REPORT ON THE FIRST QUARTER OF 2014

- Q1 operating result of €1.9 billion in line with expectations
- Lower wholesale electricity prices and mild winter weigh on earnings
- Contract for the sale of RWE Dea signed
- Outlook for 2014 (excluding RWE Dea): operating result of €3.9 to €4.3 billion expected

RWE
The energy to lead

AT A GLANCE

RWE Group – key figures		Jan – Mar 2014	Jan – Mar 2013[1]	+/– %	Jan – Dec 2013[1]
Electricity production	billion kWh	52.0	62.5	–16.8	218.2
External electricity sales volume	billion kWh	67.0	70.9	–5.5	270.9
External gas sales volume	billion kWh	103.1	126.9	–18.8	335.0
External revenue	€ million	14,663	16,046	–8.6	54,052
EBITDA	€ million	2,589	3,065	–15.5	8,842
Operating result	€ million	1,910	2,340	–18.4	5,890
Income before tax	€ million	1,635	2,008	–18.6	–1,477
Net income	€ million	995	1,367	–27.2	–2,757
Recurrent net income	€ million	838	1,300	–35.5	2,314
Earnings per share	€	1.62	2.22	–27.0	–4.49
Recurrent net income per share	€	1.36	2.11	–35.5	3.76
Cash flows from operating activities	€ million	157	63	149.2	5,576
Capital expenditure	€ million	898	767	17.1	4,641
Property, plant and equipment and intangible assets	€ million	875	760	15.1	4,511
Financial assets	€ million	23	7	228.6	130
Free cash flow	€ million	–716	–697	–2.7	1,071
		31 Mar 2014	31 Dec 2013		
Net debt	€ million	31,476	30,727	2.4	
Workforce[2]		65,378	66,341	–1.5	

1 Figures partially adjusted; see commentary on page 12.
2 Converted to full-time positions.

Contents

Dear Shareholders, Customers and Friends of the Company,

As expected, our business performance in the first quarter mirrors the difficult environment in the energy sector. But I can take positive stock nevertheless. What comes to mind here in particular is the major milestone we passed en route to selling RWE Dea. In the LetterOne Group, an investment company based in Luxembourg, we have found a financially strong buyer that will be capable of fully tapping into RWE Dea's potential for growth. The contracts have already been signed. We are satisfied with the transaction volume of around €5.1 billion as it proves that RWE Dea has good earnings prospects. We expect to complete the sale this year. In our 2013 Annual Report, we informed you of our reasons for divesting RWE Dea. One of the main points is that there are hardly any synergies between the oil and gas upstream business and the rest of our activities. Furthermore, the sale will improve our financial strength as it will allow us to avoid spending a substantial amount of capital.

Another highlight in the first quarter was the successful outcome of the latest price revision relating to our gas purchasing agreement with Gazprom. Despite the positive ruling handed down in the arbitration proceedings in the middle of 2013, the contract caused us to continue to incur losses. In February 2014, together with Gazprom we came up with a solution which ensures that the contract will not curtail our earnings until the next price revision, which is scheduled for June 2016. We also agreed to start another round of talks with Gazprom next year. Our objective is to find a long-term solution which guarantees that the contract does not impose any burdens on us even after the current arrangement expires.

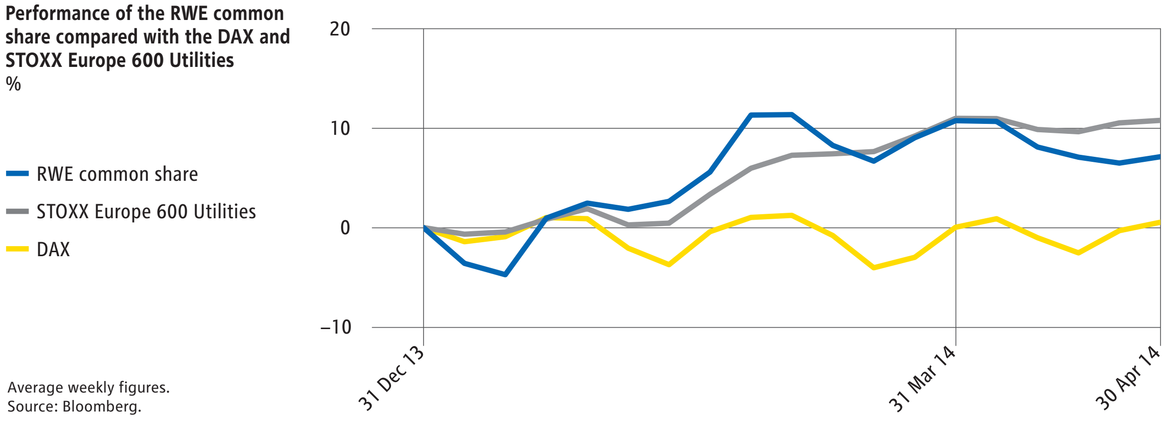
In closing, I would like to touch on our operating performance. As expected, the crisis in the conventional electricity generation business led to further earnings shortfalls in the financial statements for the quarter. Furthermore, following the major cold spell a year earlier, winter temperatures were unusually high. This impacted on the gas business in particular. In total, our operating result dropped by 18%. However, despite the mild weather, we see no need to change our assessment of the operating result for the full year. Nevertheless, we have to adjust our outlook, due to the progress made in the sale of RWE Dea. As things stand, we will start recognising the upstream business under 'discontinued operations' in the financial statements for the first half of 2014. We now expect the Group's operating result for fiscal 2014 without RWE Dea to total between €3.9 billion and €4.3 billion. The new forecast range for recurrent net income is €1.2 billion to €1.4 billion. This no longer includes RWE Dea's operating activities, but does contain the interest on the sale price which we will receive for the period from 1 January 2014 to the closing of the transaction.

Sincerely yours,

Peter Terium
CEO of RWE AG
Essen, May 2014

RWE COMMON SHARES UP 11 % IN THE FIRST QUARTER

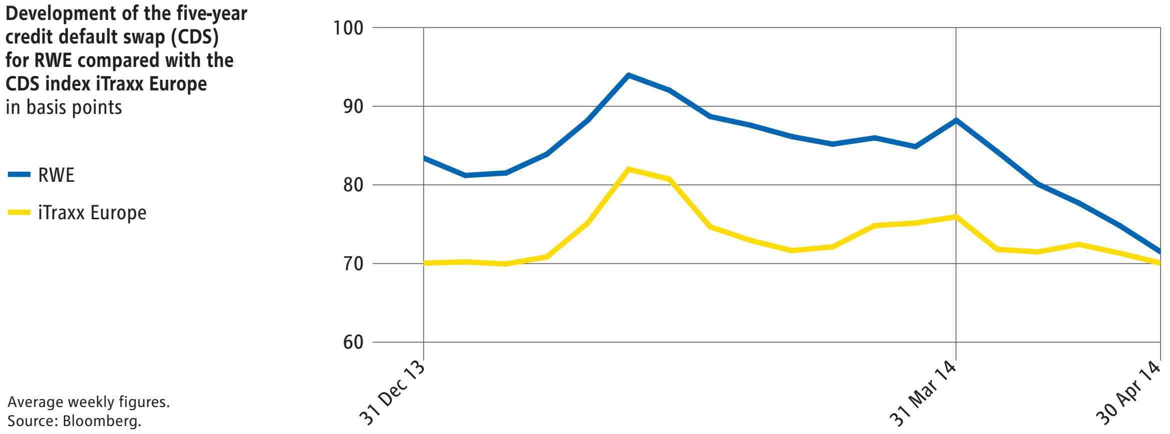
Performance of the RWE common share compared with the DAX and STOXX Europe 600 Utilities
%



Average weekly figures.
Source: Bloomberg.

Following substantial gains last year, the German stock market lost its momentum in the first quarter of 2014. Germany's lead index, the DAX, closed March at 9,556 points, nearly on a par with the level achieved by the end of 2013 (9,552 points). Sentiment on the stock markets was clouded especially by the Ukraine conflict and the waning momentum of the economies in emerging countries such as China. Share prices were positively affected by the continued expansionary monetary policy pursued by leading central banks. In addition, encouraging economic data from Europe and the USA bolstered investor confidence. RWE shareholders experienced an upbeat first quarter. Our common shares were up 11 %, closing the month of March at €29.46. Preferred shares gained 2 % to €23.63. Investors apparently felt that RWE shares had the potential to make up lost ground after their weak development last year. The fact that our share's dividend yield remains attractive plays a role here. In addition, the agreement reached with LetterOne in March on the acquisition of our upstream subsidiary RWE Dea (see page 7) was well received.

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



Average weekly figures.
Source: Bloomberg.

Interest rates on the capital market are still extremely low due to the expansionary monetary policy. The average yield of ten-year German government bonds was a mere 1.7 % in the first quarter. The cost of hedging credit risks via Credit Default Swaps (CDSs) was also very low. The iTraxx Europe Index, which consists of the prices of the CDSs of 125 major European companies, averaged 75 basis points from January to March. This was the lowest average for a quarter since 2007. Quotations for the five-year CDS for RWE averaged 87 basis points. However, they dropped considerably in April, coming more in line with the index.

ECONOMIC ENVIRONMENT

Economy gains momentum

The revitalisation of worldwide economic growth observed at the end of 2013 carried over to the beginning of 2014. Based on initial estimates, global gross domestic product (GDP) in the first quarter was about 3% higher than a year earlier. The increase expected for the Eurozone is approximately 1%. Whereas the German economy's gain of some 2%, due to robust consumer spending, puts the country in one of the top spots in the currency union, growth of about 1% places the Netherlands in mid-field. The United Kingdom, our largest market outside the Eurozone, posted an increase of a good 3%. This upswing was mainly driven by the service sector. Strong rises in industrial output indicate that the economies of Central Eastern Europe also got off to a dynamic start to the year. No estimates of the GDP growth of these countries were available when this report was finalised.

Extremely mild weather in Europe

Whereas the economic trend primarily impacts on demand for energy among industrial enterprises, residential energy consumption is influenced more by weather conditions. For instance, the dependence of the need for heating on temperatures leads to seasonal fluctuations in sales volume and earnings. This can also prove important when comparing one financial year to the next, as demonstrated by these interim financial statements. In nearly the whole of Europe, temperatures from January to March 2014 were far above the ten-year seasonal average. In contrast, it was extremely cold in the first quarter of last year, especially in the northwest of Europe. The change from very cold to very warm weather resulted in a decrease in sales volume, particulary in the gas business.

In addition to energy consumption, the generation of electricity is also subject to weather-related influences, with wind levels playing a major role. In Germany, the United Kingdom, the Netherlands and Poland, capacity utilisation of our wind farms from January to March was much higher than in the same period in 2013, whereas in Spain, it was lower. Electricity generation by our run-of-river power plants is affected by precipitation, which in Germany was roughly on a par with the high level witnessed in the first quarter of last year. As a result of the significant rise in German photovoltaic capacity in recent years, sunshine also has a significant impact on the supply of electricity. Nationwide, an average of 329 hours of sunshine were measured in Germany in the first three months of 2014. A year earlier this figure stood at a mere 179.

Weather-induced collapse in demand for gas

Energy usage in our key markets was subject to positive economic effects. In contrast, the mild winter weather curtailed the need for heating. Moreover, for a long time we have seen a trend towards saving energy. According to estimates made by the German Association of Energy and Water Industries (BDEW), demand for electricity in Germany in the first quarter of 2014 was lower than in the same period last year. Current data indicate declines in the United Kingdom, the Netherlands and Poland, but relatively stable consumption in Hungary. Whereas the weather only had a moderate effect on demand for electricity, it caused demand on the gas market to collapse. According to estimates based on BDEW figures, German gas usage was down 28%. Network operators in the Netherlands and the United Kingdom calculated drops of 27% and 18%, respectively. Demand in the aforementioned countries was further characterised by a market-driven decline in the utilisation of gas-fired power stations. Gas consumption in the Czech Republic also fell considerably: available data point to a drop of 19%.

Slight relief on the oil market

Prices on international crude oil markets lagged behind the high level achieved in 2013. A barrel of North Sea Brent traded for an average of US$108 (€79) on the London spot market in the first quarter. It therefore cost US$5 less than in the same period last year, which was still strongly affected by the political tension surrounding Iran’s nuclear programme. The decline in price also reflects the widespread uncertainty concerning the development of demand for oil in China and the USA.

Mild weather weighs on prices in gas spot trading

As some gas imports to Continental Europe are still based on long-term contracts linked to the price of oil, the development on the oil market also affects gas prices. In Germany, gas imported in the first quarter of 2014 was settled at an average of €27 per megawatt hour (MWh) as opposed to €28 in the same period last year. Conversely, oil quotations do not have a direct impact on the development of prices in European gas trading. Spot prices at the Title Transfer Facility (TTF), the Dutch trading hub and reference market for Continental Europe, declined by €4 to €24 per MWh, owing to the mild weather. In TTF forward trading, contracts for delivery in the coming calendar year (2015 forward) were settled for €25 per MWh, €2 down on the price of the 2014 forward in the same period last year.

The retail business developed as follows: based on available data, in Germany gas became 1 % more expensive for households and 4 % cheaper for industrial customers. Prices also displayed disparate developments in the United Kingdom: compared to the first quarter of 2013, they were 5 % higher for households and 5 % lower for industrial enterprises. Both customer groups paid less than a year before in the Netherlands: approximately 1 % and 7 %, respectively. Data collected for the Czech Republic indicate more significant declines of 6 % and 11 %.

Slump on hard coal market persists

The downward trend of hard coal prices witnessed for over two years recently weakened. However, there are still no signs of recovery. In the first quarter of 2014, coal deliveries including freight and insurance to Amsterdam/Rotterdam/Antwerp were quoted at an average of US$79 (€58) in spot trading, US$7 less than in 2013. The 2015 forward (API 2 Index) was listed at an average of US$83 (€61), US$15 down on the comparable figure for 2013. The global coal market tends to be oversupplied. Many countries expanded their production capacities in the past. On the demand side, China’s slowed growth is coming to bear. However, the cold winter in the USA led to a temporary rise in local demand for hard coal. The development of coal quotations is also influenced by overseas shipping costs. Freight rates are low, but have been trending slightly upwards since the middle of 2013. In the first quarter of 2014, the standard route from South Africa to Rotterdam cost an average of US$9 per metric ton, compared to US$7 in the same period last year.

Slight rise in CO_2 emission allowance prices

European emissions trading is characterised by a slump, in part due to the drop in industrial output caused by the euro crisis. However, the price of CO_2 emission allowances has stabilised at a low level since the beginning of 2013. The standard certificate (EUA) for 2014 traded at just under €6 per metric ton of CO_2 in the first quarter. The comparable figure for 2013 was about €1 lower. Positive stimulus was provided by the climate and energy package submitted by the EU Commissioner for Climate Action, Connie Hedegaard, at the end of January 2014. Mrs. Hedegaard is in favour of reducing the EU’s greenhouse gas emissions by 40 % by 2030 compared to 1990. However, so far the heads of state and government have failed to agree on a joint target.

Furthermore, Mrs. Hedegaard intends to strengthen the European emissions trading system by making the supply of certificates flexible. The Adjustment Mechanism has already been included in a proposed law on structural reforms of the emissions trading system, which is being negotiated between the European Council and the European Parliament under the codecision procedure.

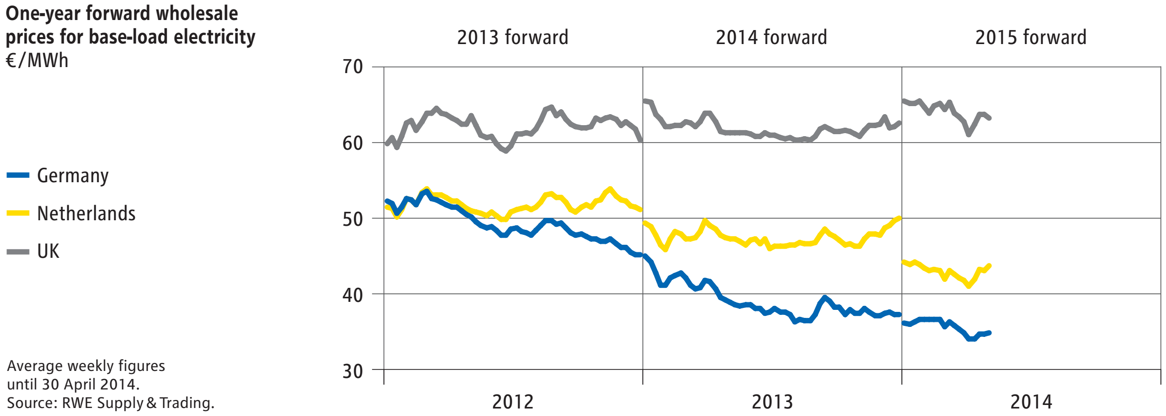
Decline in wholesale electricity prices

The significant decrease in the price of hard coal and the continued increase of feed-ins under the German Renewable Energy Act (REA) caused wholesale electricity prices in Germany, our largest generation market, to drop considerably. In the first quarter of 2014, a megawatt hour of base-load power sold for an average of €33 on the spot market, €9 less than in the same period in 2013. Quotations on the forward market also fell: the 2015 forward traded at €36 per MWh of base-load power. This is €6 less than the price paid for the 2014 forward in the same period last year.

In the United Kingdom, where we have our second-largest generation position, base-load power traded at an average of £45 (€54) per MWh on the spot market, compared to £54 a year earlier. The weather-induced decline in gas prices compared to the high level in the first quarter of 2013 played a role: in the United Kingdom, gas-fired power plants account for a much bigger share of electricity generated than in Germany and therefore have a stronger influence on electricity prices. Conversely, UK forward prices were flat: the 2015 base-load forward was settled at an average of £53 (€64) per MWh in the first quarter of 2014, falling just shy of last year's comparable figure. In euro terms however, the forward rose marginally in price due to the appreciation of the British pound.

Wholesale electricity prices in the Netherlands, our third-largest generation market, are greatly influenced by developments in Germany and therefore also by the rise in feed-ins pursuant to the REA. This is due to cross-border electricity flows. However, as network capacity is limited, quotations in the two countries can differ from one another considerably. Dutch wholesale electricity prices have recently been much higher than in Germany. One of the main reasons for this is that, similar to the United Kingdom, gas-fired power stations in the Netherlands have a greater impact on prices than in Germany. In the first quarter of 2014, base-load power sold for an average of €43 per MWh on the Dutch spot market, €12 less than in 2013. The price curve in forward trading also trended downward: electricity supply contracts for 2015 were settled at €43, as opposed to last year's comparable figure of €48.

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



Average weekly figures until 30 April 2014.
Source: RWE Supply & Trading.

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 only had a minor impact on the income we generated in the reporting period. What is decisive instead is the conditions at which electricity contracts for delivery in 2014 sold in preceding years. As wholesale electricity prices in Continental Europe have been trending downwards since the middle of 2011, the average price which we realised for this year's in-house generation was lower than the comparable figure for 2013. Therefore, our German lignite and nuclear power stations, the fuel costs of which are typically stable, saw margins drop. The earnings of our gas-fired power plants also worsened. In addition to the development of electricity prices, this is due to lower plant capacity utilisation, as gas-fired power stations in particular are being forced off the market by the increase in electricity feed-ins from solar panels and wind turbines. In the hard coal-based generation business, we benefited from price-related relief relating to fuel purchases. However, in Germany the price reductions failed to compensate for the negative effect on margins of declining electricity quotations.

Retail business: increase in German and UK residential tariffs

Unlike on the wholesale market, electricity prices in the German retail business rose. The average rate of increase was 3 % for households and 2 % for industrial enterprises. This was largely due to the state surcharges included in electricity bills, which account for half of the total price paid by households. A main contributing factor is the REA apportionment, which has repeatedly experienced significant increases in recent years and rose by another 0.96 euro cents to 6.24 euro cents per kilowatt hour (kWh) as of 1 January 2014.

In the United Kingdom, residential electricity tariffs were up by 6 %. One of the reasons are the increasing costs of energy savings measures in households, which the government obliges major utilities to take. For industrial enterprises, electricity prices rose by the same percentage.

In the Dutch customer business, residential tariffs were an average of 1 % lower than in the first quarter of 2013. Prices charged to industrial enterprises were down as much as 5 %.

In our Central Eastern European electricity markets, customer tariffs were also lower year on year, significantly so in some cases. In Poland, they dropped by 2 % for households and 18 % for industrial enterprises. For these customer groups, electricity became 9 % and 22 % cheaper in Slovakia and 14 % and 7 % cheaper in Hungary. This is predominantly due to the decrease in fuel and wholesale electricity prices.

MAJOR EVENTS

In the period under review

RWE signs contract for the sale of RWE Dea

At the end of March, we contractually agreed with the Luxembourg-based investment company LetterOne that it will acquire RWE Dea, our upstream oil and gas subsidiary. The transaction is based on an enterprise value of about €5.1 billion. It is pending approval from authorities in several countries in which RWE Dea is active and is scheduled to be completed by the end of the year. The Executive Board of RWE AG decided in March 2013 to withdraw from the oil and gas exploration and production business because having access to proprietary gas sources ceased to be of strategic importance to us due to the creation of liquid gas trading markets. Furthermore, the sale will enable us to save substantial funds, which had been earmarked for capital expenditures necessary to tap RWE Dea's full potential for growth.

Gas-fired power station in Duisburg-Huckingen sold

We completed the sale of our gas-fired power plant in Duisburg-Huckingen at the end of February. It was acquired by Hüttenwerke Krupp Mannesmann GmbH (HKM) for €99 million. The power plant, which has a net installed capacity of about 600 megawatts (MW), has been operating since the middle of the 1970s and generates electricity and steam for the HKM foundry at the same location. RWE will retain operational management until at least 2024.

Exit from the Dutch district heating business

At the beginning of March, we also concluded the divestment of our Dutch district heating operations. The buyers are the pension fund PGGM and the energy service provider Dalkia. The two companies also acquired three gas-fired combined heat and power generation plants from us. Until the sale, these facilities in Helmond, Eindhoven and Enschede had been operated by RWE Generation. The parties agreed not to disclose the acquisition price for the package.

Successful gas price revision with Gazprom

At the end of February, we reached an agreement in the latest price revision relating to our loss-making gas procurement contract with Gazprom. As a result, the contract will not have any negative effects on our earnings until the next revision, which is scheduled for the beginning of June 2016. The details of the arrangement are confidential. RWE and Gazprom intend to start a new round of negotiations as early as the middle of 2015. Our goal is to come up with a long-term solution which ensures that the contract no longer curtails our earnings even after the current arrangement expires.

RWE reduces stake in Welsh offshore wind farm Gwynt y Môr

UK-based Green Investment Bank will acquire a 10% stake in the Gwynt y Môr wind farm off the north coast of Wales from us. This was agreed at the end of March. Gwynt y Môr, which is still under construction, is scheduled to have its full capacity of 576 MW online by the end of 2014. We plan to invest the £220 million in proceeds from the sale in other renewable projects. The transaction will close once Gwynt y Môr has been completed. Our share in the wind farm will then drop from 60% to 50%. The other stakes are held by the Munich municipal utility (30%) and Siemens (10%).

Lingen and Claus C gas-fired power stations mothballed

At the beginning of February, we announced that we would mothball the new Claus C gas-fired power plant at Maasbracht in the Netherlands for an undetermined period of time with effect from 1 July 2014. The backdrop to this decision is the plant's lack of economic viability due to its increasingly lower utilisation and the substantial drop in wholesale electricity prices. However, the station may be recommissioned if market conditions improve. In the middle of March, we announced that we would mothball our state-of-the-art gas-fired power station in Lingen from May to August 2014. Owing to the seasonal increase in electricity produced by solar panels, very little use is made of the Lingen plant during this period. The gas-fired power stations at Maasbracht and Lingen were only commissioned in 2012 and 2010, respectively. They have net installed capacities of 1,304 MW and 876 MW and their efficiency of nearly 60% puts them among the most efficient and climate-friendly stations in the world. We announced in August 2013 that we would take Dutch and German gas-fired power plants with a total net installed capacity of about 2,500 MW offline and mothball them for certain seasons or undetermined periods of time.

RWE takes advantage of favourable market to top up two bonds and signs new syndicated credit line

As refinancing conditions are still unusually good on the capital market, we topped up two RWE bonds in February. We increased the volume of a bond issued in October 2013 by €300 million to a total of €800 million. The paper has a coupon of 3.0% and matures in January 2024. In addition, we increased a private placement made in October 2012, which we had already topped up twice in 2013, by a further €61 million to €500 million. This paper has a tenor expiring in October 2037. Moreover, we replaced the €4 billion syndicated credit line we were granted by an international consortium of banks with an agreement with the same volume, the conditions of which are more favourable to us. The new line of credit expires at the end of March 2019, but can be extended twice for a year.

After the period under review

Hungarian gas business sold

We completed the divestment of our minority interest in the Budapest-based gas utility FÖGÁZ in the middle of April. The 49.8% stake was acquired by the Hungarian state-owned energy group MVM. The transaction has a volume of 41 billion forints (€133 million). FÖGÁZ operates a gas network with a length of 5,800 kilometres and serves over 800,000 customers. The remaining 50.2% in the company is owned by the City of Budapest. The reason for the sale is the significant increase in regulatory pressure in the Hungarian gas business.

Hamburg Fiscal Court suspends payment of nuclear fuel tax

In April, the Hamburg Fiscal Court issued a preliminary injunction, ordering that nuclear fuel tax payments for the power plant at Emsland (Lingen) be suspended. The ruling relates to the €393 million in payments we have made for the period from 2011 to 2013. The judges doubt that the levy, which was introduced with effect from 1 January 2011, is legal. However, the main customs office responsible for levying the tax filed an appeal against the decision, on which the German Fiscal Court must now rule. We also filed a petition for a preliminary injunction regarding our Gundremmingen B and C nuclear reactors. The authority responsible in this case is the Munich Fiscal Court, which had not yet handed down a ruling on the matter when this report was finalised. The payments made for Gundremmingen in the last three years total €532 million. The final decision on the legality of the nuclear fuel tax will be made by the German Constitutional Court or the European Court of Justice (ECJ). Last year, the Hamburg Fiscal Court referred the German Nuclear Fuel Tax Act to the German Constitutional Court for review and referred key issues concerning the tax to the ECJ in Luxembourg for clarification (see page 53 of the 2013 Annual Report). We do not expect any rulings until after 2014. Until then, we will accrue provisions to cover the tax payments which we withhold or are refunded to us. Therefore, the rulings of the Hamburg Fiscal Court will not affect our earnings.

Go-ahead for lignite production in the third Garzweiler II resettlement segment

At the end of April, the government of the State of North Rhine-Westphalia formally declared that it finds the use of lignite until 2030 essential to the energy industry and energy policy. This allows the planning procedure for the third resettlement segment of the Garzweiler II opencast mine to be continued. The state government also issued a statement regarding the longer-term prospects of Garzweiler II. At a press conference in late March, it announced the political will to keep the communities in the fourth resettlement segment (primarily Holzweiler, which has a population of 1,400) at their current location, despite the approvals that have already been granted. The state administration also declared that it would announce a new landmark decision on lignite policy by the middle of 2015. It plans to hold talks with RWE, regional representatives and other stakeholders to this end. We hope that the decision-making process is fair, transparent and constructive. In our view, this also requires it to be unbiased.

RWE pays dividend of €1 per share

On 16 April 2014, the Annual General Meeting of RWE AG approved the dividend proposal made by the Executive and Supervisory Boards for fiscal 2013. It envisaged paying a dividend of €1 per common and preferred share. The dividend payment corresponds to 27% of 2013 recurrent net income.

German government adopts draft Renewable Energy Act reform

On 8 April, the German government passed the “draft of an act for the fundamental reform of the German Renewable Energy Act (REA) and for amendments to further provisions of German energy law.” The amendment aims to rein in the rise in costs due to the expansion of renewable energy in recent years and limit the increase in electricity tariffs for final consumers. It also envisages capping the net installed capacity added by solar panels and onshore wind turbines to 2.5 gigawatts (GW) per year for each of these technologies. If this threshold is exceeded, a reduced feed-in tariff would be paid for the additional generation units. The replacement of existing wind turbines by more powerful ones has not been factored into the cap. The German government’s capacity target for the expansion of offshore wind power through to the end of 2020 has been reduced from 10 GW to 6.5 GW. Furthermore, the government wants to oblige operators of new plant with a system size of 500 kilowatts or more to market green energy directly and to gradually impose this requirement on smaller generation units. Renewable energy subsidies for new plant would be auctioned competitively from no later than 2017 onwards. In the future, the incumbent coalition also wants electricity generation for self-consumption to be included in the REA financing scheme. However, this will only apply to new generation plant. Companies that already consume the electricity they produce and small self consumers will remain exempt from the REA apportionment. The German Lower House discussed the amendment to the REA in a first reading at the beginning of May. It plans to pass it at the end of June. The amendment is scheduled to enter into force as early as 1 August.

EU Commission establishes European legal framework for green energy subsidies

One day after the passage of the draft law on the reform of the German Renewable Energy Act, the European Commission passed new regulations for state aid in the fields of environmental protection and energy. In so doing, it established the framework within which national subsidies can be reconciled with EU competition law. The new regulations will replace existing guidelines, which expire at the end of 2014. Their key elements are in line with the amendment to the REA. The EU Commission wants the subsidisation of renewable energy to conform more to the market's requirements. In the long run, fixed feed-in tariffs would be replaced by invitations to tender to determine the generators that receive state subsidies. Furthermore, the Commission is a proponent of power producers stepping up their direct sales of renewable energy. However, the move towards increased market integration is being counteracted by numerous exceptions which primarily benefit small generation units. The EU Commission is making concessions to the German government regarding the REA apportionment rebates granted to energy-intensive companies. EU guidelines allow a limited number of energy-intensive sectors defined for the entire EU to receive relief in financing renewable energy subsidies. There is a transitional solution for branches of industry which no longer belong to the privileged group.

In its guidelines, the EU Commission also addresses the plans of several countries for creating a capacity mechanism. This type of mechanism ensures that power producers are compensated for keeping secured power plant capacity in reserve in addition to receiving income from the sale of electricity. In light of the growing amount of fluctuating electricity feed-ins from wind turbines and solar panels, this is becoming increasingly important. As before, the Commission is of the opinion that capacity mechanisms should only be created in cases where concerns about the availability of generation capacity cannot be allayed by taking other measures, e.g. expanding the grid or making demand more flexible.

NOTES ON REPORTING

RWE Group

Conventional Power Generation	Supply/ Distribution Networks Germany	Supply Netherlands/ Belgium	Supply United Kingdom	Central Eastern and South Eastern Europe	Renewables	Upstream Gas & Oil	Trading/Gas Midstream
RWE Generation	RWE Deutschland	Essent	RWE npower	RWE East	RWE Innogy	RWE Dea	RWE Supply & Trading

Internal Service Providers
RWE Consulting
RWE Group Business Services
RWE IT
RWE Service

As of 31 March 2014.

Group structure with eight divisions

Financial reporting for fiscal 2014 divides the RWE Group into eight segments, which are also referred to as 'divisions.' They are based on geographic and functional criteria as follows.

- Conventional Power Generation: Our electricity generation activities in Germany, the Netherlands, the United Kingdom and Turkey are subsumed under this division. It also includes RWE Power's opencast lignite mining in the Rhineland and RWE Technology, which specialises in project management and engineering. All of these activities are managed by RWE Generation.

- Supply/Distribution Networks Germany: This division is in charge of the supply of electricity, gas and heat as well as energy services in our main market, Germany, and the operation of our German electricity and gas distribution networks. It is overseen by RWE Deutschland, to which Westnetz, RWE Vertrieb (including eprimo and RWE Energiedienstleistungen), RWE Effizienz, RWE Gasspeicher and our German regional companies belong. Our minority interests in Austria-based KELAG and Luxembourg-based Enovos are also assigned to this division.

- Supply Netherlands/Belgium: This is where we report on our Dutch and Belgian electricity and gas retail business. The division is managed by Essent, one of the largest energy utilities in the Benelux region.

- Supply United Kingdom: Assigned to this division is our UK electricity and gas supply business spearheaded by RWE npower, which ranks among the six leading energy companies in the United Kingdom.

- Central Eastern and South Eastern Europe: This division contains our activities in the Czech Republic, Hungary, Poland, Slovakia, Croatia, Romania and Turkey. Our market-leading Czech gas business encompasses supply, distribution and storage. The division no longer includes the transmission or transit of gas: we sold the subsidiary in charge of those activities, NET4GAS, at the beginning of August 2013.

In 2010, we also started selling electricity in the Czech Republic. In Hungary, we cover the entire value chain in the electricity business, from production through to the operation of the distribution system and the supply of customers. We were also active in the Hungarian gas supply sector via a minority stake, but have discontinued this business. Our Polish operations focus on the distribution and sale of electricity in Greater Warsaw. In Slovakia, we are active in the electricity network and electricity retail businesses via a minority interest and in the gas supply sector via a subsidiary. In Croatia, we have an established position as a wastewater management company in the capital Zagreb and as a co-owner of the Plomin hard-coal fired power plant. We also recently began to set up a local energy supply business. This also applies to Romania and Turkey, where we have started to sell electricity.

- Renewables: This is where we present the figures of RWE Innogy, which generates electricity and heat from renewable sources, particularly wind, water and to a limited extent biomass. Its major production sites are located in Germany, the United Kingdom, the Netherlands, Spain and Poland.

- Upstream Gas & Oil: This division consists of the activities of RWE Dea. The company produces gas and oil, focusing on Germany, the United Kingdom, Norway and Egypt. As set out on page 7, we will probably complete the sale of RWE Dea in the second half of the year. The company has been stated as a continuing operation for the last time in the interim financial statements for the first quarter of 2014. In compliance with International Financial Reporting Standards (IFRS) our reporting for the remainder of the current year will recognise it under 'discontinued operations' retrospectively to 1 January and we will adjust the prior-year figures accordingly (also see page 26).

- Trading/Gas Midstream: Assigned to this division is RWE Supply & Trading, which is responsible for trading energy and commodities, marketing and hedging the RWE Group's electricity position, and running the entire gas midstream business. Furthermore, it supplies some major German and Dutch industrial and corporate customers with electricity and gas.

The 'other, consolidation' item

We present certain groupwide activities outside the divisions as part of 'other, consolidation.' These are the Group holding company RWE AG as well as our in-house service providers RWE Group Business Services, RWE Service, RWE IT and RWE Consulting. This item also includes our minority interest in the electricity transmission system operator Amprion.

New accounting standards require 2013 figures to be adjusted

We started applying the new IFRS 11 Joint Arrangements (2011) reporting standard in the 2014 financial year. Certain investments, which have been accounted for using the equity method so far, will be presented as joint arrangements from now on (see the commentary on page 35). The new approach will also be applied retroactively to last year. Therefore, some of the 2013 figures stated in this report differ from those published previously. Further deviations result from the application of the accounting standard IAS 19 Employee Benefits (2011). This standard was already applied in fiscal 2013, but certain retrospective adjustments were not made until after the financial statements for the first quarter of 2013.

BUSINESS PERFORMANCE

Electricity production by division January – March	Lignite		Hard coal		Gas		Nuclear		Renewables		Pumped storage, oil, other		RWE Group	
Billion kWh	2014	2013	2014	2013[1]	2014	2013	2014	2013[1]	2014	2013	2014	2013	2014	2013[1]
Conventional Power Generation	18.9	19.8	10.9	16.2	8.0	10.1	7.9	8.8	0.3	1.7	0.5	0.7	46.5	57.3
of which:														
Germany[2]	18.9	19.8	6.7	9.4	0.7	2.0	7.6	8.5	0.1	0.1	0.5	0.7	34.5	40.5
Netherlands/Belgium	–	–	2.4	1.9	0.9	1.5	0.3	0.3	0.2	0.4	–	–	3.8	4.1
United Kingdom	–	–	1.8	4.9	5.5	6.6	–	–	–	1.2	–	–	7.3	12.7
Turkey	–	–	–	–	0.9	–	–	–	–	–	–	–	0.9	–
Central Eastern and South Eastern Europe	1.4	1.4	–	–	0.1	–	–	–	–	–	–	–	1.5	1.4
Renewables[2]	–	–	–	–	–	0.1	–	–	2.6	2.2	–	–	2.6	2.3
RWE Group[3]	**20.3**	**21.2**	**11.9**	**17.1**	**8.3**	**10.5**	**7.9**	**8.8**	**3.1**	**4.2**	**0.5**	**0.7**	**52.0**	**62.5**

1 Figures partially adjusted; see commentary on page 12.

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 quarter of 2014, it amounted to 4.1 billion kWh in the Conventional Power Generation Division (first quarter of 2013: 6.6 billion kWh), of which 3.6 billion kWh were generated from hard coal (first quarter of 2013: 5.8 billion), and to 0.2 billion kWh in the Renewables Division (first quarter of 2013: 0.2 billion kWh).

3 Including small generation volumes of other divisions.

Electricity generation down 17 %

In the first quarter of 2014, the RWE Group produced 52.0 billion kWh of electricity. This was 10.5 billion kWh, or 17 %, less than in last year's corresponding period. Our generation from hard coal recorded the steepest decline. One of the main reasons was that, at the end of March 2013, we had to shut down Didcot A power station in the UK, which had a net installed capacity of 1,958 MW. The facility was subject to a lifetime limitation resulting from EU pollutant emission regulations applicable to large combustion plants. Moreover, in Germany the decline in electricity prices resulted in a reduction in the use of hard coal units. The market conditions for our gas-fired power stations also deteriorated, causing their utilisation to drop. Unscheduled outages curtailed the production from our lignite and nuclear power plants. Furthermore, the decommissioning of Tilbury power station in the UK resulted in less electricity being generated from renewables. The plant had a net installed capacity of 742 MW and ran on hard coal before being converted to biomass combustion in 2011. Despite the conversion, it was also subject to a lifetime limitation under emission regulations and had to be decommissioned in August 2013. A positive effect was felt from the expansion of our wind power capacity. This included the gradual commissioning of the turbines of the UK offshore wind farm Gwynt y Môr. High wind levels in large parts of Europe also added generation volume.

In addition to our in-house generation, we procure electricity from external suppliers. In the quarter being reviewed, these purchases amounted to 18.5 billion kWh compared to 13.5 billion kWh in the same period last year.

Significant rise in gas and oil production

In the period under review, RWE Dea produced 865 million cubic metres of gas and 675 thousand cubic metres of oil. Converting the gas to oil equivalent and adding it to crude oil production results in a total output of 1,513 thousand cubic metres, or 9.5 million barrels. This compares to 1,242 thousand cubic metres, or 7.8 million barrels, in the first quarter of 2013. Gas production increased by 30 %, largely because we started production in the UK North Sea field Breagh and in the Egyptian concession Disouq in the second half of 2013. Furthermore, we stepped up production in the Norwegian field Snøhvit after it was interrupted for maintenance in the first quarter of last year. The reduction in volume caused by the natural depletion of reserves had a counteracting impact. This primarily affected our fields in Germany. We also posted a significant gain in crude oil production, which rose by 13 % mainly due to our activities in Norway.

External electricity sales volume January – March	Residential and commercial customers		Industrial and corporate customers		Distributors		Electricity trading		Total	
Billion kWh	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Conventional Power Generation	0.1	0.1	0.3	0.2	2.9	2.4	–	–	3.3	2.7
Supply/Distribution Networks Germany	6.4	7.2	7.1	6.9	18.9	18.8	–	–	32.4	32.9
Supply Netherlands/Belgium	3.2	3.1	2.3	3.4	–	0.4	–	–	5.5	6.9
Supply United Kingdom	4.2	5.3	7.8	7.8	0.6	–	–	–	12.6	13.1
Central Eastern and South Eastern Europe	2.3	2.3	2.4	2.2	1.8	1.4	–	–	6.5	5.9
Renewables	–	–	–	–	0.6	0.6	–	–	0.6	0.6
Trading/Gas Midstream	–	–	5.9	3.8	–	–	0.2	5.0	6.1	8.8
RWE Group	**16.2**	**18.0**	**25.8**	**24.3**	**24.8**	**23.6**	**0.2**	**5.0**	**67.0**	**70.9**

Electricity sales volume 6 % down on 2013

In the first quarter of 2014, we sold 67.0 billion kWh of electricity to external customers, 6 % less than in 2013. This was mainly due to the decline in our generation volumes, which resulted in RWE Supply & Trading selling less electricity produced by RWE power stations on the wholesale market. In the residential and commercial customer segment, an effect was felt from the fact that the 2013/2014 winter was extremely mild, whereas the preceding winter was unusually harsh. In consequence, households with electric heating used less electricity. Moreover, for a long time we have seen a trend towards saving energy. Another reason for the decline in sales volume in the residential customer business is that we sold our UK supply subsidiary Electricity Plus Supply at the end of last year (see page 51 of the 2013 Annual Report). Instead of being supplied by us directly, its customers now buy electricity from us indirectly via a supply agreement with the new owner Telecom Plus. We state volumes supplied to Telecom Plus under distributors. Our new supply agreements with some industrial and corporate customers had a positive impact on the development of sales volumes. Furthermore, several major existing customers increased their electricity purchases from us, especially in the Trading/Gas Midstream Division. However, the significant rise in volume we recorded with industrial and corporate customers in this segment is partially due to the change in the assignment of customers between Essent and RWE Supply & Trading.

External gas sales volume January – March	Residential and commercial customers		Industrial and corporate customers		Distributors		Total	
Billion kWh	2014	2013	2014	2013	2014	2013	2014	2013
Supply/Distribution Networks Germany	9.6	12.3	6.1	6.6	16.2	16.2	31.9	35.1
Supply Netherlands/Belgium	14.9	19.9	9.1	14.5	–	–	24.0	34.4
Supply United Kingdom	13.4	19.8	0.6	0.7	2.4	–	16.4	20.5
Central Eastern and South Eastern Europe	6.7	9.3	8.3	9.9	0.4	0.3	15.4	19.5
Upstream Gas & Oil	–	–	1.8	1.6	2.5	3.8	4.3	5.4
Trading/Gas Midstream	–	–	5.4	4.8	5.7	7.2	11.1	12.0
RWE Group	**44.6**	**61.3**	**31.3**	**38.1**	**27.2**	**27.5**	**103.1**	**126.9**

Weather drives down gas sales volume by 19%

Our gas sales volume declined by 19% to 103.1 billion kWh. The much milder weather compared to last year clearly left its mark, especially on the residential and commercial customer business. We suffered a substantial drop in sales volume in this supply segment. The aforementioned trend towards saving energy played a minor role. Further contributing factors were the sale of the UK supply subsidiary Gas Plus Supply to Telecom Plus, which was completed at the end of 2013 and caused sales volume to be shifted from the residential and commercial customer group to the distributor segment, as did the divestment of Electricity Plus Supply mentioned earlier. Distributor volume declined marginally nevertheless, largely due to the weather. We felt the mounting competitive pressure in the industrial and corporate customer segment, in the Netherlands in particular, where a large number of companies we supply switched providers.

External revenue € million	Jan – Mar 2014	Jan – Mar 2013[1]	+/– %	Jan – Dec 2013[1]
Conventional Power Generation	417	418	−0.2	1,570
Supply/Distribution Networks Germany	7,116	6,951	2.4	25,718
Supply Netherlands/Belgium	1,708	2,441	−30.0	6,308
Supply United Kingdom	2,678	2,846	−5.9	8,982
Central Eastern and South Eastern Europe	1,243	1,583	−21.5	4,852
Renewables	76	116	−34.5	402
Upstream Gas & Oil	455	466	−2.4	1,837
Trading/Gas Midstream	948	1,200	−21.0	4,295
Other, consolidation	22	25	−12.0	88
RWE Group	**14,663**	**16,046**	**-8.6**	**54,052**
Natural gas tax/electricity tax	763	898	−15.0	2,677
RWE Group (excluding natural gas tax/electricity tax)	**13,900**	**15,148**	**-8.2**	**51,375**

1 Figures partially adjusted; see commentary on page 12.

External revenue 9% down year on year

RWE generated €14,663 million in external revenue (including natural gas and electricity taxes), 9% less than in the first quarter of 2013. The significant decline is attributable to the gas business, where revenue dropped by 20% to €4,576 million largely due to the weather-induced decrease in sales volume. In contrast, despite lower supply volumes electricity revenue was essentially unchanged, amounting to €8,957 million. This was mainly due to price adjustments in the German and UK customer businesses. In Germany, some of our regional companies have raised tariffs for residential and commercial customers. This was in response to the increase in run-up costs caused predominantly by the apportionment for electricity generated in accordance with the German Renewable Energy Act (REA). Our UK residential tariffs were also higher than in the same period last year. One of the price-driving factors are the substantial expenses incurred for energy savings in UK households, which major energy companies are obliged to achieve under the Energy Companies Obligation (ECO) state programme. However, the UK government intends to reduce the ECO burdens. RWE npower took this occasion to lower residential tariffs somewhat as of 28 February 2014. To a limited extent, consolidated revenue was also affected by the sale of business activities and changes in currency exchange rates. Averaged for the quarter, the British pound cost €1.21, slightly more than in the same period last year (€1.17). Conversely, other currencies of importance to us such as the US dollar and the Czech crown depreciated compared to the euro. Net of material consolidation and currency effects, external revenue decreased by 7 %.

External revenue by product € million	Jan – Mar 2014	Jan – Mar 2013[1]	+/– %	Jan – Dec 2013[1]
Electricity revenue	8,957	8,962	–0.1	34,896
of which:				
Supply/Distribution Networks Germany	5,277	5,093	3.6	20,643
Supply Netherlands/Belgium	574	742	–22.6	2,278
Supply United Kingdom	1,699	1,611	5.5	6,168
Central Eastern and South Eastern Europe	563	601	–6.3	2,310
Trading/Gas Midstream	596	657	–9.3	2,701
Gas revenue	4,576	5,705	–19.8	14,616
of which:				
Supply/Distribution Networks Germany	1,537	1,561	–1.5	4,128
Supply Netherlands/Belgium	1,117	1,629	–31.4	3,850
Supply United Kingdom	856	983	–12.9	2,312
Central Eastern and South Eastern Europe	647	950	–31.9	2,421
Upstream Gas & Oil	99	141	–29.8	501
Trading/Gas Midstream	319	440	–27.5	1,402
Oil revenue	371	341	8.8	1,325
of which:				
Upstream Gas & Oil	342	304	12.5	1,257
Trading/Gas Midstream	29	37	–21.6	68
Other revenue	759	1,038	–26.9	3,215
RWE Group	**14,663**	**16,046**	**–8.6**	**54,052**

1 Figures partially adjusted; see commentary on page 12.

Internal revenue € million	Jan – Mar 2014	Jan – Mar 2013[1]	+/– %	Jan – Dec 2013[1]
Conventional Power Generation	2,045	2,393	–14.5	9,096
Supply/Distribution Networks Germany	281	304	–7.6	1,244
Supply Netherlands/Belgium	9	176	–94.9	186
Supply United Kingdom	91	73	24.7	277
Central Eastern and South Eastern Europe	74	100	–26.0	292
Renewables	178	176	1.1	534
Upstream Gas & Oil	119	66	80.3	263
Trading/Gas Midstream	6,642	7,217	–8.0	23,859

1 Figures partially adjusted; see commentary on page 12.

EBITDA € million	Jan – Mar 2014	Jan – Mar 2013[1]	+/– %	Jan – Dec 2013[1]
Conventional Power Generation	780	1,018	–23.4	2,455
of which:				
Continental Western Europe	726	910	–20.2	2,274
United Kingdom	54	112	–51.8	165
Supply/Distribution Networks Germany	824	762	8.1	2,316
Supply Netherlands/Belgium	86	186	–53.8	368
Supply United Kingdom	148	297	–50.2	366
Central Eastern and South Eastern Europe	342	449	–23.8	1,281
Renewables	154	149	3.4	454
Upstream Gas & Oil	308	283	8.8	938
Trading/Gas Midstream	10	–45	–	841
Other, consolidation	–63	–34	–85.3	–177
RWE Group	**2,589**	**3,065**	**–15.5**	**8,842**

1 Figures partially adjusted; see commentary on page 12.

Operating result € million	Jan – Mar 2014	Jan – Mar 2013[1]	+/– %	Jan – Dec 2013[1]
Conventional Power Generation	559	744	–24.9	1,384
of which:				
Continental Western Europe	564	711	–20.7	1,451
United Kingdom	–1	37	–	–76
Supply/Distribution Networks Germany	656	595	10.3	1,626
Supply Netherlands/Belgium	70	165	–57.6	278
Supply United Kingdom	128	278	–54.0	290
Central Eastern and South Eastern Europe	286	383	–25.3	1,032
Renewables	97	89	9.0	203
Upstream Gas & Oil	192	191	0.5	521
Trading/Gas Midstream	6	–47	–	831
Other, consolidation	–84	–58	–44.8	–275
RWE Group	**1,910**	**2,340**	**–18.4**	**5,890**

1 Figures partially adjusted; see commentary on page 12.

Operating result down 18% year on year

In the first quarter of 2014, we achieved EBITDA of €2,589 million and an operating result of €1,910 million. These figures were 16% and 18% lower than in the corresponding period in 2013. In addition to a deterioration in margins in the conventional electricity generation business, weather-induced revenue shortfalls in gas supply played a role. Furthermore, the earnings of the Czech long-distance gas network operator NET4GAS, which was sold last year, were no longer recognised. Disregarding major deconsolidation and currency effects, EBITDA and the operating result declined by 13% and 15%, respectively.

The operating results of our divisions developed as follows:

- Conventional Power Generation: This division posted an operating result amounting to €559 million, a 25% decrease year on year. The main reason for this is that we realised a lower market price for this year's German and Dutch electricity generation than for last year's production. This was only somewhat cushioned by price-driven relief in the purchase of fuel (especially hard coal) and CO_2 emission allowances. Further earnings shortfalls resulted from the decommissioning of the Didcot A and Tilbury power stations (see page 13). Continued cost-cutting measures helped us to limit the decline in earnings in the conventional power generation business. In addition, depreciation was lower year on year. This is in part due to the substantial impairments for our Dutch generation portfolio, which we recognised in the financial statements for fiscal 2013.

- Supply/Distribution Networks Germany: The operating result recorded by this division grew by 10% to €656 million despite earnings shortfalls in the gas business caused by the weather. Progress made in implementing our efficiency-enhancement programme made a contribution to the supply business closing the quarter up year on year. The operating result recorded by our distribution network activities was stable, although the framework conditions in the electricity network business have become more challenging since the beginning of the new regulatory period, which runs from 2014 to 2018. We benefited from cost-reducing measures here as well. Furthermore, we achieved higher income from the sale of networks.

- Supply Netherlands/Belgium: The operating result posted by this segment totalled €70 million, less than half of the year-earlier level. This is primarily attributable to our gas supply business, which suffered from the weather-induced drop in revenue. In addition, mounting pressure from competition caused gas margins to deteriorate. Again, our efficiency-enhancement programme had a positive effect on earnings.

- Supply United Kingdom: RWE npower's operating result amounted to €128 million. It also more than halved compared to 2013. Net of currency effects, the decline was 55%. Expenses which we incurred due to our obligation to promote energy saving measures in households under the ECO state programme rose considerably. In the first quarter of 2013, ECO was still in its startup phase and therefore did not cause any noteworthy costs. Expenses associated with network usage as well as electricity and gas purchases also rose. We increased residential tariffs at the beginning of December 2013, but this only partially cushioned the burdens mentioned above. Additional earnings shortfalls resulted from the aforementioned sale of Electricity Plus Supply and Gas Plus Supply. The 770,000 customers of the former subsidiaries are no longer supplied by us directly. Instead, we now serve them indirectly via their new owner Telecom Plus. As a result, we realise lower margins. The milder weather also weighed on the result, whereas our efficiency-enhancement programme had a positive effect.

- Central Eastern and South Eastern Europe: The operating result of this division decreased by 25% to €286 million, in particular due to the divestment of NET4GAS as of 2 August 2013. In the first quarter of last year, the Czech long-distance gas network operator contributed earnings of €74 million. Net of the effects of the sale of NET4GAS and currency translation, the Central Eastern and South Eastern Europe Division closed the reporting period down 3% year on year. One of the reasons is that certain transactions concluded to hedge currency risks, which had a positive effect on the operating result in 2013, are now recognised in the non-operating result. In the Czech Republic, the mild weather led to earnings shortfalls in the gas business. Moreover, we reduced our Czech customer tariffs due to fierce competitive pressure, causing us to realise lower margins. In contrast, the earnings of our Polish electricity activities improved marginally.

- Renewables: RWE Innogy's operating result amounted to €97 million, up 9% year-on-year. This was mainly due to the substantial rise in the amount of electricity we produced from wind turbines. The reduction in green energy subsidies by the Spanish government had a counteracting effect. Furthermore, our German biomass activities only made a small contribution to RWE Innogy's earnings: they were almost entirely transferred to the Supply/Distribution Networks Germany Division as of 1 January 2014.

- Upstream Gas & Oil: Despite the strong growth in gas and oil production volumes, the operating result achieved by RWE Dea was essentially unchanged, totalling €192 million. A major reason for this was that realised oil and gas prices were lower year on year, with the weaker US dollar exchange rate also playing a role in relation to oil. In addition, exploration costs rose, because some of RWE Dea's exploration wells were not successful, forcing us to recognise associated costs directly as an expense instead of capitalising them.

- Trading/Gas Midstream: This division posted an operating result of €6 million compared to –€47 million in the first quarter of last year. We benefited from the settlement reached in the price revision with Gazprom at the end of February 2014. As a result, our gas procurement agreement with the Russian gas group will not curtail our earnings until the next price revision, which is scheduled for June 2016. A negative effect was felt from the decline in wholesale gas prices as it caused us to make a downward correction to the valuation of the gas we have stored in Germany and the Netherlands. The performance of the trading business was better than in 2013, but a large portion of the earnings could not yet be recognised pursuant to IFRS and has therefore not yet been reflected in the operating result.

Non-operating result € million	Jan – Mar 2014	Jan – Mar 2013[1]	+/– € million	Jan – Dec 2013
Capital gains	110	4	106	476
Impact of commodity derivatives on earnings	88	136	–48	72
Goodwill impairment losses	–	–	–	–1,404
Restructuring, other	–20	–44	24	–4,619
Non-operating result	**178**	**96**	**82**	**–5,475**

1 Figures partially adjusted; see commentary on page 12.

Reconciliation to net income only slightly affected by special items

The non-operating result rose by €82 million to €178 million. The main driver was income from the disposal of our gas-fired power station in Duisburg-Huckingen and the Dutch district heating business (see page 7). The accounting treatment of certain derivatives with which we hedge the prices of commodity forward transactions resulted in a gain of €88 million compared to €136 million in the same period last year. Pursuant to IFRS, the derivatives are accounted for at fair value at the corresponding balance sheet date, whereas the underlying transactions (which display the opposite development) are only recognised as a profit or loss when they are realised. These timing differences result in short-term effects on earnings, which are neutralised over time.

Financial result € million	Jan – Mar 2014	Jan – Mar 2013[1]	+/– € million	Jan – Dec 2013[1]
Interest income	48	93	–45	323
Interest expenses	–257	–296	39	–1,073
Net interest	**–209**	**–203**	**–6**	**–750**
Interest accretion to non-current provisions	–250	–239	–11	–977
Other financial result	6	14	–8	–165
Financial result	**–453**	**–428**	**–25**	**–1,892**

1 Figures partially adjusted; see commentary on page 12.

The financial result deteriorated by €25 million to –€453 million. Our borrowing expenses were lower than in 2013, as was interest income. The interest accretion to non-current provisions was slightly up year on year, because 'other non-current provisions' rose. Lower income from the valuation of financial transactions weighed on the 'other financial result.'

Income before tax amounted to €1,635 million, 19% less than in 2013. Our effective tax rate increased by six percentage points to 31%, in part because the share of our earnings achieved in countries with relatively high tax rates rose. In addition, we wrote off deferred tax assets at our Spanish wind power subsidiary AERSA. They had been kept on the books to cover loss carryforwards, which we will probably not be able to use. After taxes, income fell by 25% to €1,123 million.

Reconciliation to net income		Jan – Mar 2014	Jan – Mar 2013[1]	+/– %	Jan – Dec 2013[1]
EBITDA	€ million	**2,589**	**3,065**	**–15.5**	**8,842**
Operating depreciation and amortisation	€ million	–679	–725	6.3	–2,952
Operating result	€ million	**1,910**	**2,340**	**–18.4**	**5,890**
Non-operating result	€ million	178	96	85.4	–5,475
Financial result	€ million	–453	–428	–5.8	–1,892
Income before tax	€ million	**1,635**	**2,008**	**–18.6**	**–1,477**
Taxes on income	€ million	–512	–507	–1.0	–966
Income	€ million	**1,123**	**1,501**	**–25.2**	**–2,443**
Minority interest	€ million	102	108	–5.6	210
RWE AG hybrid capital investors' interest	€ million	26	26	–	104
Net income/income attributable to RWE AG shareholders	€ million	**995**	**1,367**	**–27.2**	**–2,757**
Recurrent net income	€ million	**838**	**1,300**	**–35.5**	**2,314**
Earnings per share	€	1.62	2.22	–27.0	–4.49
Recurrent net income per share	€	1.36	2.11	–35.5	3.76
Number of shares outstanding (average)	millions	614.7	614.7	–	614.7
Effective tax rate	%	31	25	–	–

1 Figures partially adjusted; see commentary on page 12.

At €102 million, the minority interest in income was in the order of the same period last year. The portion of our earnings attributable to hybrid investors was unchanged at €26 million. This sum corresponds to the finance costs after tax. Of our five hybrid bonds, only two are considered here, namely those which are attributable to equity pursuant to IFRS. These are the issuances of €1,750 million in September 2010 and of £750 million in March 2012.

The developments presented above are the reason for the reduction in net income by 27% to €995 million compared to 2013. Based on the 614.7 million in RWE shares outstanding, this corresponds to earnings per share of €1.62 (first quarter of 2013: €2.22).

Recurrent net income down 36% year on year

The yardstick of our dividend policy is recurrent net income, which is adjusted for exceptional items. When calculating this figure, the non-operating result and the tax on it as well as major non-recurrent effects in the financial result and income taxes are deducted. In the first quarter of 2014, recurrent net income totalled €838 million, 36% less than in the same period last year (€1,300 million).

Capital expenditure € million	Jan – Mar 2014	Jan – Mar 2013[1]	+/– € million	Jan – Dec 2013[1]
Capital expenditure on property, plant and equipment and on intangible assets				
Conventional Power Generation	337	274	63	1,374
Supply/Distribution Networks Germany	69	66	3	871
Supply Netherlands/Belgium	3	7	–4	28
Supply United Kingdom	27	11	16	106
Central Eastern and South Eastern Europe	34	38	–4	320
Renewables	223	214	9	1,077
Upstream Gas & Oil	150	129	21	663
Trading/Gas Midstream	1	2	–1	14
Other, consolidation	31	19	12	58
Total	**875**	**760**	**115**	**4,511**
Capital expenditure on financial assets	**23**	**7**	**16**	**130**
Total capital expenditure	**898**	**767**	**131**	**4,641**

1 Figures partially adjusted; see commentary on page 12.

Capital expenditure 17% up year on year

The RWE Group spent €898 million in capital, €131 million, or 17%, more than in the equivalent period last year. We spent €875million on property, plant and equipment and intangible assets. Compared to 2013, this represents an increase of €115 million. Capital expenditure on financial assets amounted to €23 million and was therefore of minor significance (first quarter of 2013: €7 million). The expansion and modernisation of our electricity generation capacity continue to be the focal points of our investing activity. This holds true especially for the Conventional Power Generation Division, in which most of the capital was spent on our new-build power plant programme, which we intend to bring to an end in 2014 on completion of the dual-block hard coal power stations at Hamm (1,528 MW) and at Eemshaven (1,554 MW). We also invested heavily in renewable energy. The largest projects in this area are the offshore wind farms Gwynt y Môr off the north coast of Wales (576 MW) and Nordsee Ost near Heligoland (295 MW), which are scheduled to put all their turbines online by the end of 2014 and the middle of 2015, respectively. RWE Dea also spent a considerable amount of capital. These funds were mainly invested in the development of oil and gas fields in preparation for production and ongoing production projects. Capital expenditure in the Supply/Distribution Networks Germany and Central Eastern and South Eastern Europe Divisions was primarily earmarked for measures to improve electricity and gas network infrastructure. In our UK supply business, spending focused on the development and introduction of smart meters.

Cash flow statement € million	Jan – Mar 2014	Jan – Mar 2013[1]	+/– € million	Jan – Dec 2013[1]
Funds from operations	1,792	2,188	–396	6,914
Change in working capital	–1,635	–2,125	490	–1,338
Cash flows from operating activities	**157**	**63**	**94**	**5,576**
Cash flows from investing activities	–293	–429	136	–2,474
Cash flows from financing activities	–142	1,094	–1,236	–1,857
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	1	–8	9	–19
Total net changes in cash and cash equivalents	**–277**	**720**	**–997**	**1,226**
Cash flows from operating activities	157	63	94	5,576
Minus capital expenditure on property, plant and equipment and on intangible assets	–873	–760	–113	–4,505
Free cash flow	**–716**	**–697**	**–19**	**1,071**

1 Figures partially adjusted; see commentary on page 12.

Cash flows from operating activities characterised by seasonal effects

At €157 million, our cash flows from operating activities were fairly low, as was the case in the same period last year. This is largely due to seasonal influences, which are reflected in changes in working capital. One of the reasons is that electricity and gas sales volumes are above average in the first quarter, whereas payments received from customers are spread evenly over the year. This typically results in a significant increase in accounts receivable in the supply business and a commensurate drop in cash flows from operating activities. Cash outflows for investing activities in the period under review amounted to €293 million, which was much less than what we spent on property, plant and equipment as well as on intangible and financial assets. This is due to proceeds from the sale of investments and property, plant and equipment, which are offset. Despite the increases in bond volume mentioned on page 8, financing activities led to a cash outflow of €142 million. One of the reasons for this is that we pledged collateral for gas forward transactions. Dividends paid to minority interests also played a role. On balance, the aforementioned cash flows reduced our cash and cash equivalents by €277 million.

Cash flows from operating activities, minus capital expenditure on property, plant and equipment and intangible assets, results in free cash flow. At –€716 million, the latter was nearly on a par with the figure recorded in the same period last year (–€697 million).

Marginal rise in net debt

As of 31 March 2014, our net debt totalled €31.5 billion, which is slightly more than at the end of 2013 (€30.7 billion). The main reason for the rise was the negative free cash flow. In addition, we increased our provisions for pensions (€0.2 billion) and paid dividends to minority shareholders (€0.1 billion). A counteracting impact was felt from proceeds from asset disposals (–€0.3 billion).

Net debt € million	31 Mar 2014	31 Dec 2013[1]	+/– %
Cash and cash equivalents	3,673	3,950	–7.0
Marketable securities	3,065	3,262	–6.0
Other financial assets	1,403	1,156	21.4
Financial assets	**8,141**	**8,368**	**–2.7**
Bonds, other notes payable, bank debt, commercial paper	16,563	16,224	2.1
Other financial liabilities	2,375	2,464	–3.6
Financial liabilities	**18,938**	**18,688**	**1.3**
Net financial debt	**10,797**	**10,320**	**4.6**
Provisions for pensions and similar obligations	6,440	6,227	3.4
Provisions for nuclear waste management	10,466	10,411	0.5
Mining provisions	2,977	2,952	0.8
Adjustment for hybrid capital (portion of relevance to the rating)	796	817	–2.6
Plus 50% of the hybrid capital stated as equity	1,337	1,351	–1.0
Minus 50% of the hybrid capital stated as debt	–541	–534	–1.3
Net debt of the RWE Group	**31,476**	**30,727**	**2.4**

1 Figures partially adjusted; see commentary on page 12.

Balance sheet structure	31 Mar 2014		31 Dec 2013[1]	
	€ million	%	€ million	%
Assets				
Non-current assets	57,280	67.8	56,905	69.9
Intangible assets	13,394	15.9	13,409	16.5
Property, plant and equipment	34,193	40.5	34,217	42.0
Current assets	27,158	32.2	24,476	30.1
Receivables and other assets[2]	18,391	21.8	15,326	18.8
Total	**84,438**	**100.0**	**81,381**	**100.0**
Equity and liabilities				
Equity	12,432	14.7	12,137	14.9
Non-current liabilities	46,035	54.5	47,383	58.2
Provisions	27,580	32.7	27,351	33.6
Financial liabilities	14,875	17.6	16,539	20.3
Current liabilities	25,971	30.8	21,861	26.9
Other liabilities[3]	15,397	18.2	13,323	16.4
Total	**84,438**	**100.0**	**81,381**	**100.0**

1 Figures partially adjusted; see commentary on page 12.
2 Including financial accounts receivable, trade accounts receivable and tax refund claims.
3 Including financial accounts payable and income tax liabilities.

Balance sheet structure: marginal decline in the equity ratio

The balance sheet total as of 31 March 2014 amounts to €84.4 billion, compared to €81.4 billion at the end of last year. On the assets side, accounts receivable and other assets were up €3.2 billion, whereas cash and cash equivalents and marketable securities were down €0.3 billion and €0.2 billion. On the equity and liabilities side, liabilities rose by €2.4 billion and provisions increased by €0.4 billion. Shareholders' equity was €0.3 billion higher than at the end of 2013. However, its share of the balance sheet total (the equity ratio) decreased by 0.2 percentage points to 14.7%.

Workforce[1]	31 Mar 2014	31 Dec 2013	+/− %
Conventional Power Generation	16,209	16,311	−0.6
Supply/Distribution Networks Germany	19,438	19,127	1.6
Supply Netherlands/Belgium	3,028	3,115	−2.8
Supply United Kingdom	8,200	8,730	−6.1
Central Eastern and South Eastern Europe	10,040	10,062	−0.2
Renewables	1,207	1,482	−18.6
Upstream Gas & Oil	1,433	1,445	−0.8
Trading/Gas Midstream	1,502	1,524	−1.4
Other[2]	4,321	4,545	−4.9
RWE Group	**65,378**	**66,341**	**−1.5**
In Germany	39,125	39,268	−0.4
Outside of Germany	26,253	27,073	−3.0

1 Converted to full-time positions.
2 As of 31 March 2014, 2,052 thereof were accounted for by RWE IT (end of 2013; 2,239), 1,268 were accounted for by RWE Service (end of 2013: 1,650) and 460 were accounted for by RWE Group Business Services (end of 2013: 96).

Headcount down by about 960

The RWE Group had 65,378 people on its payroll at the end of March 2014. Part-time positions were included in these figures on a prorated basis. In the first quarter, 963 employees have left the Group, the biggest share (820) of which worked at sites outside Germany. Streamlining measures in the UK supply business and at our internal service providers were largely responsible for the reduction in the workforce. Conversely, the sale of companies hardly had an effect. However, restructuring measures caused jobs to shift within the Group, an effect that occurred, for example, when transferring our German biomass activities from the Renewables Division to the Supply/Distribution Networks Germany Division.

OUTLOOK

Development of the economy in 2014: experts predict upturn

Based on initial forecasts, global economic output will be approximately 3 % higher this year than in 2013. In the Eurozone, measures required to consolidate state budgets may well continue to curtail growth. The currency union's gross domestic product (GDP) might increase by 1 % after having declined in 2013. Relative to the aforementioned, Germany's prospects are brighter than average: according to the German Council of Economic Experts, the country's economic output may rise by 1.9 % in 2014. Growth stimulus is expected to be provided primarily by the strong labour market and the increase in disposable income. Current economic forecasts have Dutch GDP advancing by up to 1 % and economic output in the United Kingdom expanding by more than 2 %. Regarding our Central Eastern European markets, experts expect to see growth of 3 % in Poland, 2 % in the Czech Republic and up to 2 % in Hungary.

Decline in gas consumption anticipated

Our forecast for this year's energy consumption is based on the above economic developments. As it is virtually impossible to predict the weather, we assume that temperatures will remain at a normal level during the remainder of the year. Following the unusually mild winter throughout Europe, they would therefore be higher than in 2013 for the full year. As regards electricity consumption, despite the revitalisation of the economy, we forecast a slight decline in Germany, the Netherlands and the United Kingdom, mainly due to the milder winter and to gains in energy efficiency. In contrast, electricity usage in Poland, Hungary and Slovakia will probably be slightly up on 2013. Demand for gas may well be down year on year in most RWE markets due to the weather. Gas-fired power plants are not expected to stimulate demand, as the capacity utilisation of these facilities is very unlikely to improve compared to 2013.

German wholesale electricity prices still under pressure

There is no indication of electricity prices on the wholesale market posting a substantial rise over the rest of the year. One of the preconditions for this would be a recovery of hard coal prices, as the marginal costs of hard coal-fired power stations have a substantial influence on the formation of prices on the electricity market, particularly in Germany. However, there are no signs of an end to the slump on the hard coal market. The development of gas prices will strongly depend on how the crisis in Ukraine progresses. CO_2 emission allowance trading is also subject to significant political influence: certificate prices may rise if the EU member states agree on ambitious climate protection goals over the remaining course of the year. However, none of this will have a significant effect on our earnings in the current fiscal year as we have already sold nearly all of our electricity generation for 2014 and hedged the prices of the required fuel and emission allowances.

Updated outlook for fiscal 2014	2013[1] actual € million	2014[1]
External revenue	52,453	In the order of €51 billion
EBITDA	7,904	€6.4–6.8 billion
Operating result	5,369	€3.9–4.3 billion
Conventional Power Generation	1,384	Significantly below previous year
Supply/Distribution Networks Germany	1,626	Moderately above previous year
Supply Netherlands/Belgium	278	Significantly below previous year
Supply United Kingdom	290	Moderately below previous year
Central Eastern and South Eastern Europe	1,032	Significantly below previous year
Renewables	203	Moderately above previous year
Trading/Gas Midstream	831	Significantly below previous year
Recurrent net income	2,314	€1.2–1.4 billion

1 Deviating from the outlook published on pages 101 et seqq. of the 2013 Annual Report, RWE Dea has been considered in the figures for 2013 and in the outlook for 2014 under 'discontinued operations' (see commentary below). Further adjustments to figures for 2013 result from the first-time application of the accounting standard IFRS 11 (see commentary on pages 12 and 35).

Outlook adjusted due to the impending sale of RWE Dea

Our current estimates for this year's business performance are roughly in line with our expectations at the beginning of the year. However, the contract signed at the end of March for the divestment of RWE Dea requires the outlook to be adjusted. If the transaction remains on schedule, we will start recognising the upstream business under 'discontinued operations' retrospectively to 1 January in the financial statements for the first half of 2014 and adjust the financial statements for 2013 accordingly. In consequence, the consolidated revenue, EBITDA, operating result, non-operating result, financial result, income taxes and capital expenditure will no longer include the figures for RWE Dea. However, figures for the upstream activities will continue to be considered in net income. They are also reflected in recurrent net income, but this year only by including the interest on the sale price we receive from the buyer for the period from 1 January 2014 to the closing of the transaction. Our outlook is based on the assumption that RWE Dea will be deconsolidated at the end of 2014.

Excluding RWE Dea, we anticipate consolidated external revenue in fiscal 2014 in the order of €51 billion, EBITDA of €6.4 billion to €6.8 billion and an operating result of €3.9 billion to €4.3 billion. Recurrent net income including the interest on the sale price for RWE Dea is expected to total between €1.2 billion and €1.4 billion.

We expect the operating results of our divisions to develop as follows:

- Conventional Power Generation: Here, we anticipate that earnings will decline significantly. We have already sold most of this year's electricity generation. Overall, the margins we realised were smaller than in 2013. In addition, expenses incurred to maintain our power stations will probably rise compared to last year, when very few plant revisions were undertaken. In addition, the Didcot A and Tilbury power stations, which were decommissioned last year, stopped contributing to earnings. Conversely, we expect efficiency-enhancement measures to have a positive impact. Furthermore, certain burdens experienced last year, for example the increase in provisions for impending losses from an electricity supply contract, will not recur this year.

- Supply/Distribution Networks Germany: This division is likely to end the year with an operating result which is moderately higher than in 2013 despite the weather-induced earnings shortfalls in the first quarter. Our efficiency-enhancement programme will be the key success factor. Furthermore, we anticipate that the sale of network assets will result in higher earnings compared to 2013.

- Supply Netherlands/Belgium: Although Essent also benefits from efficiency measures, the operating result of this division will probably decline significantly. One of the reasons is that we released a substantial amount of provisions in 2013. In addition, gas supply margins may well come under increased pressure due to fierce competition. Further burdens result from the mild weather in the first quarter.

- Supply United Kingdom: Competition in the retail business is also becoming tougher in the United Kingdom. Moreover, we expect earnings to be hampered by a tighter regulatory environment, the unfavourable effect of the weather and the fact that the customers of the two divested supply companies Electricity Plus Supply and Gas Plus Supply are now supplied by us indirectly. Despite all these factors, the operating result of RWE npower will probably only decrease moderately. Efficiency-enhancing measures in particular will curtail the decline in earnings. Our expenditure on energy savings in households, which we are obliged to promote through the government programme ECO, will probably be lower than in 2013. However, we pass on the relief to our residential customers through a corresponding reduction in tariffs (see page 16).

- Central Eastern and South Eastern Europe: The earnings level posted by this division will be significantly down year on year, primarily due to the sale of NET4GAS in August 2013. Last year, the Czech long-distance gas network operator contributed €171 million to the operating result. However, this division would close the financial year down on fiscal 2013 even without this deconsolidation effect. One of the reasons is that certain transactions used to hedge currency risks, which had a positive impact on the operating result in 2013, are now stated as part of the non-operating result. In the Czech Republic, we expect margins in the gas business to shrink across all stages of the value chain (storage, distribution and supply). In addition, the electricity prices realisable by power plant operators have also declined in Hungary. This will be reflected in the earnings of our lignite-based electricity generator Mátra.

- Renewables: Thanks to efficiency enhancements and new generation capacity, this division is experiencing a positive earnings trend. However, it will only post a moderate gain in the current fiscal year. One reason are the delays in building our two large-scale offshore wind farms Gwynt y Môr and Nordsee Ost. In addition, conditions for generating renewable energy in Spain have worsened substantially and the biomass activities transferred to the Supply/Distribution Networks Germany Division no longer contribute to RWE Innogy’s operating result.

- Trading/Gas Midstream: The operating result posted by this division will be considerably lower compared to last year, when it benefited from the successful arbitration proceedings relating to our gas purchasing agreement with Gazprom. Disregarding this special item, earnings from the gas midstream business should improve further. The basis for this is the positive outcome of the most recent price revision of the contract with Gazprom, on which we have reported on page 7. However, we anticipate that margins in the gas storage business will shrink. We are optimistic about being able to exceed last year’s result in the energy trading business.

Dividend payout ratio of 40% to 50% planned

Our dividend proposal for the current fiscal year will be in line with a payout ratio of 40% to 50%. The basis for calculating the dividend is recurrent net income. As mentioned earlier, recurrent net income is expected to total between €1.2 billion and €1.4 billion.

€3.5 billion earmarked for capital expenditure on property, plant and equipment in 2014

Our capital expenditure on property, plant and equipment and intangible assets from 2014 to 2016 will total about €8 billion. This figure no longer includes RWE Dea. About €3 billion of the sum has been set aside for the maintenance and expansion of our electricity and gas networks. Approximately €1 billion in capital expenditure has been earmarked for the expansion of electricity generation from renewables. Here, we will focus on the construction of onshore and offshore wind farms. In 2014, capital invested in property, plant and equipment and intangible assets is expected to total about €3.5 billion. By completing the two dual-block hard coal-fired power plants at Hamm (1,528 MW) and at Eemshaven (1,554 MW), we intend to bring our new-build power plant programme to an end.

Net debt in the order of €26 billion expected

The RWE Group's net debt will drop considerably due to the anticipated sale of RWE Dea. By the end of 2014, our net debt should be in the order of €26 billion (fiscal 2013: €30.7 billion). However, the ratio of net debt to EBITDA, the leverage factor, should be much higher than the 3.5 recorded in 2013. Our goal is to return it below our self-imposed upper limit of 3.0 over the medium term. In order to accomplish this, we plan to fully finance capital expenditure and the dividend payments using cash flows from operating activities from 2015 onwards.

Continued headcount reduction

Our workforce will shrink substantially compared to 2013. The basis for this are efficiency enhancements, which will result in redundancies in the UK supply business in particular. Furthermore, the impending sale of RWE Dea will remove personnel from the RWE Group's headcount.

DEVELOPMENT OF RISKS AND OPPORTUNITIES

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

Uncertain political framework 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 in the review of operations on pages 88 to 99 of our 2013 Annual Report. There was only one significant change. It relates to our gas purchasing contract with Gazprom. Thanks to the agreement reached with the Russian gas group at the end of February 2014, we will not incur losses from the contract until June 2016 (see page 7).

Current key Value at 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 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 daily loss will not exceed the VaR.

The central risk controlling parameter for commodity positions is the Global VaR, which relates to the trading business of RWE Supply & Trading and may not exceed €40 million. It averaged €9 million in the first quarter of 2014 compared to €11 million in the same period last year. Its maximum daily value was €12 million (first quarter of 2013: €14 million).

As regards interest risks, we differentiate between two categories. On the one hand, rises in interest rates can lead to reductions in the price of securities held by RWE. This primarily relates to fixed-interest bonds. On the other hand, interest rate increases also cause our financing costs to rise. The VaR for our securities price risk associated with our capital investments in the first quarter of 2014 averaged €4 million (first quarter of 2013: €5 million). We measure the sensitivity of the interest expense with respect to rises in market interest rates 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 €6 million (first quarter of 2013: €9 million).

The securities we hold in our portfolio include shares. As in 2013, the VaR for the risk associated with changes in share prices averaged €6 million. The VaR for our foreign currency position remained below €1 million.

Forward-looking statements

This report contains forward-looking statements regarding the future development of the RWE Group and its companies as well as economic and political developments. Statements of this nature are assessments that we have made based on information available to us at the time this document was prepared. In the event that the underlying assumptions do not materialise or unforeseen risks arise, actual performance can deviate from the performance expected. Therefore, we cannot assume responsibility for the correctness of these statements.

CONSOLIDATED FINANCIAL STATEMENTS (CONDENSED)

Income statement[1]

€ million	Jan – Mar 2014	Jan – Mar 2013
Revenue (including natural gas tax / electricity tax)	**14,663**	**16,046**
Natural gas tax / electricity tax	−763	−898
Revenue	**13,900**	**15,148**
Cost of materials	−9,654	−10,436
Staff costs	−1,277	−1,310
Depreciation, amortisation, and impairment losses	−680	−725
Other operating result	−316	−349
Income from investments accounted for using the equity method	106	106
Other income from investments	9	2
Financial income	192	183
Finance costs	−645	−611
Income before tax	**1,635**	**2,008**
Taxes on income	−512	−507
Income	**1,123**	**1,501**
of which: minority interest	102	108
of which: RWE AG hybrid capital investors' interest	26	26
of which: net income / income attributable to RWE AG shareholders	**995**	**1,367**
Basic and diluted earnings per common and preferred share in €	**1.62**	**2.22**

1 Prior-year figures adjusted.

Statement of comprehensive income[1,2]

€ million	Jan – Mar 2014	Jan – Mar 2013
Income	**1,123**	**1,501**
Actuarial gains and losses of defined benefit pension plans and similar obligations	–174	–9
Income and expenses of investments accounted for using the equity method (pro rata)		–3
Income and expenses recognised in equity, not to be reclassified through profit or loss	**–174**	**–12**
Currency translation adjustment	–32	–241
Fair valuation of financial instruments available for sale	9	41
Fair valuation of financial instruments used for hedging purposes	–527	–127
Income and expenses of investments accounted for using the equity method (pro rata)		10
Income and expenses recognised in equity, to be reclassified through profit or loss in the future	**–550**	**–317**
Other comprehensive income	**–724**	**–329**
Total comprehensive income	**399**	**1,172**
of which: attributable to RWE AG shareholders	(359)	(1,075)
of which: attributable to RWE AG hybrid capital investors	(26)	(26)
of which: attributable to minority interests	(14)	(71)

1 Figures stated after taxes.
2 Prior-year figures adjusted.

Balance sheet[1]

Assets € million	31 Mar 2014	31 Dec 2013	1 Jan 2013
Non-current assets			
Intangible assets	13,394	13,409	16,247
Property, plant and equipment	34,193	34,217	37,108
Investment property	93	96	111
Investments accounted for using the equity method	3,192	3,253	3,321
Other financial assets	921	917	988
Receivables and other assets	1,979	1,749	2,094
Deferred taxes	3,508	3,264	3,586
	57,280	**56,905**	**63,455**
Current assets			
Inventories	2,362	2,387	3,155
Trade accounts receivable	8,463	7,964	8,045
Receivables and other assets	9,928	7,362	8,419
Marketable securities	2,656	2,813	2,633
Cash and cash equivalents	3,673	3,950	2,724
Assets held for sale	76		
	27,158	**24,476**	**24,976**
	84,438	**81,381**	**88,431**

Equity and liabilities € million	31 Mar 2014	31 Dec 2013	1 Jan 2013
Equity			
RWE AG shareholders' interest	8,097	7,738	12,171
RWE AG hybrid capital investors' interest	2,674	2,701	2,702
Minority interest	1,661	1,698	1,616
	12,432	**12,137**	**16,489**
Non-current liabilities			
Provisions	27,580	27,351	28,179
Financial liabilities	14,875	16,539	15,417
Other liabilities	2,284	2,234	2,715
Deferred taxes	1,296	1,259	1,358
	46,035	**47,383**	**47,669**
Current liabilities			
Provisions	6,511	6,389	4,811
Financial liabilities	4,063	2,149	4,529
Trade accounts payable	5,735	6,440	7,336
Other liabilities	9,662	6,883	7,597
	25,971	**21,861**	**24,273**
	84,438	**81,381**	**88,431**

1 Prior-year figures adjusted.

Cash flow statement[1]

€ million	Jan – Mar 2014	Jan – Mar 2013
Income	1,123	1,501
Depreciation, amortisation, impairment losses/write-backs	679	726
Changes in provisions	182	488
Deferred taxes/non-cash income and expenses/income from disposal of non-current assets and marketable securities	–192	–527
Changes in working capital	–1,635	–2,125
Cash flows from operating activities	**157**	**63**
Capital expenditure on non-current assets/acquisitions	–890	–764
Proceeds from disposal of assets/divestitures	277	440
Changes in marketable securities and cash investments	320	–105
Cash flows from investing activities	**–293**	**–429**
Cash flows from financing activities	**–142**	**1,094**
Net cash change in cash and cash equivalents	–278	728
Effect of changes in foreign exchange rates and other changes in value on cash and cash equivalents	1	–8
Net change in cash and cash equivalents	**–277**	**720**
Cash and cash equivalents at the beginning of the reporting period	3,950	2,724
Cash and cash equivalents at the end of the reporting period	**3,673**	**3,444**

1 Prior-year figures adjusted.

Statement of changes in equity[1]

€ million	Subscribed capital and additional paid-in capital of RWE AG	Retained earnings and distributable profit	Accumulated other comprehensive income	**RWE AG share-holders' interest**	RWE AG hybrid capital investors' interest	Minority interest	**Total**
Balance at 1 Jan 2013	**3,959**	**8,713**	**–501**	**12,171**	**2,702**	**1,616**	**16,489**
Capital repayments						–1	–1
Dividends paid					–64	–51	–115
Income		1,367		1,367	26	108	1,501
Other comprehensive income		2	–294	–292		–37	–329
Total comprehensive income		1,369	–294	1,075	26	71	1,172
Other changes		–15		–15	9	155	149
Balance at 31 Mar 2013	**3,959**	**10,067**	**–795**	**13,231**	**2,673**	**1,790**	**17,694**
Balance at 1 Jan 2014	**3,959**	**5,062**	**–1,283**	**7,738**	**2,701**	**1,698**	**12,137**
Capital paid in						24	24
Dividends paid					–63	–75	–138
Income		995		995	26	102	1,123
Other comprehensive income		–102	–534	–636		–88	–724
Total comprehensive income		893	–534	359	26	14	399
Other changes					10		10
Balance at 31 Mar 2014	**3,959**	**5,955**	**–1,817**	**8,097**	**2,674**	**1,661**	**12,432**

1 Prior-year figures adjusted.

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 31 March 2014 were approved for publication on 12 May 2014. 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 31 March 2014 was condensed compared with the scope applied to the consolidated financial statements for the full year. With the exception of the changes and new rules described below, this consolidated interim report was prepared using the accounting policies applied in the consolidated financial statements for the period ended 31 December 2013. For further information, please see the Group's 2013 Annual Report, which provides the basis for this interim report. The interim consolidated financial statements and the interim Group review of operations have not been subjected to an audit or to a review.

The discount rate applied to provisions for nuclear waste management and provisions for mining damage is 4.6% (31 December 2013: 4.6%). Provisions for pensions and similar obligations are discounted at an interest rate of 3.25% in Germany and 4.2% abroad (31 December 2013: 3.5% and 4.3%, respectively).

Changes in accounting policies

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have approved several amendments to existing International Financial Reporting Standards (IFRSs) and new IFRSs, which became effective for the RWE Group as of fiscal 2014:

IFRS 10 Consolidated Financial Statements (2011) replaces the previous regulations of IAS 27 and of SIC–12 for consolidation. According to IFRS 10 (2011), the following three requirements must be cumulatively fulfilled in order for control to exist: power over the relevant activities, a right to variable returns from the investee, and the ability to use power over the investee to affect the amount of the variable returns. First-time application of the Standard will not result in any changes to the scope of consolidation of RWE AG.

IFRS 11 Joint Arrangements (2011) replaces the previous regulations of IAS 31 and of SIC–13 for the accounting treatment of joint ventures. IFRS 11 (2011) regulates the accounting treatment of cases in which a company is managed jointly or an activity is carried out jointly. A further amendment is that in the future proportionate consolidation will no longer be allowed. RWE had not exercised this option in the past anyway. As a result of first-time application of the new Standard, starting from fiscal 2014 certain investments which have so far been accounted for using the equity method will be reported as joint operations. In the future, reporting will no longer cover the investments and related balance-sheet items, but rather the assets and liabilities of the companies which are attributable to RWE. The retrospective application of these rules for the first time has the following effects on the consolidated balance sheet as of 31 December 2013 and as of 1 January 2013:

€ million	31 Dec 2013	1 Jan 2013
Intangible assets	211	230
Property, plant and equipment	912	1,102
Investments accounted for using the equity method	−1,001	−304
Receivables and other assets	2	−930
Other assets	138	155
Provisions	232	188
Other liabilities	30	65

There were no changes in income.

IFRS 12 Disclosure of Interests in Other Entities (2011) encompasses the disclosure obligations resulting from the application of IFRS 10, IFRS 11 and IAS 28. These disclosure obligations should enable users of financial statements to evaluate the risks and financial implications resulting from subsidiaries, joint ventures and joint operations, associated companies and unconsolidated structured entities. RWE AG's consolidated financial statements for the period ending 31 December 2014 will contain the additional information for the first time.

The following amendments to standards, which become effective from fiscal 2014 onwards for the RWE Group, do not have any material effects on the RWE Group's consolidated financial statements:

- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (2013)
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (2012)
- Amendments to IFRS 10, IFRS 11, and IFRS 12 Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interest in Other Entities: Transition Guidance (2012)
- Amendments to IAS 32 Financial Instruments: Presentation (2011)
- IAS 27 Separate Financial Statements (2011)
- IAS 28 Investments in Associates and Joint Ventures (2011)

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 and joint ventures are accounted for using the equity method.

Number of fully consolidated companies	Germany	Abroad	Total
1 Jan 2014	160	197	357
First-time consolidation	4	4	8
Deconsolidation	−1	−5	−6
Mergers	−2	−5	−7
31 Mar 2014	161	191	352

Furthermore, two companies are presented 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 investments accounted for using the equity method and joint ventures[1]	Germany	Abroad	Total
1 Jan 2014	73	29	102
Acquisitions	–	–	–
Disposals	–	–	–
Transformations	–	−3	−3
31 Mar 2014	73	26	99

1 Prior-year figures adjusted.

Disposals

Dutch district heating activities

The sale of the district heating activities of Essent Local Energy Solutions (ELES) to the Dutch mutual pension fund PGGM and energy service provider Dalkia was completed on 6 March 2014. The district heating activities were assigned to the Supply Netherlands/Belgium Segment. In addition, PGGM and Dalkia also acquired the combined-cycle gas turbine power plants connected to the district heat network, which belonged to the Conventional Power Generation Segment. The parties agreed not to disclose the transaction volume or acquisition price for the package.

Duisburg-Huckingen gas-fired power station

RWE sold a gas-fired power plant in Duisburg-Huckingen to Hüttenwerke Krupp Mannesmann GmbH (HKM) for €99 million with effect from 26 February 2014. The gas-fired power station was assigned to the Conventional Power Generation Segment.

Assets and disposal groups held for sale

FÖGÁZ

On 18 December 2013, RWE and the Hungarian energy utility MVM signed a contract for acquisition of RWE's 49.83 % stake in the FÖGÁZ Group. The transaction has a volume of HUF 41 billion. The Supervisory Board of RWE AG approved the sale in January 2014. The shares were transferred in April 2014 after receiving the outstanding approvals from the relevant authorities and the City of Budapest. The investment in the FÖGÁZ Group, which was accounted for using the equity method and assigned to the Central Eastern and South Eastern Europe Segment, is stated on the balance sheet as an asset held for sale.

Discontinued operations

RWE Dea

On 28 March 2014, RWE AG and the LetterOne Group signed a contract for the sale of RWE Dea AG (Upstream Gas & Oil Segment), in which the RWE Group's gas and oil production activities are pooled, for an enterprise value of about €5.1 billion. This includes around €0.6 billion in assumed liabilities. The Supervisory Board of RWE AG approved the sale in April 2014. The transaction is subject to authority approvals. It is expected to be completed during 2014. RWE Dea will be accounted for as a discontinued operation from the second quarter of 2014 onwards.

Revenue

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

Share-based payment

Information was provided on share-based payment plans for executive staff at RWE AG and at subsidiaries in the consolidated financial statements for the period ended 31 December 2013.

In the first quarter of 2014, another tranche was issued within the framework of the Long-Term Incentive Plan for executive staff ("Beat 2010").

Dividend distribution

RWE AG's 16 April 2014 Annual General Meeting decided to pay a dividend of €1.00 per individual, dividend-bearing share for fiscal 2013 (fiscal 2012: €2.00). The dividend payment totalled €615 million.

Financial liabilities

In February 2014, a €500 million bond with a coupon of 3.0% p.a. and a tenor expiring in January 2024 issued by RWE Finance B.V. in October 2013 was topped up by €300 million, and a €439 million bond with a coupon of 3.5% p.a. and a tenor ending in October 2037 issued by RWE AG in October 2012 was topped up by €61 million.

Earnings per share[1]

		Jan – Mar 2014	Jan – Mar 2013
Net income/income attributable to RWE AG shareholders	€ million	995	1,367
Number of shares outstanding (weighted average)	thousands	614,745	614,745
Basic and diluted earnings per common and preferred share	€	1.62	2.22

1 Prior-year figures adjusted.

Related party disclosures

The RWE Group classifies associated companies and joint ventures as related parties. In the first quarter of 2014, transactions concluded with material related parties generated €1,025 million in income (first quarter of 2013: €707 million) and €777 million in expenses (first quarter of 2013: €713 million). As of 31 March 2014, accounts receivable amounted to €1,017 million (31 December 2013: €164 million), and accounts payable totalled €417 million (31 December 2013: €110 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 €1,101 million (31 December 2013: €1,942 million).

Reporting on financial instruments

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

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

Derivative financial instruments are recognised at their fair values 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 economy are made within the scope of a comprehensive process conducted by an independent team in RWE AG's Group Strategy Department, with the involvement of both in-house and external experts. The assumptions are coordinated and agreed upon with the operating subsidiaries in a joint steering committee within the Group and approved as binding budgeting data by the Executive Board.

The fair value of a group of financial assets and financial liabilities is measured based on the net risk position for each business partner in accordance with IFRS 13.48.

As a rule, the carrying amounts of financial assets and liabilities subject to IFRS 7 are identical with their fair values. There are deviations only in relation to bonds, commercial paper, bank debt, and other financial liabilities. Their carrying amounts totalled €18,938 million (31 December 2013: €18,688 million) and their fair values totalled €20,853 million (31 December 2013: €20,314 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[1] € million	Total 31 Mar 2014	Level 1	Level 2	Level 3	Total 31 Dec 2013	Level 1	Level 2	Level 3
Other financial assets	921	59	390	472	917	100	423	394
Derivatives (assets)	5,992		5,928	64	3,612		3,511	101
of which: used for hedging purposes	(1,529)		(1,529)		(1,447)		(1,447)	
Marketable securities	2,656	1,811	845		2,813	1,755	1,058	
Derivatives (liabilities)	5,636		5,631	5	2,785		2,779	6
of which: used for hedging purposes	(2,174)		(2,174)		(1,574)		(1,574)	

1 Prior-year figures adjusted.

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

Level 3 financial instruments: Development in 2014 € million	Balance at 1 Jan 2014	Changes in the scope of consolidation, currency adjustments and other	Changes		Balance at 31 Mar 2014
			Recognised in profit or loss	With a cash effect	
Other financial assets	394	66	–1	13	472
Derivatives (assets)	101	–1	–18	–18	64
Derivatives (liabilities)	6	–1	2	–2	5

Level 3 financial instruments: Development in 2013 € million	Balance at 1 Jan 2013	Changes in the scope of consolidation, currency adjustments and other	Changes		Balance at 31 Mar 2013
			Recognised in profit or loss	With a cash effect	
Other financial assets	442	–45		–30	367
Derivatives (assets)	237		11	–88	160
of which: used for hedging purposes	(55)			(–55)	
Derivatives (liabilities)	175		–67	–59	49
of which: used for hedging purposes	(35)			(–32)	(3)

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 – Mar 2014	Of which: attributable to financial instruments held at the balance-sheet date	Total Jan – Mar 2013	Of which: attributable to financial instruments held at the balance-sheet date
Revenue			79	79
Cost of materials	–20	–20	–1	–1
Income from investments	–1	–1		
	–21	–21	78	78

Level 3 derivative financial instruments substantially consist of commodity and electricity purchase agreements, which relate to trading periods for which there are no active markets yet. These contracts include in particular the RWE Group's long-term gas procurement contracts linked to the price of oil, the valuation of which depends on the development of wholesale gas and oil prices. All other things being equal, rising gas and/or sinking oil prices cause the fair values of the corresponding contracts to increase and vice-versa. A change in pricing by +/–10 % would cause the market value to rise by €11 million or decline by €10 million.

The following is an overview of the financial assets and financial liabilities which are netted out in accordance with IAS 32 or are subject to enforceable master netting agreements or similar agreements:

Netting of financial assets and financial liabilities as of 31 Mar 2014 € million	Gross amounts recognised	Amount set off	Net amounts recognised	Related amounts not set off		Net total
				Financial instruments	Cash collateral received/pledged	
Derivatives (assets)	4,129	−3,130	999		−313	686
Derivatives (liabilities)	4,457	−3,602	855	−80	−601	174

Netting of financial assets and financial liabilities as of 31 Dec 2013 € million	Gross amounts recognised	Amount set off	Net amounts recognised	Related amounts not set off		Net total
				Financial instruments	Cash collateral received/pledged	
Derivatives (assets)	3,364	−2,533	831		−347	484
Derivatives (liabilities)	3,322	−2,742	580	−97	−403	80

The related amounts not set off include cash collateral received and pledged for over-the-counter transactions as well as collateral pledged in advance for exchange transactions, which may consist of securities transferred as collateral.

Events after the balance-sheet date

Information on events after the balance-sheet date is presented in the review of operations.

FINANCIAL CALENDAR 2014/2015

14 August 2014	Interim report on the first half of 2014
13 November 2014	Interim report on the first three quarters of 2014
10 March 2015	Annual report for fiscal 2014
23 April 2015	Annual General Meeting
24 April 2015	Dividend payment
13 May 2015	Interim report on the first quarter of 2015
13 August 2015	Interim report on the first half of 2015
12 November 2015	Interim report on the first three quarters of 2015

This document was published on 14 May 2014. It is a translation of the German interim report on the first quarter of 2014.
In case of divergence from the German version, the German version shall prevail.

The Annual General Meeting and all events concerning the publication of the financial reports are broadcast live on the internet and recorded. We will keep the recordings on our website for at least twelve months.

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