operations or to the period being reviewed, improved by €239 million to –€208 million. The main reason was that we had accrued provisions for legal risks associated with an arbitration proceedings in 2015. However, we have also taken charges this year, namely impairments recognised for our German gas storage facilities.

Financial result € million	Jan – Jun 2016	Jan – Jun 2015	+/– € million	Jan – Dec 2015
Interest income	145	121	24	265
Interest expenses	–515	–521	6	–1,069
Net interest	**–370**	**–400**	**30**	**–804**
Interest accretion to non-current provisions	–386	–419	33	–821
Other financial result	–201	184	–385	36
Financial result	**–957**	**–635**	**–322**	**–1,589**

At –€957 million, our financial result was €322 million down on the previous year's figure. Slight improvements in net interest and the interest accretion to non-current provisions were contrasted by a significant deterioration in the other financial result. This was mainly because we achieved high gains on the sale of securities in the first half of 2015, whereas we incurred losses from such transactions in the period under review.

Income from continuing operations before tax declined by 24% to €719 million. Our effective tax rate was unusually low, amounting to 8%. This was because we capitalised substantial deferred taxes. Deferred tax assets constitute the right to future tax reductions resulting from differences in the statement and/or valuation of assets and debt between the tax and IFRS balance sheets. The prerequisite for capitalising deferred taxes is that tax gains are made in the future, which allow the use of the tax reduction. Contrary to earlier assessments, this is very likely to occur, particularly due to the tax effects of the reorganisation of the RWE Group. This will allow us to recover some of the deferred taxes that we have written down in past years.

After taxes, our continuing operations generated income of €663 million (first half of 2015: €494 million). There was no income from discontinued operations in the period under review. In the first six months of 2015, we stated a figure of €1,524 million for this item, which included the capital gain on the sale of RWE Dea.

Non-controlling interests were down 8% to €180 million, because some fully consolidated companies, in which stakes are held by third parties, closed the period under review lower year on year. This primarily related to our regional utilities, which in 2015 had benefited from the aforementioned one-off income from the sale of securities.

The portion of our earnings attributable to hybrid capital investors amounted to €26 million (first half of 2015: €80 million). However, only the hybrid bonds classified as equity pursuant to IFRS are considered here. In the reporting period, this applied to just one of our seven hybrid bonds, namely the one with a volume of £750 million. A second bond that met this criterion was redeemed as of 28 September 2015, had a nominal volume of €1,750 million, and was issued in 2010.

The developments presented above are the reason why net income decreased significantly, dropping to €457 million (first half of 2015: €1,742 million). Based on the 614.7 million in RWE shares outstanding, this corresponds to earnings per share of €0.74 (first half of 2015: €2.83).

Reconciliation to net income		Jan – Jun 2016	Jan – Jun 2015	+/– %	Jan – Dec 2015
EBITDA	€ million	**3,011**	**3,186**	**–5.5**	**7,017**
Operating depreciation, amortisation and impairment losses	€ million	–1,127	–1,156	2.5	–3,180
Operating result	€ million	**1,884**	**2,030**	**–7.2**	**3,837**
Non-operating result	€ million	–208	–447	53.5	–2,885
Financial result	€ million	–957	–635	–50.7	–1,589
Income from continuing operations before tax	€ million	**719**	**948**	**–24.2**	**–637**
Taxes on income	€ million	–56	–454	87.7	–603
Income from continuing operations	€ million	**663**	**494**	**34.2**	**–1,240**
Income from discontinued operations	€ million	–	1,524	–100.0	1,524
Income	€ million	**663**	**2,018**	**–67.1**	**284**
of which:					
Non-controlling interests	€ million	180	196	–8.2	356
RWE AG hybrid capital investors' interest	€ million	26	80	–67.5	98
Net income/income attributable to RWE AG shareholders	€ million	**457**	**1,742**	**–73.8**	**–170**
Adjusted net income	€ million	**598**	**543**	**10.1**	**1,125**
Earnings per share	€	0.74	2.83	–73.9	–0.28
Adjusted net income per share	€	0.97	0.88	10.2	1.83
Number of shares outstanding (average)	millions	614.7	614.7	–	614.7
Effective tax rate	%	8	48	–	–

Adjusted net income 10% up year on year

Adjusted net income amounted to €598 million. It differs from net income in that the non-operating result (including applicable taxes), which is characterised by one-off effects, and – possibly – further special items are deducted from it. Despite the declines in the operating and financial results, adjusted net income increased by 10% compared to 2015. This was mainly due to the extremely low effective tax rate.

Capital expenditure € million	Jan – Jun 2016	Jan – Jun 2015[1]	+/– € million	Jan – Dec 2015[1]
Capital expenditure on property, plant and equipment and on intangible assets	733	989	–256	2,898
of which:				
Conventional Power Generation	137	328	–191	855
Renewables	89	178	–89	404
Trading/Gas Midstream	1	3	–2	10
Grids/Participations/Other	371	370	1	1,305
Supply	100	94	6	287
Other/Consolidation	35	16	19	37
Capital expenditure on financial assets	93	183	–90	405
Total capital expenditure	**826**	**1,172**	**–346**	**3,303**

1 Some figures adjusted; see commentary on page 13.

Drop in capital expenditure on power generation capacity

At €826 million, our capital spending was 30% lower than the figure recorded in the equivalent period last year. We spent €733 million on property, plant and equipment and on intangible assets and €93 million on financial assets, 26% and 49% less than in 2015. Capital expenditure on property, plant and equipment in the Conventional Power Generation Division was less than half of the 2015 level, which included substantial investments to upgrade the UK gas-fired power stations Pembroke and Staythorpe. Capital spent in the Renewables Division was also down considerably. The completion of two large-scale projects, the offshore wind farms Nordsee Ost and Gwynt y Môr, was the determining factor. They were inaugurated in May and June 2015, respectively.

Cash flow statement € million	Jan – Jun 2016	Jan – Jun 2015	+/– € million	Jan – Dec 2015
Funds from operations	1,623	2,162	–539	3,058
Change in working capital	–2,627	–1,498	–1,129	281
Cash flows from operating activities of continuing operations	**–1,004**	**664**	**–1,668**	**3,339**
Cash flows from investing activities of continuing operations	**–833**	**843**	**–1,676**	**–1,795**
Cash flows from financing activities of continuing operations	**2,016**	**–788**	**2,804**	**–2,303**
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	–21	15	–36	14
Total net changes in cash and cash equivalents	**158**	**734**	**–576**	**–745**
Cash flows from operating activities of continuing operations	–1,004	664	–1,668	3,339
Minus capital expenditure on property, plant and equipment and on intangible assets[1]	–698	–989	291	–2,898
Free cash flow	**–1,702**	**–325**	**–1,377**	**441**

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

Operating cash flows curtailed by special items in working capital

The cash flows from operating activities achieved from our continuing operations declined by €1,668 million to –€1,004 million. Here, certain issues came to bear, which were reflected in changes in working capital. For example, we had to pledge much more collateral for forward transactions. Furthermore, one-off effects of measures taken to optimise working capital last year did not recur.

Investment activities of continuing operations resulted in a cash outflow of €833 million. A contributing factor besides our expenditure on property, plant and equipment and financial assets was that we increased our funding of pension obligations. €0.2 billion in funds was transferred to trustees and company pension institutions to this end. In the first half of 2015, there were high cash flows from investing activities, totalling €843 million, which largely stemmed from the sale of RWE Dea.

Our cash flows from the financing activities of continuing operations were unusually high, totalling €2,016 million (first half of 2015: –€788 million). The main reason for this was that we raised €3.0 billion under our Commercial Paper Programme. Moreover, we increased our liabilities to banks. Dividends paid to co-owners of fully consolidated RWE companies, hybrid capital investors and holders of preferred shares had a counteracting effect. Furthermore, a €850 million senior bond matured in April, of which we had already bought back €43 million in earlier years.

On balance, the presented cash flows from operating, investing and financing activities caused our cash and cash equivalents to rise by €158 million (first half of 2015: €734 million).

Deducting capital expenditure on property, plant and equipment and intangible assets from cash flows from the operating activities of continuing operations results in free cash flow. This amounted to –€1,702 million compared to –€325 million in the same period last year.

Net debt € million	30 Jun 2016	31 Dec 2015	+/– € million
Cash and cash equivalents	2,694	2,522	172
Marketable securities	8,099	7,676	423
Other financial assets	1,554	1,337	217
Financial assets	**12,347**	**11,535**	**812**
Bonds, other notes payable, bank debt, commercial paper	18,719	16,981	1,738
Hedge transactions related to bonds	–186	–192	6
Other financial liabilities	2,139	2,099	40
Financial liabilities	**20,672**	**18,888**	**1,784**
Net financial debt	**8,325**	**7,353**	**972**
Provisions for pensions and similar obligations	7,716	5,842	1,874
Surplus of plan assets over benefit obligations	–14	–15	1
Provisions for nuclear waste management	10,547	10,454	93
Mining provisions	2,427	2,527	–100
Provisions for dismantling wind farms[1]	323	337	–14
Adjustment for hybrid capital (portion of relevance to the rating)	–1,041	–1,035	–6
Plus 50% of the hybrid capital stated as equity	456	475	–19
Minus 50% of the hybrid capital stated as debt	–1,497	–1,510	13
Net debt[1]	**28,283**	**25,463**	**2,820**

1 We have started including provisions for dismantling wind farms in net debt. Figures for 2015 have been adjusted accordingly.

Net debt rises to €28.3 billion

As of 30 June 2016, our net debt, which now also includes provisions for dismantling wind farms, amounted to €28.3 billion, up €2.8 billion on the figure recorded as of 31 December 2015. This was in part due to the negative free cash flow. Furthermore, provisions for pensions rose because we used lower discount rates to calculate them. This was in reaction to the current development of market interest rates. The new discount rates are 1.5% in Germany and 2.7% in the United Kingdom, compared to 2.4% and 3.6% in the 2015 financial statements, respectively. Conversely, proceeds from divestments strengthened our financial position. The single-largest transaction was the sale of our non-controlling interest in the Luxembourg-based energy utility Enovos, which we have reported on page 10. The drop in value of Sterling also had a debt-reducing effect. It caused the volume of our bonds issued in this currency to be lower in euro terms.

Balance sheet structure	30 Jun 2016		31 Dec 2015	
	€ million	%	€ million	%
Assets				
Non-current assets	49,776	65.5	51,453	64.9
of which:				
Intangible assets	12,769	16.8	13,215	16.7
Property, plant and equipment	28,088	36.9	29,357	37.0
Current assets	26,257	34.5	27,881	35.1
of which:				
Receivables and other assets[1]	13,586	17.9	15,922	20.1
Assets held for sale	11	–	41	0.1
Total	**76,033**	**100.0**	**79,334**	**100.0**
Equity and liabilities				
Equity	8,047	10.6	8,894	11.2
Non-current liabilities	45,626	60.0	45,315	57.1
of which:				
Provisions	26,344	34.6	24,623	31.0
Financial liabilities	16,165	21.3	16,718	21.1
Current liabilities	22,360	29.4	25,125	31.7
of which:				
Other liabilities[2]	12,770	16.8	17,558	22.1
Liabilities held for sale	–	–	19	–
Total	**76,033**	**100.0**	**79,334**	**100.0**

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

Balance sheet structure: interest-driven increase in pension provisions reduces the equity ratio

As of 30 June 2016, our balance sheet total was €76.0 billion, as opposed to €79.3 billion at the end of 2015. Over the course of the first half of the year, derivative financial instruments were down by €2.7 billion on the assets side and by €3.2 billion on the equity and liabilities side of our balance sheet. This reflected the fact that a large number of derivative transactions fell due. Weaker Sterling also reduced the balance sheet total. By contrast, provisions for pensions increased by €1.9 billion, mainly driven by market interest rates. Their rise was a major reason for the €0.8 billion decrease in equity. Its share of the balance sheet total (equity ratio) was 10.6 %, 0.6 percentage points less than at the end of 2015.

Workforce[1]	30 Jun 2016	31 Dec 2015[2]	+/– %
Conventional Power Generation	15,865	16,262	−2.4
Renewables	938	921	1.8
Trading/Gas Midstream	1,103	1,270	−13.1
Grids/Participations/Other	20,860	20,833	0.1
Supply	15,980	15,728	1.6
Other[3]	4,537	4,748	−4.4
RWE Group	**59,283**	**59,762**	**−0.8**
of which:			
In Germany	35,110	35,570	−1.3
Outside of Germany	24,173	24,192	−0.1

1 Converted to full-time positions.
2 Some figures adjusted; see commentary on page 13. Adjustments in regional assignments result from the change in the recognition method applied in the Trading/Gas Midstream Division.
3 As of 30 June 2016, 2,026 thereof were accounted for by RWE Group Business Services (end of 2015: 2,025), 1,707 were accounted for by RWE IT (end of 2015: 1,691), 534 were accounted for by RWE Service (end of 2015: 647) and 246 were accounted for by the holding company RWE AG (end of 2015: 267).

Headcount reduced by nearly 500

RWE had 59,283 people on its payroll as of 30 June 2016. Part-time positions are considered in this figure on a pro-rata basis. In the first half of the year, the Group’s manpower was reduced by 479 employees, 460 of whom worked at our German sites, whereas 19 were employed abroad. This was in great part due to streamlining measures, particularly in the Conventional Power Generation Division. On balance, deconsolidations and first-time consolidations had very little impact on employee numbers.

OUTLOOK

Group earnings forecast unchanged

We uphold the earnings outlook at the Group level for the current fiscal year, which we published on pages 88 et seqq. of the 2015 Annual Report and confirmed in the report on the first quarter of 2016: we continue to expect EBITDA of €5.2 billion to €5.5 billion, an operating result of €2.8 billion to €3.1 billion, and adjusted net income of €0.5 billion to €0.7 billion. However, we are making two adjustments to our forecasts at the segment level. One relates to the supply business, the operating result of which is likely to be in the order of last years's level instead of being moderately down, as originally assumed. One reason for this is the progress made in restructuring our UK business. In contrast, we are lowering the forecast for the Trading/Gas Midstream Division, which will probably close the year much lower than in 2015 due to the surprisingly weak second trading quarter. We previously anticipated a significant improvement in earnings.

Earnings forecast for 2016	2015 actual[1] € million	Forecast[2] (May 2016)	Adjusted forecast (August 2016)
EBITDA	7,017	€5.2 billion to €5.5 billion	–
Operating result	3,837	€2.8 billion to €3.1 billion	–
Conventional Power Generation	596	Significantly below previous year	–
Renewables	488	Significantly below previous year	–
Trading/Gas Midstream	156	Significantly above previous year	Significantly below previous year
Grids/Participations/Other	1,955	Significantly below previous year	–
Supply	830	Moderately below previous year	In the order of last year's level
Adjusted net income	1,125	€0.5 billion to €0.7 billion	–

1 Some figures adjusted; see commentary on page 13.
2 See page 10 of the report on the first quarter of 2016.

Moderate rise in net debt expected

Another adjustment to the March forecast relates to the level of net debt. We had already furnished information on this in the report on the first quarter. We previously anticipated that net debt as of 31 December 2016 would be in the order of last year's level (€25.5 billion). This forecast was based on stable interest rates, which would imply stable discount factors being applied to non-current provisions. This assumption did not materialise. In view of the drop in interest rates in the first half of the year and the resulting need to top up provisions for pensions, we now expect net debt to be moderately higher than in 2015.

Earnings forecast for the new subsidiary innogy

In the run-up to the planned IPO of our new subsidiary, innogy SE, (currently named RWE International SE) we published an earnings forecast for the company at the beginning of August. We expect innogy to report EBITDA of €4.1 billion to €4.4 billion in its 2016 consolidated financial statements. The comparable figure for 2015 was €4.5 billion. The forecast for innogy's three segments is as follows: we anticipate that innogy's Grid & Infrastructure segment, which roughly corresponds to RWE's Grids/Participations/Other segment, will record EBITDA of €2.5 billion to €2.7 billion (2015: €2.9 billion). EBITDA is estimated to total €1.0 billion to €1.2 billion in the Supply segment (2015: €1.0 billion) and €0.6 billion to €0.8 billion in the Renewables segment (2015: €0.8 billion). Based on current planning, innogy is expected to close the 2017 financial year with EBITDA of €4.3 billion to €4.7 billion.

DEVELOPMENT OF RISKS AND OPPORTUNITIES

Change in risks and opportunities since the beginning of the year

Uncertain legislative conditions, changing market structures and volatile electricity and fuel prices bring huge entrepreneurial challenges, making professional risk management more important than ever. To us, the systematic recording, assessment and control of risks is a key element of good corporate governance. It is equally important to identify and take advantage of opportunities.

We have reported on the organisation and processes of our risk management, the organisational units entrusted with it, the major risks and opportunities, and measures taken to control and monitor risks in detail on pages 78 et seqq. of the 2015 Annual Report. In view of the developments during the first half of 2016, we are updating this presentation in relation to the last two of the following risk classes:

- Market risks: The out-of-court settlement achieved in relation to our gas procurement contract with Gazprom (see page 10) caused our market risks to decrease overall. However, we continue to classify them as 'medium'.

- Regulatory and political risks: The recommendations presented in the second quarter by the commission reviewing the financing of the nuclear phase-out (KFK) and the UK competition authority CMA have specified two material regulatory risks (see pages 8 et seq.). In particular, the KFK proposals could impose substantial financial burdens on us if they are enshrined into statutory regulations without amendments. RWE and the other German nuclear power plant operators are currently in talks with the government in order to come up with mutually acceptable solutions for implementing the recommendations. We believe our regulatory and political risks are still 'high'.

- Financial risks: Due to the most recent rating downgrades by Moody's and Standard & Poor's, our senior bonds now have grades of Baa3 and BBB-, respectively (see page 10). If our credit rating drops by another notch, it will no longer be classified as 'investment grade'. This could cause the cost of raising capital and hedging trading transactions to rise significantly. Against this backdrop, we now classify our financial risks as 'high' as opposed to 'medium' at the end of 2015.

- Other risks: This category covers the possibility of planned divestments not being implemented, for example owing to regulatory requirements or the lack of acceptable bids. The danger of a failed divestment has been reduced since the sale of our 18.4% stake in the Luxembourg-based energy utility Enovos, which was completed in March (see page 10). Therefore, we now classify our other risks as being 'low', as opposed to 'medium' at the end of 2015.

Current key risk figures

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

The central risk controlling parameter for commodity positions is the Global VaR, which is related to the trading business of RWE Supply & Trading and may not exceed €40 million. It averaged €24 million in the first half of 2016 compared to €19 million in the same period last year. Its maximum daily value was €34 million (first half of 2015: €31 million).

One of the most important risk factors in the financial sector is the development of interest rates. Interest rate increases can lead to reductions in the price of securities held by RWE. This primarily relates to fixed-interest bonds. The VaR for the securities price risk associated with our capital investments in the first half of 2016 averaged €13 million (first half of 2015: €8 million). Interest rate increases also cause our financing costs to rise. We measure this risk using the Cash Flow at Risk. We apply a confidence level of 95% and a holding period of one year. The Cash Flow at Risk averaged €7 million (first half of 2015: €5 million).

The securities we hold in our portfolio include shares. The VaR for the risk associated with changes in foreign exchange rates was €7 million, as in 2015. The VaR for our foreign currency position remained below €1 million.

RESPONSIBILTY STATEMENT

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

Essen, 9 August 2016

The Executive Board

Terium Schmitz Günther Tigges

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONDENSED)

Income Statement[1]

€ million	Apr – Jun 2016	Apr – Jun 2015	Jan – Jun 2016	Jan – Jun 2015
Revenue (including natural gas tax/electricity tax)	**10,241**	**10,320**	**23,898**	**24,832**
Natural gas tax/electricity tax	−391	−467	−1,220	−1,208
Revenue	**9,850**	**9,853**	**22,678**	**23,624**
Cost of materials	−8,135	−7,547	−17,019	−17,644
Staff costs	−1,107	−1,157	−2,369	−2,370
Depreciation, amortisation, and impairment losses	−561	−582	−1,330	−1,156
Other operating result	−208	−399	−482	−1,163
Income from investments accounted for using the equity method	76	99	157	192
Other income from investments	19	19	41	100
Financial income	757	142	1,061	1,157
Finance costs	−1,123	−548	−2,018	−1,792
Income from continuing operations before tax	**−432**	**−120**	**719**	**948**
Taxes on income	105	−208	−56	−454
Income from continuing operations	**−327**	**−328**	**663**	**494**
Income from discontinued operations				1,524
Income	**−327**	**−328**	**663**	**2,018**
of which: non-controlling interests	60	54	180	196
of which: RWE AG hybrid capital investors' interest	16	42	26	80
of which: net income/income attributable to RWE AG shareholders	**−403**	**−424**	**457**	**1,742**
Basic and diluted earnings per common and preferred share in €	**−0.66**	**−0.69**	**0.74**	**2.83**
of which: from continuing operations in €	−0.66	−0.69	0.74	0.35
of which: from discontinued operations in €				2.48

1 Prior-year figures adjusted.

Statement of comprehensive income[1]

€ million	Apr – Jun 2016	Apr – Jun 2015	Jan – Jun 2016	Jan – Jun 2015
Income	**–327**	**–328**	**663**	**2,018**
Actuarial gains and losses of defined benefit pension plans and similar obligations	–291	1,499	–865	608
Income and expenses of investments accounted for using the equity method (pro rata)	7	–3	5	–2
Income and expenses recognised in equity, not to be reclassified through profit or loss	**–284**	**1,496**	**–860**	**606**
Currency translation adjustment	–98	–4	–84	292
Fair valuation of financial instruments available for sale	70	–214	80	–287
Fair valuation of financial instruments used for hedging purposes	–23	97	–293	278
Income and expenses of investments accounted for using the equity method (pro rata)	–2		–2	
Income and expenses recognised in equity, to be reclassified through profit or loss in the future	**–53**	**–121**	**–299**	**283**
Other comprehensive income	**–337**	**1,375**	**–1,159**	**889**
Total comprehensive income	**–664**	**1,047**	**–496**	**2,907**
of which: attributable to RWE AG shareholders	–730	914	–568	2,612
of which: attributable to RWE AG hybrid capital investors	16	42	26	80
of which: attributable to non-controlling interests	50	91	46	215

1 Figures stated after taxes.

Balance sheet

Assets € million	30 Jun 2016	31 Dec 2015
Non-current assets		
Intangible assets	12,769	13,215
Property, plant and equipment	28,088	29,357
Investment property	68	72
Investments accounted for using the equity method	2,743	2,952
Other financial assets	902	885
Receivables and other assets	2,094	2,506
Deferred taxes	3,112	2,466
	49,776	**51,453**
Current assets		
Inventories	2,095	1,959
Trade accounts receivable	5,418	5,601
Receivables and other assets	8,168	10,321
Marketable securities	7,871	7,437
Cash and cash equivalents	2,694	2,522
Assets held for sale	11	41
	26,257	**27,881**
	76,033	**79,334**

Equity and liabilities € million	30 Jun 2016	31 Dec 2015
Equity		
RWE AG shareholders' interest	5,277	5,847
RWE AG hybrid capital investors' interest	911	950
Non-controlling interests	1,859	2,097
	8,047	**8,894**
Non-current liabilities		
Provisions	26,344	24,623
Financial liabilities	16,165	16,718
Other liabilities	2,286	2,741
Deferred taxes	831	1,233
	45,626	**45,315**
Current liabilities		
Provisions	4,896	5,186
Financial liabilities	4,694	2,362
Trade accounts payable	4,735	6,122
Other liabilities	8,035	11,436
Liabilities held for sale		19
	22,360	**25,125**
	76,033	**79,334**

Cash flow statement

€ million	Jan – Jun 2016	Jan – Jun 2015
Income from continuing operations	663	494
Depreciation, amortisation, impairment losses/reversals	1,345	1,156
Changes in provisions	–273	342
Deferred taxes/non-cash income and expenses/income from disposal of non-current assets and marketable securities	–112	170
Change in working capital	–2,627	–1,498
Cash flows from operating activities of continuing operations	**–1,004**	**664**
Cash flows from operating activities of discontinued operations		–125
Cash flows from operating activities	**–1,004**	**539**
Capital expenditure on non-current assets/acquisitions	–762	–1,146
Proceeds from disposal of assets/divestitures	526	4,804
Changes in marketable securities and cash investments	–597	–2,815
Cash flows from investing activities of continuing operations[1]	**–833**	**843**
Cash flows from investing activities of discontinued operations		–111
Cash flows from investing activities[1]	**–833**	**732**
Cash flows from financing activities of continuing operations	**2,016**	**–788**
Cash flows from financing activities of discontinued operations		260
Cash flows from financing activities	**2,016**	**–528**
Net cash change in cash and cash equivalents	179	743
Effect of changes in foreign exchange rates and other changes in value on cash and cash equivalents	–21	15
Net change in cash and cash equivalents	**158**	**758**
Cash and cash equivalents at the beginning of the reporting period	2,536	3,257
of which: reported as "Assets held for sale"	–14	–86
Cash and cash equivalents at the beginning of the reporting period as per the consolidated balance sheet	2,522	3,171
Cash and cash equivalents at the end of the reporting period	2,694	4,015
of which: reported as "Assets held for sale"		–54
Cash and cash equivalents at the end of the reporting period as per the consolidated balance sheet	**2,694**	**3,961**

1 After the initial/supplementary funding of pension plans in the amount of €198 million (prior-year period: €1,258 million).

Statement of changes in equity

€ million	Subscribed capital and additional paid-in capital of RWE AG	Retained earnings and distributable profit	Accumulated other comprehensive income	**RWE AG shareholders' interest**	RWE AG hybrid capital investors' interest	Non-controlling interests	**Total**
Balance at 1 Jan 2015	**3,959**	**5,008**	**−1,579**	**7,388**	**2,705**	**1,679**	**11,772**
Capital paid in						4	4
Dividends paid		−615		−615	−72	−217	−904
Income		1,742		1,742	80	196	2,018
Other comprehensive income		602	268	870		19	889
Total comprehensive income		2,344	268	2,612	80	215	2,907
Other changes		96		96		71	167
Balance at 30 Jun 2015	**3,959**	**6,833**	**−1,311**	**9,481**	**2,713**	**1,752**	**13,946**
Balance at 1 Jan 2016	**3,959**	**3,612**	**−1,724**	**5,847**	**950**	**2,097**	**8,894**
Repayment of capital						−79	−79
Dividends paid		−5		−5	−67	−205	−277
Income		457		457	26	180	663
Other comprehensive income		−748	−277	−1,025		−134	−1,159
Total comprehensive income		−291	−277	−568	26	46	−496
Other changes		3		3	2		5
Balance at 30 Jun 2016	**3,959**	**3,319**	**−2,001**	**5,277**	**911**	**1,859**	**8,047**

NOTES

Accounting policies

RWE AG, headquartered at Opernplatz 1, 45128 Essen, Germany, is the parent company of the RWE Group ("RWE" or "Group").

The interim consolidated financial statements as of 30 June 2016 were approved for publication on 9 August 2016. They have been prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable in the EU.

In line with IAS 34, the scope of reporting for the presentation of the interim consolidated financial statements for the period ended 30 June 2016 was condensed compared with the scope applied to the consolidated financial statements for the period ended 31 December 2015. With the exception of the changes and new rules described below, this interim consolidated report was prepared using the accounting policies applied in the consolidated financial statements for the period ended 31 December 2015. For further information, please see the Group's 2015 Annual Report, which provides the basis for this interim consolidated report.

The discount rate applied to provisions for nuclear waste management and provisions for mining damage is 4.5% (31 December 2015: 4.5%). Provisions for pensions and similar obligations are discounted at an interest rate of 1.5% in Germany and 2.7% abroad (31 December 2015: 2.4% and 3.6%, respectively).

Changes in accounting policies

The International Accounting Standards Board (IASB) has approved several amendments to existing International Financial Reporting Standards (IFRS), which became effective for the RWE Group as of fiscal 2016.

- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations (2014)
- Amendments to IAS 1 – Disclosure Initiative (2014)
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (2014)
- Amendments to IAS 16 and IAS 41 – Bearer Plants (2014)
- Amendments to IAS 27 – Equity Method in Separate Financial Statements (2014)
- Annual Improvements to IFRSs 2012–2014 Cycle (2014)
- Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions (2013)
- Annual Improvements to IFRSs 2010–2012 Cycle (2013)

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

With effect from 1 January 2016, the useful life of opencast mine developments was brought in line with current economic circumstances as part of the annual review. In the first half of 2016, this caused depreciation and amortisation to decline by €27 million.

Scope of consolidation

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

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

Number of fully consolidated companies	Germany	Abroad	Total
Balance at 1 Jan 2016	**146**	**177**	**323**
First-time consolidation	5	3	8
Deconsolidation	–1	–1	–2
Mergers	–15	–7	–22
Balance at 30 Jun 2016	**135**	**172**	**307**

Number of investments and joint ventures accounted for using the equity method	Germany	Abroad	Total
Balance at 1 Jan 2016	**70**	**21**	**91**
Acquisitions			
Disposals		–1	–1
Other changes		–1	–1
Balance at 30 Jun 2016	**70**	**19**	**89**

Furthermore, five companies are presented as joint operations.

Acquisitions

WestEnergie GmbH

In July 2015, RWE gained control of WestEnergie GmbH, an investment which had previously been accounted for using the equity method, due to the expiry of a renouncement of a voting right. The company primarily operates electricity and gas distribution networks. During the measurement period an update of the amounts recognised at first-time consolidation and as of 31 March 2016 resulted in the following assumed assets and liabilities:

Balance-sheet items € million	IFRS carrying amounts (fair values)
Non-current assets	152
Current assets	24
Non-current liabilities	31
Current liabilities	57
Net assets	**88**
Non-controlling interests	−1
Cost (not affecting cash)	**87**

The fair value of the old shares amounted to €87 million. The measurement of non-controlling interests was based on the pro-rated net assets of the company at first-time consolidation. The fair value of the receivables included in non-current and current assets amounted to €24 million.

Disposals

Lynemouth

In January 2016, RWE Supply & Trading GmbH sold Lynemouth Power Ltd., the operator of a 420 MW coal-fired power plant in Lynemouth, to EP UK Investment Ltd., a subsidiary of Energetický a prumyslový holding (EPH). This investment was part of the Trading/Gas Midstream Segment. The gain on the deconsolidation amounted to €34 million and has been recognised as part of the "other operating income" on the income statement. As of 31 December 2015, Lynemouth Power Ltd. was reported in the balance sheet with carrying values of €41 million as assets held for sale and of €19 million as liabilities held for sale. Pursuant to contractual arrangements, a retroactive purchase price refund was made in the second quarter of 2016, resulting in a total gain on the deconsolidation of €33 million.

Enovos

In March 2016, RWE sold its 18.4 % stake in the Luxembourg-based energy utility Enovos International S.A. to a consortium led by the Grand Duchy of Luxembourg and the investment firm Ardian. The investment was part of the Other/Consolidation Segment.

Assets held for sale and disposal groups

Zephyr

In June 2016 the Executive Boards of RWE AG and RWE International SE approved the sale of a 33.3 % share in the associate Zephyr Investments Limited (Zephyr) and the related shareholder loans. The associate is assigned to the Renewables Segment. The transaction closed end of July 2016.

Revenue

Revenue generated by energy trading operations is stated as net figures, i.e. only reflecting realised gross margins. To present the development of business more accurately, the net disclosure method is being used starting in fiscal 2016, particularly for gas transactions. Prior-year figures for revenue and the cost of material were adjusted by –€306 million.

Impairments

In the first quarter of 2016, impairments of €204 million were recognised for the gas storage facilities of the Grids/Participations/Other Segment (recoverable amount: €0.1 billion), primarily due to changes in price expectations. The fair value less costs to sell was determined using a company valuation model based on cash flow budgets and an after-tax discount rate of 5.25%.

Dividend distribution

RWE AG's 20 April 2016 Annual General Meeting decided to pay a dividend of €0.13 per individual, dividend-bearing preferred share for fiscal 2015. The dividend payment totalled €5 million. No dividend was paid for common shares (prior year: €1.00 per common and preferred share).

Financial liabilities

A fifteen-year bond with a carrying amount of €807 million and a coupon of 6.25% p.a. fell due in April 2016.

Earnings per share

		Jan – Jun 2016	Jan – Jun 2015
Net income/income attributable to RWE AG shareholders	€ million	457	1,742
Number of shares outstanding (weighted average)	thousands	614,745	614,745
Basic and diluted earnings per common and preferred share	€	0.74	2.83

Related party disclosures

The RWE Group classifies associated companies and joint ventures as related parties. In the first half of 2016, transactions concluded with material related parties generated €2,096 million in income (first half of 2015: €2,012 million) and €1,604 in expenses (first half of 2015: €1,515 million). As of June 30 2016, accounts receivable amounted to €628 million (31 December 2015: €477 million) and accounts payable totalled €143 million (31 December 2015: €151 million). All business transactions are concluded at arm's length conditions and on principle do not differ from those concluded with other companies. Other obligations from executory contracts amounted to €1,190 million (31 December 2015: €1,293 million).

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

Reporting on financial instruments

Financial instruments are divided into non-derivative and derivative. Non-derivative financial assets essentially include other financial assets, accounts receivable, marketable securities and cash and cash equivalents. Financial instruments in the "Available for sale" category are recognised at fair value, and other non-derivative financial assets at amortised cost. On the liabilities side, non-derivative financial instruments principally include liabilities recorded at amortised cost.

The fair value of financial instruments "Available for sale" which are reported under other financial assets and securities is the published exchange price, insofar as the financial instruments are traded on an active market. The fair value of non-quoted debt and equity instruments is determined on the basis of discounted expected payment flows. Current market interest rates corresponding to the term and remaining maturity are used for discounting.

Derivative financial instruments are recognised at fair value as of the balance-sheet date, insofar as they fall under the scope of IAS 39. Exchange-traded products are measured using the published closing prices of the relevant exchange. Non-exchange traded products are measured on the basis of publicly available broker quotations or, if such quotations are not available, of generally accepted valuation methods. In doing so, we draw on prices on active markets as much as possible. If such are not available, company-specific planning estimates are used in the measurement process. These estimates encompass all of the market factors which other market participants would take into account in the course of price determination. Assumptions pertaining to the energy sector and the economy are the result of a comprehensive process involving both in-house and external experts.

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

As a rule, the carrying amounts of financial assets and liabilities subject to IFRS 7 are identical with their fair values. There are deviations only in relation to bonds, commercial paper, bank debt, and other financial liabilities. Their carrying amounts totalled €20,858 million (31 December 2015: €19,079 million) and their fair values totalled €22,531 million (31 December 2015: €20,161 million).

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

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

Fair value hierarchy € million	Total 30 Jun 2016	Level 1	Level 2	Level 3	Total 31 Dec 2015	Level 1	Level 2	Level 3
Other financial assets	902	68	196	638	885	69	208	608
Derivatives (assets)	5,900	2	5,883	15	8,607	1	8,549	57
of which: used for hedging purposes	1,393		1,393		1,360		1,360	
Securities	7,871	5,370	2,501		7,437	6,290	1,147	
Derivatives (liabilities)	4,797	1	4,796		8,015		7,994	21
of which: used for hedging purposes	1,336		1,336		2,356		2,356	

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

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 30 Jun 2016
			Recognised in profit or loss	With a cash effect	
Other financial assets	608	31	3	–4	638
Derivatives (assets)	57	1	–4	–39	15
Derivatives (liabilities)	21		27	–48	

Level 3 financial instruments: Development in 2015 € million	Balance at 1 Jan 2015	Changes in the scope of consolidation, currency adjustments and other	Changes		Balance at 30 Jun 2015
			Recognised in profit or loss	With a cash effect	
Other financial assets	555	9	–24	–7	533
Derivatives (assets)	69		13	–34	48
Derivatives (liabilities)	4		11	–4	11

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

Level 3 financial instruments: Amounts recognised in profit or loss € million	Total Jan – Jun 2016	Of which: attributable to financial instruments held at the balance-sheet date	Total Jan – Jun 2015	Of which: attributable to financial instruments held at the balance-sheet date
Revenue	1	1	14	14
Cost of materials	–32	–32	–11	–11
Other operating income/expenses	4	4	12	5
Income from investments	–1	–1	–30	–1
Income from discontinued operations			–7	
	–28	**–28**	**–22**	**7**

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

Events after the balance-sheet date

Information on events after the balance-sheet date is included in the supplementary report on major events after the end of the period under review.

REVIEW REPORT

To RWE Aktiengesellschaft, Essen:

We have reviewed the condensed consolidated interim financial statements – comprising the income statement and statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and selected explanatory notes – and the interim group management report of RWE Aktiengesellschaft, Essen, for the period from 1 January to 30 June 2016 which are part of the interim financial report pursuant to § 37w WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

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

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

Essen, 10 August 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

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FINANCIAL CALENDAR 2016/2017

14 November 2016	Interim report on the first three quarters of 2016
14 March 2017	Annual report for fiscal 2016
27 April 2017	Annual General Meeting
3 May 2017	Dividend payment
15 May 2017	Interim report on the first quarter of 2017
14 August 2017	Interim report on the first half of 2017
14 November 2017	Interim report on the first three quarters of 2017

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In case of divergence from the German version, the German version shall prevail.

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