

# REPORT ON THE FIRST HALF OF 2011

- Substantial burdens caused by German nuclear phase-out
- Operating result declines by 33% year on year
- Downward adjustment to earnings outlook for 2011
- Earnings prospects for 2013 marginally improved
- Strengthening of the capital base for future growth

## AT A GLANCE

<b>RWE Group – key figures</b>		Jan – Jun 2011	Jan – Jun 2010	+/- in %	Jan – Dec 2010
External electricity sales volume	billion kWh	154.0	155.3	-0.8	311.2
External gas sales volume	billion kWh	185.3	225.1	-17.7	395.4
External revenue	€ million	27,457	27,354	0.4	53,320
EBITDA	€ million	4,622	6,150	-24.8	10,256
Operating result	€ million	3,341	4,956	-32.6	7,681
Income before tax	€ million	2,425	3,160	-23.3	4,978
Net income	€ million	1,590	2,043	-22.2	3,308
Recurrent net income	€ million	1,667	2,746	-39.3	3,752
Earnings per share	€	2.98	3.83	-22.2	6.20
Recurrent net income per share	€	3.13	5.15	-39.2	7.03
Cash flows from operating activities	€ million	3,139	1,736	80.8	5,500
Capital expenditure	€ million	2,760	2,567	7.5	6,643
Property, plant and equipment and intangible assets	€ million	2,709	2,497	8.5	6,379
Financial assets	€ million	51	70	-27.1	264
Free cash flow	€ million	430	-761	156.5	-879
		30 Jun 2011	31 Dec 2010		
Net debt of the RWE Group	€ million	30,084	28,964	3.9	
Workforce <sup>1</sup>		72,700	70,856	2.6	

1 Converted to full-time positions.

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»The phase-out of nuclear energy in Germany places a huge burden on us. We are reacting with a package of measures that will strengthen our financial power and enable further growth.«

*Dear Investors,*

The reactor catastrophe at Fukushima caused the German government to do an about-turn on energy policy. The lifetime extension for German nuclear power plants introduced last year was rescinded in the middle of 2011. The U-turn in policy forced eight nuclear power stations to be shut down immediately. The nine remaining facilities must be taken offline on a staggered schedule that ends in 2022. This results in additional hardships as opposed to the original phase-out plan introduced in 2002. Moreover, the German government is keeping the new nuclear fuel tax, thereby imposing more burdens on us. The government's plan envisages recouping the potential supply shortage created by the abolishment of nuclear energy through the acceleration of the expansion of renewables and highly efficient fossil-fuelled power stations, among other things. Enhanced energy efficiency and faster network expansion are further goals of Germany's energy policy.

What does this mean for RWE?

The resolutions passed on nuclear energy hamper our earnings significantly, as already reflected in this first-half report. More on that later. However, the German government's energy concept also presents us with opportunities, which we want to take advantage of. At the heart of our strategy, which can be described as being "more sustainable, more international and more robust," is the improvement of the efficiency and CO<sub>2</sub> balance of our generation fleet. We have been spending billions of euros on new conventional power plants and the expansion of renewables for years. Our record investment programme is on the home stretch. We have already commissioned two new large-scale power stations, and others will be added every year through to 2014. This will make RWE's power plant portfolio one of the most modern in Europe.

However, our ongoing projects are tying up substantial amounts of capital. The early end to nuclear energy and the nuclear fuel tax eliminate financial resources that we had firmly relied on when making our investment decisions. Shrinking electricity generation margins and the difficult situation in the gas midstream business are also curtailing our financial power. The aforementioned factors recently caused the rating agencies to downgrade our credit rating. The task at hand now is to maintain our solid A rating. This is extremely important to us, as an A rating secures our access to financial resources even when the capital market is going through a crisis. It is also the basis for obtaining attractive conditions for future short-term financing, e.g. for our trading business.

The substantial political curtailment of our earning power has caused us to put together a package of measures to strengthen our financial power. We plan to take the following steps:

- We will step up the divestment programme we decided to implement in February 2011. Now our goal is to achieve a volume of up to €11 billion instead of €8 billion. We are evaluating options for a (partial) sale of RWE Dea, the Czech long-distance gas network operator NET4GAS, our stake in Berlinwasser, selected German sales and network activities and several coal and gas-fired power plants. The programme is scheduled to be completed by the end of 2013.
- We will cut our capex budget: from 2014 onwards, it will be in the order of €4 billion per annum. This is €1.5 billion less than the level of spending we have planned for the medium term from 2011 to 2013. Half of the funds are earmarked for growth projects. In this respect, we are mainly thinking of additional renewable generation capacity and the expansion of our activities in Central Eastern and South Eastern Europe.
- We will raise the target for our ongoing efficiency-enhancement programme. So far, we have planned to gradually lift annual earnings by a total of €1.4 billion by 2012 by taking measures to reduce costs and increase revenue compared to 2006. We are now aiming for €1.5 billion. Once we have concluded the current efficiency-enhancement programme, we will launch a new one, which we will present to you in March 2012 when we publish our financial statements for 2011.
- We will strengthen our equity: by issuing new shares and selling treasury shares, we will give ourselves financial leeway and safeguard our current credit rating. In total, we want to increase our equity by about €2.5 billion.

By taking the aforementioned measures, we will make RWE, your company, more powerful over the long term. However, they cannot make the burdens on our earnings from 2011 onwards disappear. These negative effects have already clearly made themselves felt in the financial statements for the first six months. The operating result of the RWE Group declined by 33%, with recurrent net income dropping by as much as 39%. The burdens stemming from the nuclear phase-out and the nuclear fuel tax amounted to approximately €900 million in the first half of the year. Although we have identified opportunities to cushion the earnings shortfall with improvements elsewhere, we have to make a downward adjustment to the full-year forecast we published in February. We now expect that in 2011, our operating result and recurrent net income will decline by about 25% and 35%, respectively. In both cases, this is five percentage points more than originally anticipated. In contrast, our medium-term earnings prospects have improved somewhat. According to our current planning, in 2013, our operating result will amount to approximately €5.9 billion and recurrent net income will total about €2.5 billion. However, these figures do not yet reflect the future sale of companies within the scope of our divestment programme.

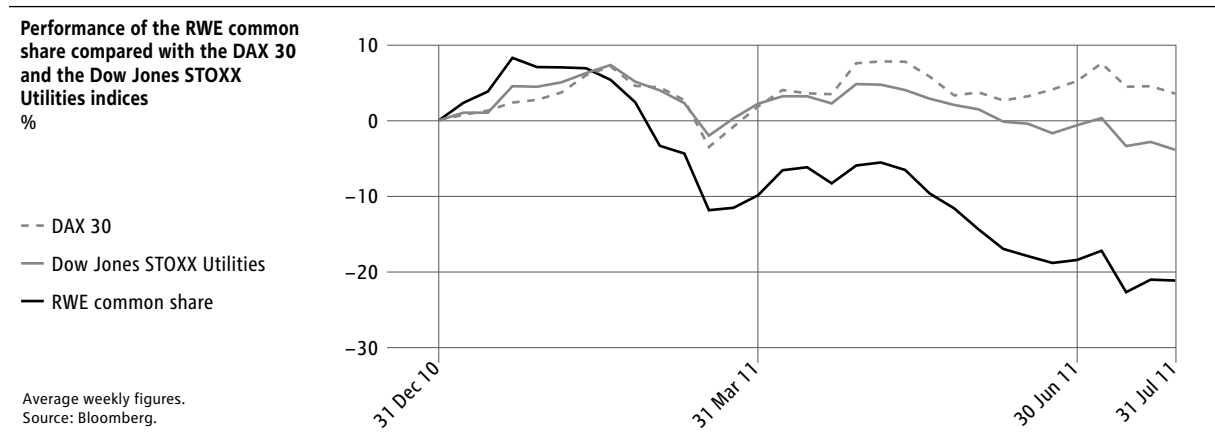
It is particularly in difficult times that a company demonstrates how successful it is. I am certain that the measures outlined above will help us to prove this. In so doing, we also rely on the trust that you, our shareholders, place in us. We will continue to pay at least half of our recurrent net income out to you, thus enabling you to adequately partake of the future success of your company, RWE.

Sincerely yours,

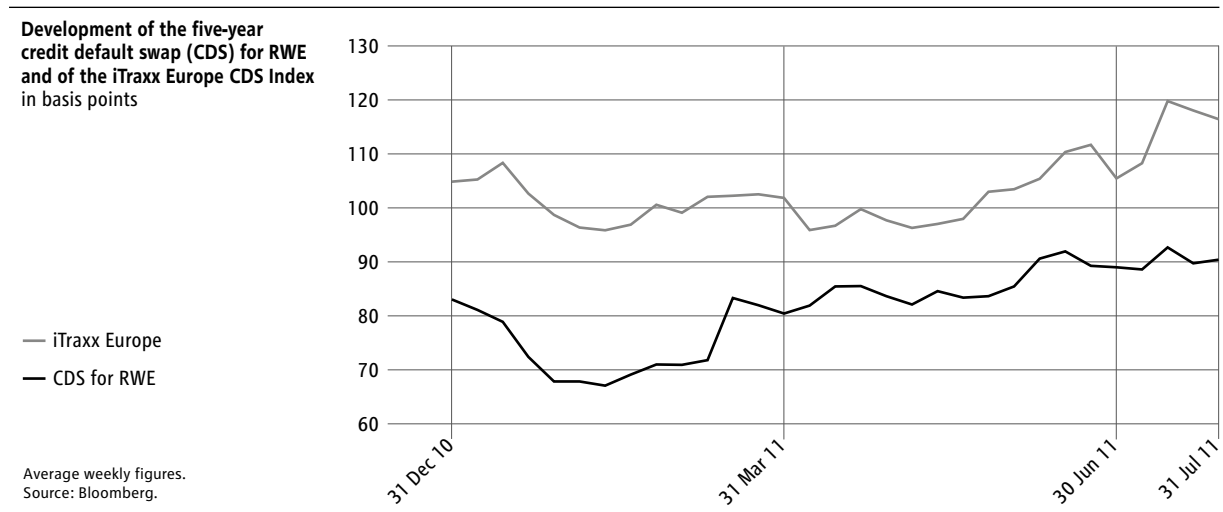
A handwritten signature in black ink, reading "Jürgen Großmann". The signature is written in a cursive, flowing style with a large initial 'J'.

Dr. Jürgen Großmann  
President and CEO of RWE AG  
Essen, August 2011

## Nuclear phase-out weighs on RWE share price



Despite imminent national insolvencies in the Eurozone, sentiment on the German stock market in the first half of the year was still positive. The basis for this was the good domestic economy. Germany's lead index, the DAX, closed the month of June at 7,376 points, which was 7% higher than at the end of 2010. Climbing above 7,500 points in May, it achieved its highest level since the beginning of 2008. On average, European utility stocks fared worse than the DAX. The sector index, Dow Jones STOXX Utilities, only gained half of one percent. The first six months were especially disappointing for RWE shareholders. On 30 June 2011, our common and preferred shares traded at €38.24 and €35.20, respectively. This corresponds to a total return (return on the change in share price plus the dividend) of -18% and -21%, respectively. The main reason for this is the new course set by German energy policy following the disaster at the Fukushima nuclear power plant in Japan. The law was changed to rescind the nuclear power plant lifetime extensions that were given clearance at the end of 2010 and to shut down eight of Germany's 17 reactors immediately. We have reported on this extensively on page 13.



The corporate bond market has recently been characterised by opposing developments. On the one hand, the interbank lending rates in RWE's core markets declined slightly. On the other hand, the risk premiums that bond issuers have to pay on top of these rates increased. This was reflected in the price of hedging credit risk via credit default swaps (CDSs). The iTraxx Europe Index, which consists of the CDS prices of 125 major European companies, hovered around the 100 point mark from January to May. However, as the sovereign debt crisis came to a head in the middle of the year, the index clearly trended upwards. The CDS for RWE started the year at over 80 points before initially falling below 70. However, against the backdrop of the events at Fukushima and the looming shortening of German nuclear power plant lifetimes, it went back up significantly. At the end of July, it was at 91 points. However, it was still much lower than the iTraxx Europe, which closed the month at 117 points.

## ECONOMIC ENVIRONMENT

### **Economy loses momentum**

Following the strong recovery in 2010, world economic growth has weakened somewhat in 2011. Stimulus packages in the US and China came to an end and the massive earthquake temporarily pushed Japan into recession. Based on estimates, cumulative gross domestic product (GDP) of all OECD countries in the first half of 2011 was approximately 2.5% higher than in the same period last year. The Eurozone is estimated to have posted a gain of more than 2%. Germany, the largest economy in the currency area, remains Europe's growth engine. Its economic output is likely to have risen by 4%. The main reason for this is the dynamic development of the industrial sector. Based on current data, GDP probably rose by more than 2% in the Netherlands where the economy, which was very strong at the beginning of the year, has weakened substantially as of late. The United Kingdom, which has still not fully overcome the real estate and financial market crisis, is estimated to have posted a gain of slightly over 1%. The upswing witnessed in Poland and Hungary at the beginning of the year lost some steam, while the expansion in the Czech Republic and Slovakia continued unabated. All in all, growth recorded in these countries is likely to have exceeded the European average.

### **Weather milder than in the year-earlier period**

Whereas the economic trend is reflected above all in industrial demand for energy, residential consumption is significantly influenced by the weather. The temperature dependency of demand for heating comes to bear in this context, reflected in seasonal revenue and earnings fluctuations, among other things. We generate around two-thirds of our gas sales volume in the winter and autumn months (Q1 and Q4). However, weather conditions also play a role when comparing various fiscal years. In the period under review, temperatures in our core markets, namely Germany, the United Kingdom, the Netherlands and Central Eastern Europe, were higher than the long-term seasonal average. In some cases, the year-earlier levels were clearly exceeded. The unusually mild month of April made an especially strong contribution to this. In addition to energy consumption, weather conditions also influence the generation of electricity, especially from wind turbines. Overall, wind levels in Germany and the United Kingdom were much lower than the long-term average, but they recovered from the very low levels seen in the first half of 2010. The situation was different in Spain, where it was much windier in the first half of 2010 than average. These wind levels have not been reached in 2011.

### **Energy consumption: economy pushes demand up, heating requirement down**

Demand for energy in our core markets was marked by opposing factors: continued economic growth and the milder weather. Based on available data, electricity consumption in Germany in the first half of 2011 was nearly 1% higher than in the same period last year. The Netherlands, Hungary and Poland are estimated to have posted a gain of some 2%. Slovakia recorded an increase of just under 1%. Conversely, demand for electricity dropped by 2% in the Czech Republic, where the effect of the weather outweighed that of the economy. The same applies to the United Kingdom, where consumption declined by 3%. However, progress in improving energy efficiency also played a major role in this context. There is still substantial potential for this in the United Kingdom. The development of gas consumption was largely determined by the significant decline in demand for heating purposes. Double-digit percent declines were identified for Germany (-11%), the Netherlands (-12%) and the United Kingdom (-16%), and a decrease of 8% was calculated for both the Czech Republic and Hungary.

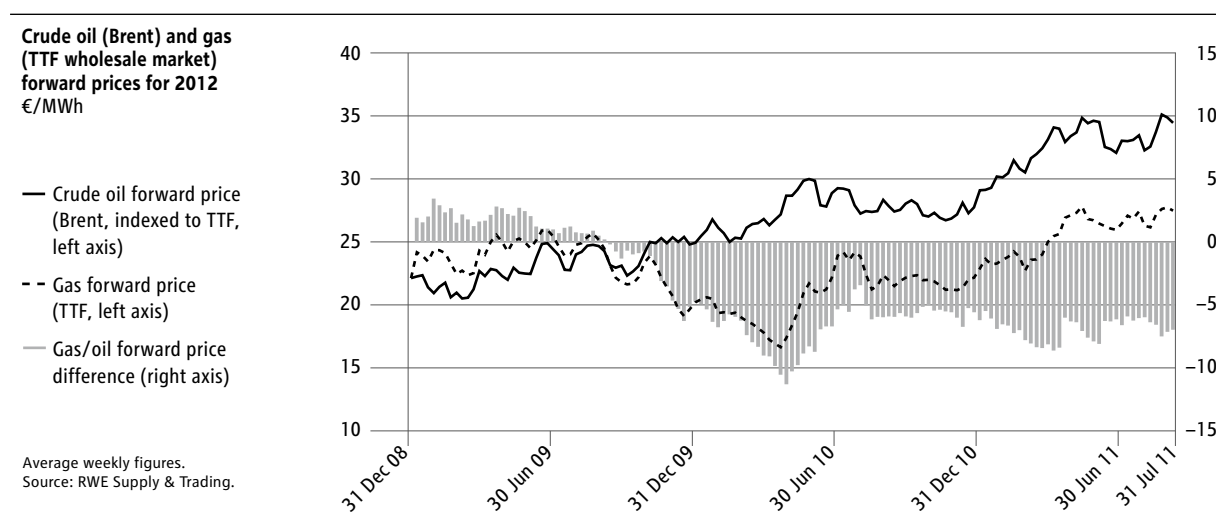


### Oil price 45 % higher than year-earlier average

The fuel price curve continued to trend upwards on international markets, as was the case with crude oil. In the first half of 2011, a barrel of Brent crude traded at an average of US\$112 (€79), making it 45% more expensive than in the same period last year. However, the price increase in euro terms (34%) was lower due to the depreciation of the dollar. Developments on oil markets were determined in part by mounting demand in Asia's fast-growing economies. Furthermore, numerous investors fearing inflation put their money in commodities, which is driving up prices. Another factor was the political unrest in North Africa and the Middle East, which resulted in production shortfalls and gave rise to the concern that oil supplies may tighten further. In the second quarter, however, the situation on the oil market eased somewhat. Contributing to this was that the consumption forecasts for the USA and China were lowered and the International Energy Agency announced that it would sell parts of its strategic reserves.

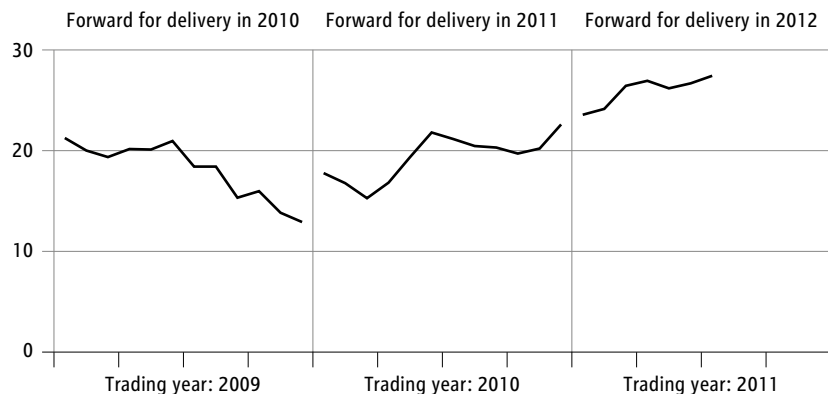
### Gas becomes much more expensive

As a large proportion of gas imports to Continental Europe is based on long-term agreements linked to the price of oil, developments on the oil market also influence the price of gas. However, this typically occurs with a time lag of several months. In addition to the oil-indexed supply contracts, trades of freely available quantities with shorter terms also determine the situation on gas markets. Oil does not have a direct impact on the formation of prices for these transactions. Major trading hubs are the National Balancing Point (NBP) in the United Kingdom and the Title Transfer Facility (TTF) in the Netherlands. Since 2009, prices on these markets have been far below those in oil-indexed contracts. In the meantime, some long-term contracts have been revised. Parts of the volumes are no longer indexed to oil and are instead priced on gas wholesale spot prices.



Prices of gas imports to Germany in the first six months of 2011 were an average of 30% higher year on year. This was largely due to the continued boom on oil markets. The spot price on the TTF wholesale market in the period under review averaged €23 per megawatt hour (MWh), clearly up on the comparable figure in 2010 (€15). In TTF gas forward trading, contracts for delivery in the coming calendar year (2012 forward) sold for €26 per MWh. This is also much more than what was paid for the 2011 forward in the first half of 2010 (€18).

**One-year forward prices on the TTF gas wholesale market**  
€/MWh



Average monthly figures.  
Source: RWE Supply & Trading.

In Germany, residential gas tariffs were up 3% compared to the first half of 2010. For industrial enterprises, they were 14% higher, as prices in this customer segment react much faster to developments on the wholesale market. Gas also became more expensive in our other European markets. Households and industrial enterprises had to pay 6% and 23% more in the Netherlands, 2% and 27% more in the United Kingdom, 17% and 16% more in the Czech Republic and 7% and 2% more in Hungary.

#### **Demand from Asia causes boom on hard coal markets**

Prices of thermal coal on international markets also rose. In the first half of 2011, a metric ton cost an average of US\$124 (including freight and insurance) in Rotterdam spot trading, compared to US\$83 a year earlier. Persistently strong demand in Asia continues to dominate the situation on the market. Sea freight rates are a major component of hard coal quotations. From January to June, the standard route from South Africa to Rotterdam cost an average of US\$10 per metric ton. The comparable figure for 2010 was US\$13. In fact, demand for sea cargo has continued to increase, but this was more than offset by further expansion in shipping capacity.

The German Federal Office of Economics and Export Control (BAFA) determines the price of hard coal produced in Germany based on quotations for imported hard coal. Therefore, the BAFA price follows developments on international markets, albeit with a time lag. No figure was available for the first half of 2011 when this report went to print, but experts estimate it to be €102 per metric ton of hard coal unit. This would be €21 more than in the same period last year.



### CO<sub>2</sub> emissions trading: prices collapse by the middle of the year

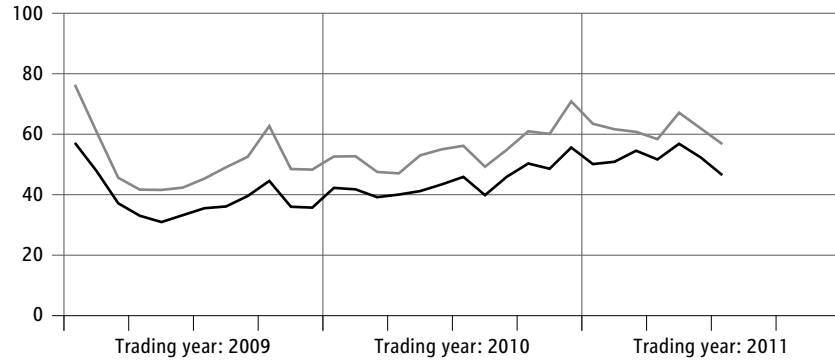
European trading of CO<sub>2</sub> emission allowances (referred to as EU Allowances – EUAs) has recently been characterised by significant price fluctuations. Certificates became much more expensive at the start of 2011. EUAs for 2011, which were quoted at €14.40 per metric ton of CO<sub>2</sub> at the beginning of the year, surpassed the €17 mark several times in the period from March to May. The reaction of the German government to the disaster at the Fukushima nuclear power plant was a major contributing factor. The cessation of operations of eight of Germany's 17 reactors, which was initially temporary (nuclear moratorium), caused many market participants to assume that Germany would accelerate the nuclear phase-out. The amendment to the Nuclear Energy Act, which has since been ratified, confirmed this expectation (see page 13). The shortfall in electricity from nuclear power stations has increased the use of hard coal and gas-fired power plants, thereby raising CO<sub>2</sub> emissions. Nevertheless, certificate prices declined significantly again in June. In July, EUAs were temporarily traded for a mere €12. One contributing factor was that the debt crisis in the Eurozone came to a head. Potential state bankruptcies and drastic austerity measures may have a substantial impact on economic growth and demand for emission allowances. The publication of a draft EU directive to improve energy efficiency also put prices under pressure as its implementation would further dampen CO<sub>2</sub> emissions. In addition, Poland blocked the EU's plans to lift the emission reduction target for 2020 from 20% to 25% (compared to 1990). Furthermore, it became known that the European Investment Bank intends to auction off certificates for the third trading period, which stem from the new entrant reserves, as early as autumn 2011.

Averaged for the first half of the year, EUAs for 2011 traded at €15.90. This is €1.80 more than what was paid for 2010 certificates in the year-earlier period. Certified Emission Reductions (CERs) which cost an average of €12.10, did not experience any noteworthy changes in price compared to 2010. CERs are credits earned from emission-reducing measures taken in developing and newly industrialising countries. European companies may cover domestic emissions up to a predetermined level by submitting such certificates.

**Wholesale electricity spot prices in Germany**  
€/MWh

— Peak load  
— Base load

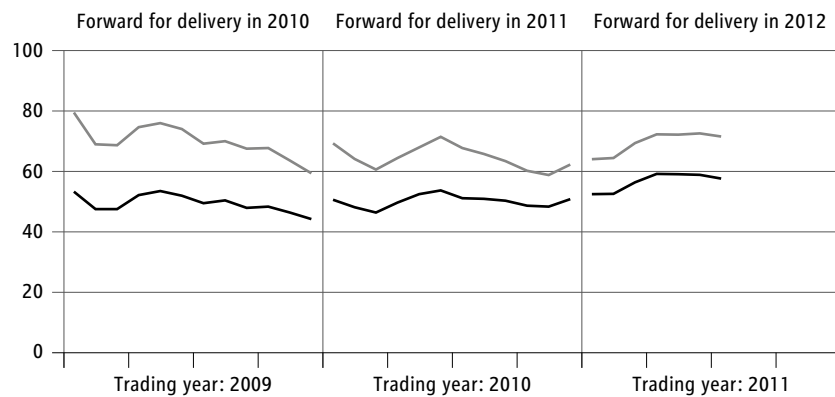
Average monthly figures.  
Source: European Energy Exchange EEX.



**One-year forward wholesale electricity prices in Germany**  
€/MWh

— Peak load  
— Base load

Average monthly figures.  
Source: RWE Supply & Trading.



**Higher wholesale electricity prices**

The rise in fuel prices and the German nuclear moratorium clearly left their mark on electricity wholesale markets. In spot trading at the EEX Energy Exchange in the first six months of 2011, base-load power sold for an average of €53 per MWh, while peak-load electricity was settled for €62 per MWh, as opposed to €41 and €51 in the first half of 2010. Quotations in German electricity forward trading were also up. This is because market participants expect to see the higher fuel costs continuing in the medium term. In addition, the decisions taken by the German government regarding the nuclear phase-out had an impact on quotations. Supply contracts for the coming calendar year (2012 forward) traded for an average of €56 per MWh of base-load power and €69 per MWh of peak-load power. This was €6 and €3 more than what was paid for 2011 forwards in the same period last year.

We sell forward nearly all of the output of our power plants in order to reduce volume and price risks. Therefore, current electricity prices only had a minor impact on our income in the period under review. What is much more decisive is the price at which we concluded electricity contracts for delivery in 2011 in preceding years. In the 2009/2010 trading period, the 2011 German base-load forward traded at an average of €52 per MWh.

The comparable average for the 2010 forward in 2008/2009 was €59 per MWh. Electricity was therefore €7 per MWh cheaper for 2011 than for 2010. This is partly due to the development of fuel prices, which reached record levels in the middle of 2008 before falling significantly. Another reason is the unexpectedly strong expansion of renewable energy, in particular solar power. Until fairly recently, many market participants were of the opinion that there would be a steady increase in excess generation capacity in Germany. However, due to the accelerated nuclear phase-out, this opinion has begun to change.

When concluding electricity forward sales, we usually procure the fuel and CO<sub>2</sub> emission allowances required to generate the electricity or secure their prices at the same time as signing the supply agreement. First and foremost, this applies to the output of our hard coal and gas-fired power plants. The earnings of these power stations are predominantly influenced by clean dark spreads (hard coal) and clean spark spreads (gas). These are calculated by deducting the cost of the respective fuel used and of emission allowances from the price of electricity. On average, the spreads we realised through forward sales for 2011 were lower than last year's comparable figures. This also applies to electricity generated by our German lignite-fired and nuclear power stations, the fuel costs of which are relatively stable. Therefore, the spreads of these plants usually trend in the same direction as electricity prices.

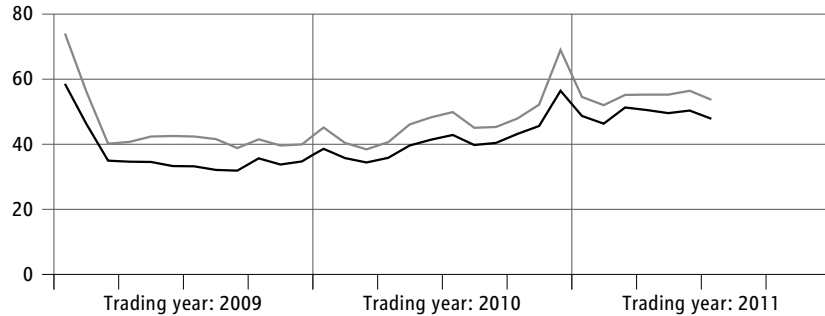
In the German end-customer business, electricity prices rose further. Many supply companies bought electricity at prices that were lower than in 2010. However, levies included in power bills in accordance with the German Renewable Energy Act (REA) rose significantly. This is due to increasing amounts of electricity from renewables being fed into the grid as a result of the continued expansion of wind, biomass and, above all, solar generation capacity. Therefore, electricity tariffs charged to households and small commercial enterprises were an average of 7% higher than in the first half of 2010. Prices paid by industrial companies, which were an average of 10% higher, normally track developments on the spot market.

Quotations for UK wholesale electricity were also up. The average price on the spot market was £49 (€56) per MWh of base-load power and £55 (€63) per MWh of peak-load power, increasing by £12 in both cases. In the UK electricity forward market, contracts for delivery in the 2012 calendar year were settled for an average of £55 (€63) per MWh of base-load power in the first six months of 2011. Compared to what was paid for the 2011 forward in the same period last year, this also corresponds to a rise of £12. Peak-load power rose in price by £13, climbing to £62 (€71) per MWh.

**Wholesale electricity spot prices in the United Kingdom**  
£/MWh

— Peak load  
— Base load

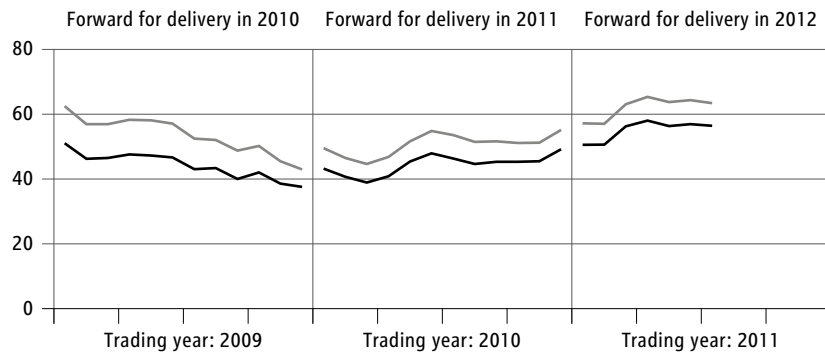
Average monthly figures.  
Source: RWE Supply & Trading.



**One-year forward wholesale electricity prices in the United Kingdom**  
£/MWh

— Peak load  
— Base load

Average monthly figures.  
Source: RWE Supply & Trading.



Most of the electricity we generate outside Germany is also sold forward. As our generation portfolio in the United Kingdom largely consists of hard coal and gas-fired power plants, the earnings trend is significantly influenced by the clean dark spreads and clean spark spreads realised by RWE npower. The former were better and the latter were slightly weaker than in the first half of 2010.

The majority of UK energy suppliers raised their electricity tariffs for customers at the end of 2010 or earlier this year. As a result, prices for households and small commercial enterprises were an average of 5% higher than in the first six months of 2010. Industrial customers were subjected to a similar rise in tariffs.

In the Netherlands, wholesale electricity prices displayed a development similar to that in Germany. The clean dark spreads and clean spark spreads we realised there were down on last year's comparable levels. In the end-customer business, prices were marginally up, increasing by 2% for households and 3% for industrial customers.

End-customer prices in our Central Eastern European electricity markets displayed varied developments. Households had to pay 2% more in Poland and 5.3% more in Slovakia, whereas in Hungary, they paid 2.1% less. Electricity supplied to industrial customers in Poland and Slovakia was 0.7% and 4.5% more expensive, respectively, whereas in Hungary, it was 12% cheaper.

## MAJOR EVENTS

### In the period under review

#### **Germany accelerates nuclear phase-out**

On 30 June, in reaction to the disaster at the Japanese nuclear power plant at Fukushima, the German Lower House passed an amendment to the German Nuclear Energy Act, which came into force in August. The lifetime extension for nuclear power stations introduced last year was made obsolete. The situation is exacerbated by the fact that shut-off deadlines have been set for each reactor. The eight reactors, which were ordered to cease operation for an initial period of three months (nuclear moratorium) must stop producing electricity for good. By September, the German Federal Network Agency is to decide whether one of these power plants should remain on stand-by until 2013 in order to be able to react to supply shortages. The nine remaining German nuclear power stations must be taken offline by the end of 2015 (Grafenrheinfeld), 2017 (Gundremmingen B), 2019 (Philippsburg II), 2021 (Grohnde, Brokdorf, Gundremmingen C) and 2022 (Isar II, Neckarwestheim II, Emsland). The rescission of the lifetime extension eliminates the payments the nuclear power plant operators would have had to make to the climate and energy fund. The intention was to finance the fund with some of the additional profits that would have been earned as a result of the nuclear power plants' prolonged operation. However, the German government is maintaining the tax on nuclear fuel which will expire at the end of 2016.

The nuclear phase-out is accompanied by a set of laws, which were also approved at the end of June and are designed to promote the intensified use of renewable energy, efficiency-enhancing measures and an accelerated expansion of the network infrastructure. The German government aims to double the share of total generation accounted for by green electricity to 35% by 2020 at the latest. The German Renewable Energy Act now envisages more attractive subsidies for offshore wind turbines. Operators of these plants will be entitled to higher feed-in tariffs in conjunction with a shorter subsidy period. The climate and energy fund's financing gap caused by the rescission of the lifetime extension is to be bridged using funds obtained from auctioning CO<sub>2</sub> certificates from 2013 onwards. The fund will be used to finance measures taken to promote electric cars, energy storage and the modernisation of buildings to optimise energy consumption, among other things. Additional funds are to be earmarked for providing relief to energy-intensive manufacturing companies.

#### **Standard & Poor's and Moody's downgrade RWE rating**

In the middle of the year, Standard & Poor's and Moody's, the two leading rating agencies, lowered their credit ratings for RWE by one notch to A- and A3, respectively, with a "negative" outlook. The reasons given for the downgrades include the political decisions concerning the nuclear phase-out in Germany and the difficult market conditions in the gas business. The rating downgrades do not have a major influence on our financing costs.

#### **Wood pellet factory in Georgia commences production**

In the middle of May, RWE Innogy commissioned a plant for manufacturing wood pellets in the US state of Georgia. The factory has an annual production capacity of 750,000 metric tons, making it one of the largest worldwide. Initially, the wood pellets will mainly be used in our hard coal-fired power station in Amer (Netherlands). Some of the plant's units already co-fire up to 30% biomass. This proportion should be increased

considerably in the years ahead. Furthermore, we are currently converting our hard coal-fired power station at Tilbury (UK) to a biomass-only facility. Once converted, it will have an installed capacity of 750 MW. About half of the plant's raw material requirement will be covered by the Georgia factory.

Further major events have occurred in the period under review. We presented them on pages 11 and 12 of our report on the first quarter of 2011.

## After the period under review

### **Supervisory Board appoints Peter Terium future Chairman of the Executive Board of RWE AG**

Peter Terium, Chairman of the Board of our subsidiary Essent, has been appointed to the Executive Board of RWE AG as Deputy Chairman with effect from 1 September 2011. This was decided by the Supervisory Board of RWE AG in its meeting on 8 August. Dr. Jürgen Großmann will leave the company with effect from 30 June 2012 and hand company leadership over to the 47-year-old Dutchman. Mr. Terium held positions at KPMG and Schmalbach-Lubeca AG before joining RWE in 2003, where he started as Head of Group Controlling after which he became the CEO of RWE Supply & Trading. Once he takes office as Chairman of the Executive Board of RWE AG with effect from 1 July 2012, his Deputy will be Dr. Rolf Martin Schmitz. The 54-year-old Rhinelander has been a member of the Executive Board of RWE AG since 2009 and is responsible for the operating management of the Group companies.

### **RWE plans measures to strengthen financial power**

On 8 August, we introduced a package of measures designed to strengthen RWE's financial power and give the company new growth prospects. It envisages increasing the divestment programme launched in February 2011 from €8 billion to up to €11 billion. We are evaluating options for a (partial) sale of RWE Dea, the Czech long-distance gas network operator NET4GAS, our stake in Berlinwasser, selected German sales and network activities and several coal and gas-fired power plants. The programme is scheduled to be completed by the end of 2013. We will reduce our capex budget to approximately €4 billion per annum from 2014 onwards. This is €1.5 billion below the annual average level of spending from 2011 to 2013. Half of the funds will be set aside for growth projects. In this regard, we are primarily thinking of additional renewable generation capacity and the expansion of our activities in Central Eastern and South Eastern Europe. We have set a more ambitious target for our ongoing efficiency-enhancement programme. We previously wanted to achieve annual earnings contributions totalling €1.4 billion by 2012 compared to 2006. Now we are aiming for €1.5 billion. Furthermore, we will launch another cost-cutting campaign on conclusion of the current programme. Our package also envisages the issuance of new shares and the sale of treasury shares. In so doing, we intend to raise our equity by a total of about €2.5 billion. However, the timing of the implementation of this measure depends on the development of stock markets among other things.

### **RWE sells majority of Amprion**

A consortium of financial investors consisting of insurance companies and special pension funds will acquire 74.9% of our German transmission system operator Amprion. This was contractually agreed in the middle of July. The consortium is being led by Commerz Real AG, a subsidiary of Commerzbank AG. It also includes



companies belonging to Munich Re, ERGO, Swiss Life and Talanx as well as the Westfalen-Lippe Physicians' Pension Fund. RWE and Commerz Real will be part of the consortium initially, but their stakes are to be sold to other investors in the near future. The sales price for Amprion is based on the valuation of the company as a whole of some €1.3 billion, including €370 million in net debt (valuation date: 1 January 2011). This is roughly in line with the company's regulated asset base and corresponds to eight times recurrent EBITDA. The transaction is pending the approval of the responsible cartel office. It will provide us with relief in terms of net debt and capital expenditure. Amprion plans to spend more than €3 billion on the maintenance and expansion of network infrastructure over the next ten years. In the investor consortium, we have found a reliable, financially sound partner for this.

#### **RWE and Gazprom aim for strategic partnership in electricity production**

In the middle of July, Gazprom CEO Alexey Miller and RWE President and CEO Jürgen Großmann signed a memorandum of understanding for a strategic partnership in the European power plant sector. Under the terms of the MoU, the parties will conduct negotiations on how to include both new and existing hard coal and gas power plant capacity in Germany, the United Kingdom and the Benelux countries in a joint venture. It is envisaged that Gazprom negotiate with us exclusively for three months about the implementation of energy projects of this nature. The memorandum also addresses our long-term purchase agreements with the Russian gas company, which are currently the subject of review negotiations. RWE and Gazprom confirm that they intend to achieve a mutually satisfactory conclusion.

#### **RWE and Delta agree on investment in Dutch power plant operator EPZ**

At the beginning of July, we reached an agreement with the former shareholders of Essent and with the energy utility Delta N.V. regarding our investment in EPZ, the Dutch electricity generator. EPZ operates the 485 MW Borssele nuclear power station, a 406 MW hard coal-fired power plant and a small number of wind turbines. RWE will take a 30% stake in the company, enabling us to market a commensurate share of the electricity generated by EPZ. We had originally agreed with Essent's former shareholders to acquire 50%. This corresponds to the stake in EPZ held by Essent before the takeover by RWE. Delta N.V. will increase its shareholding in EPZ from 50% to 70%. The agreement puts an end to the litigation that has been pending since the Essent acquisition. The new shareholder structure is still awaiting approval from the responsible cartel office, among others.

#### **Billion euro electricity contract with the German Railway**

RWE will supply Deutsche Bahn with electricity generated by hydroelectric power plants for a period of 15 years. This was agreed in a contract exceeding €1 billion at the end of July. From 2014 onwards, we will provide Deutsche Bahn with 0.9 billion kilowatt hours (kWh) per annum, enough to run one-third of the ICE and IC trains which are part of the long-distance fleet. Through certificates of origin, we will guarantee that RWE Innogy hydro plants will feed the quantity of electricity into the grid required for the physical supply of electricity to Deutsche Bahn.

## NOTES ON REPORTING

### **Commentary on the segment structure**

With effect from 1 January 2011, several reorganisation measures, which we described on page 69 of the 2010 Annual Report, became effective. However, they did not change the Group's segment structure. As before, the RWE Group is made up of the following seven divisions.

- **Germany:** This division consists of the Power Generation and Sales/Distribution Networks Business Areas. The first one includes RWE Power's activities and the second one encompasses RWE Deutschland (formerly RWE Rheinland Westfalen Netz), RWE Vertrieb (including eprimo, RWE Energiedienstleistungen and RWE Aqua), RWE Effizienz, the investments of the former RWE Rheinland Westfalen Netz (including RWE Gasspeicher) and our German regional companies are managed via RWE Deutschland AG. The regional companies operate their own electricity generation facilities to a small extent, as well as overseeing the network and end-customer operations. The Sales/Distribution Networks Business Area also includes some non-German activities: our minority interests in Austrian-based KELAG and Luxembourg-based ENOVOS as well as our water operations in Zagreb, Croatia, which are run by RWE Aqua.
- **Netherlands/Belgium:** This is the division under which we report on Essent, which was acquired as of 30 September 2009, and RWE Energy Nederland, which is now part of Essent. Some of Essent's activities have subsequently been assigned to other divisions. We started disclosing the company's energy trading under Trading/Gas Midstream on 1 January 2010, and since 1 January 2011, the latter has also encompassed parts of Essent's gas midstream business. Wind-based generation has been assigned to the Renewables Division since 1 January 2010, and the German gas storage activities have belonged to the Germany Division since 1 April 2010.
- **United Kingdom:** This segment comprises RWE npower, i.e. our UK generation and supply businesses, with the exception of electricity production from renewables, which is overseen by RWE Innogy.
- **Central Eastern and South Eastern Europe:** This division encompasses our activities in the Czech Republic, Hungary, Poland, Slovakia and Turkey. In the Czech Republic, we focus on the supply, distribution, supraregional transmission, transit and storage of gas. In 2010, we started marketing electricity there as well. In Hungary, we cover the entire electricity value chain, from production through to the operation of the distribution system and supply, and are also active in the gas and water supply businesses via minority stakes. Our Polish operations consist of the distribution and supply of electricity. In Slovakia, we are active in the electricity network and electricity end-customer businesses via our minority interest in VSE and in the gas supply sector via RWE Gas Slovensko. In Turkey, we are building a gas-fired power station with a partner. The newly established RWE East, headquartered in Prague, Czech Republic, started managing the companies belonging to the Central Eastern and South Eastern Europe Division in 2011. One exception is NET4GAS, which runs our long-distance gas network business in the Czech Republic. To comply with regulatory requirements, it has been assigned directly to the scope of responsibility of the President and CEO of RWE AG. However, NET4GAS is still part of the Central Eastern and South Eastern Europe Division for reporting purposes.

- **Renewables:** This division comprises all of the activities of RWE Innogy, which specialises in electricity and heat production from renewables.
- **Upstream Gas & Oil:** This segment consists of RWE Dea's business. The company produces gas and oil, focusing on Europe and North Africa.
- **Trading/Gas Midstream:** This is the item under which we report on RWE Supply & Trading, which is responsible for our energy trading activities and most of our gas midstream business. Furthermore, the division supplies major German industrial and corporate customers with electricity and gas. However, parts of the key account business were transferred to RWE Deutschland with effect from 1 January 2011.

The 'Other, consolidation' item includes the Group holding company, RWE AG; RWE Technology; and our internal service providers, namely RWE Service, RWE IT and RWE Consulting. We also report the electricity transmission system operator Amprion, the majority of which will soon be transferred to a financial consortium, under this item. Thyssengas, the long-distance gas network operator we sold on 28 February 2011, is still considered in the January and February figures.

#### **Full consolidation of the German regional utility NVV**

At the beginning of the year, RWE Deutschland took management control of NVV AG pursuant to a contract. Headquartered in Mönchengladbach, NVV is one of the leading utilities in the Lower Rhine region. So far, it has been an associated company of RWE Deutschland and has been accounted for using the equity method. We are now considering it and its majority interests (including Niederrheinwerke Viersen, NEW Netz and Stadtwerke Tönisvorst) in the consolidated financial statements as fully consolidated companies with effect from 1 January 2011.

## BUSINESS PERFORMANCE

Electricity production by division January – June	Germany		Netherlands/ Belgium		United Kingdom		Central Eastern and South Eastern Europe		Renewables		RWE Group	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Billion kWh												
In-house generation	77.6 <sup>1</sup>	83.2 <sup>1</sup>	5.9	7.6	14.8	15.5	2.9	2.8	3.1	3.0	104.3	112.1
Lignite	33.3	32.9	-	-	-	-	2.8	2.7	-	-	36.1	35.6
Hard coal	17.3	19.9	2.6	3.1	3.9	4.9	-	-	-	0.1	23.8	28.0
Nuclear	19.1	22.6	-	-	-	-	-	-	-	-	19.1	22.6
Gas	6.4	6.2	2.4	3.5	10.9	10.6	0.1	0.1	0.1	0.1	19.9	20.5
Renewable energy	0.6	0.7	0.9	0.9	-	-	-	-	3.0	2.8	4.5	4.4
Pumped storage, oil, other	0.9	0.9	-	0.1	-	-	-	-	-	-	0.9	1.0
Electricity purchased from third parties	16.0	13.9	5.4 <sup>2</sup>	3.6 <sup>2</sup>	11.4 <sup>2</sup>	11.4 <sup>2</sup>	9.6 <sup>2</sup>	10.2 <sup>2</sup>	-	-	59.1 <sup>3</sup>	52.6 <sup>3</sup>
<b>Total</b>	<b>93.6</b>	<b>97.1</b>	<b>11.3</b>	<b>11.2</b>	<b>26.2</b>	<b>26.9</b>	<b>12.5</b>	<b>13.0</b>	<b>3.1</b>	<b>3.0</b>	<b>163.4</b>	<b>164.7</b>

1 Including electricity procured from power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements.

In the first half of 2011, it amounted to 11.2 billion kWh, of which 10.5 billion kWh were generated from hard coal.

2 Electricity stated was fully or partially purchased through our trading business.

3 Including purchases by RWE Supply & Trading and companies subsumed under 'Other, consolidation' (mainly Amprion).

### Electricity generation down 7%

In the first half of 2011, the RWE Group produced 104.3 billion kilowatt hours (kWh) of electricity, 7% less than in last year's corresponding period. Of this, 35% was from lignite, 23% from hard coal, 19% gas, and 18% nuclear. The share of renewable energy amounted to 4%. In-house generation and power purchases combined for a total of 163.4 billion kWh. This was essentially unchanged compared to the year-earlier figure.

- **Germany:** The Germany Division produced 77.6 billion kWh of electricity. It includes electricity generated by power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. These are primarily hard coal-fired units. Compared to the first half of 2010, electricity production by the Germany Division declined by 7%. The main reason was the cessation of operation of our Biblis nuclear power plant ordered as a result of the German government's nuclear moratorium. Production by our hard coal power stations also dropped considerably because market conditions for these plants deteriorated.
- **Netherlands/Belgium:** Essent's first-half electricity production was down 22% to 5.9 billion kWh. Our Dutch gas-fired power plants in particular were used much less than in 2010, owing to unfavourable market conditions. In addition, in April, we took a unit of the Amer hard coal-fired power plant offline for scheduled maintenance.

- United Kingdom: RWE npower contributed 14.8 billion kWh to our electricity generation, 5% less than in the same period last year. Our three hard coal units at Tilbury have been offline since March as we are converting them to biomass facilities. The commissioning of our new gas-fired power station at Staythorpe had a positive impact. The plant has an aggregate net installed capacity of 1,650 MW and went online in the second half of 2010. However, two of the four units were taken offline again in April 2011 because their transformers have to be replaced by the manufacturer.
- Central Eastern and South Eastern Europe: At 2.9 billion kWh, generation by this division was a little higher year on year. It stems from the Hungarian lignite-based power producer Mátra.
- Renewables: This division generated 3.1 billion kWh of electricity, nearly all of which came from renewable sources. There was a marginal rise in production compared to 2010, primarily due to the growth of our wind power capacity. Over the course of 2010, we commissioned two onshore wind farms in Poland with a combined net installed capacity of 67 MW, and two in Italy with a total of 51 MW. Furthermore, the first of the Greater Gabbard turbines have already gone online. The UK offshore wind farm, in which we hold a 50% stake, will have a total installed capacity of 504 MW on completion in 2012. In the first half of the year, the utilisation of our wind power capacity lagged behind expectations due to the weather, but overall it was better than in 2010. In contrast, we generated less electricity at our German run-of-river power plants as rainfall in the spring was unusually low, causing rivers to carry less water.

In addition to in-house generation, we procure electricity from external suppliers. These purchases totalled 59.1 billion kWh, exceeding the year-earlier level by 12%. This reflects the decline in in-house generation. Purchases include electricity which was fed into RWE's network by third parties, in accordance with the German Renewable Energy Act.

#### **RWE Dea: oil production up 12%, gas production down 9%**

In the period being reviewed, our upstream subsidiary RWE Dea produced 1,418 million cubic metres of gas and 1,278 thousand cubic metres of oil. Converting the gas to oil equivalent and adding it to crude oil production results in a total output of 2,651 thousand cubic metres, or 16.7 million barrels. This compares to 2,640 thousand cubic metres, or 16.6 million barrels, in the first half of 2010. Gas production dropped by 9%, mainly due to the depletion of our existing reserves in our UK concession areas. However, we limited the decrease with a new well in the Cavendish gas field. Moreover, we started producing oil and gas from the Norwegian Gjøa field in November 2010, which is one of the reasons why our crude oil volume was 12% up year on year. This increase is also a result of the commissioning of an additional well in the German Mittelplate North Sea field. In addition, we improved the production yield of our Danish Nini East concession by making technical adjustments.

External electricity sales volume January – June	Residential and commercial customers		Industrial and corporate customers		Distributors		Electricity trading		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Billion kWh										
Germany	13.4	14.0	16.0	14.2	28.1	29.0	-	-	57.5	57.2
Netherlands/Belgium <sup>1</sup>	5.5	5.6	5.5	5.3	-	-	-	-	11.0	10.9
United Kingdom	9.0	9.9	16.1	15.6	-	-	-	-	25.1	25.5
Central Eastern and South Eastern Europe	4.2	4.0	4.9	5.1	2.8	3.0	-	-	11.9	12.1
Trading/Gas Midstream <sup>1</sup>	-	-	15.2	16.0	-	-	11.8	14.4	27.0	30.4
<b>RWE Group<sup>1,2</sup></b>	<b>32.3</b>	<b>33.7</b>	<b>57.9</b>	<b>56.2</b>	<b>52.0</b>	<b>51.0</b>	<b>11.8</b>	<b>14.4</b>	<b>154.0</b>	<b>155.3</b>

1 Prior-year figures adjusted.

2 Including sales of the Renewables Division and of companies stated under 'Other, consolidation' (mainly Amprion).

### Electricity sales volume slightly lower year on year

In the first half of 2011, we supplied 154.0 billion kWh of power to external customers, nearly as much as in the equivalent period last year. Electricity sales are typically slightly lower than generation levels, mainly due to transmission losses and in-house use by lignite mining operations and pumped storage power stations.

- Germany: The division sold 57.5 billion kWh of electricity, slightly more than in the first six months of 2010. Excluding the effect of the full consolidation of NVV (see page 17) we would have recorded a marginal decline. In business with industrial and corporate customers, the transfer of parts of the key account business from RWE Supply & Trading led to an increase in sales volume. In addition, we benefited from the robust economy and won new customers. Both of these factors also had a positive impact on business with distributors. There was also a rise in the volume of electricity in line with the German Renewable Energy Act which we passed on to external transmission system operators. Deliveries to distributors declined nevertheless, because certain generation volumes are now recognised in the external sales volumes of other Group divisions instead of in RWE Power's. In business with households and small commercial operations, the fact that the weather was milder than in 2010 led to slight volume shortfalls, as users of electric storage heaters needed less electricity. By 30 June 2011, we were supplying 6,928,000 customers with electricity in this segment, 360,000 of whom we served via the NVV Group. The prior-year figure excluding NVV was 6,772,000.
- Netherlands/Belgium: Essent's sales volume of 11.0 billion kWh was essentially unchanged compared to the same period in 2010. As of 30 June 2011, the company had 2,164,000 residential and commercial customers in the Netherlands and 160,000 in Belgium. These were roughly the same numbers as a year earlier.
- United Kingdom: RWE npower supplied 25.1 billion kWh of electricity, 2% less than in 2010. This is a consequence of the milder weather as well as reduced consumption driven by progress made in the field of energy efficiency. Furthermore, the number of households and small commercial operations we serve declined by 72,000 to 3,843,000. Conversely, we won new industrial and corporate customers.

- **Central Eastern and South Eastern Europe:** We sold 11.9 billion kWh of electricity in this division, also 2% less than in the first half of 2010. Our industrial and corporate customer bases in Hungary and Poland shrank. The situation with regard to households and small commercial enterprises was as follows: as of 30 June 2011, we were supplying electricity to 2,183,000 customers in Hungary, representing a decrease of 20,000. Conversely, in Poland, we increased our residential and commercial customer base by 9,000 to 909,000. Since the spring of 2010, we have been marketing electricity in the Czech Republic as well. Our expansion in this market had a positive impact on sales.
- **Trading/Gas Midstream:** External electricity sales achieved by this division fell by 11% to 27.0 billion kWh. In particular, sales of in-house generation on the wholesale market experienced a decline. The transfer of parts of the key account business to RWE Deutschland caused further sales shortfalls.

External gas sales volume January – June	Residential and commercial customers		Industrial and corporate customers		Distributors		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Billion kWh								
Germany	16.1	17.0	12.7	13.2	20.7	28.1	49.5	58.3
Netherlands/Belgium <sup>1</sup>	22.9	28.4	26.9	35.4	-	-	49.8	63.8
United Kingdom	21.9	27.7	1.3	2.7	-	-	23.2	30.4
Central Eastern and South Eastern Europe	16.0	20.9	14.8	16.5	2.0	4.5	32.8	41.9
Upstream Gas & Oil	-	-	1.3	0.9	8.2	9.6	9.5	10.5
Trading/Gas Midstream	-	-	11.6	13.0	8.9 <sup>2</sup>	7.2	20.5	20.2
<b>RWE Group<sup>1</sup></b>	<b>76.9</b>	<b>94.0</b>	<b>68.6</b>	<b>81.7</b>	<b>39.8</b>	<b>49.4</b>	<b>185.3</b>	<b>225.1</b>

1 Prior-year figures adjusted.

2 Including gas trading.

### Mild weather curtails gas sales

Gas sales dropped by 18% to 185.3 billion kWh. As temperatures were much higher than in the first half of 2010, demand for heating was down. Competition-induced customer losses also contributed to the decline in volume.

- **Germany:** The division sold 49.5 billion kWh of gas. This was 15% less than in the comparable period in 2010, although we included the sales volume of the NVV Group for the first time. The effect of the weather dampened sales across all customer segments. A substantial decline in volume was experienced in business with distributors, some of which reduced their gas purchases from RWE and increased procurement from competitors. The robust economy and the inclusion of parts of RWE Supply & Trading's key account business had a positive effect on industrial and corporate sales. However, we experienced losses in this customer group as well. The negative impact of the weather was felt especially in sales to households and small commercial enterprises, whereas we posted a slight improvement in market share. As of 30 June 2011, we had 1,261,000 gas customers in this segment, 182,000 more than a year earlier. The inclusion of NVV added 137,000 customers.

- Netherlands/Belgium: The higher temperatures also had a strong influence on gas sales by Essent, causing them to decline by 22% to 49.8 billion kWh. In addition, some industrial and corporate customers switched suppliers. In contrast, our residential and small commercial customer figures posted a slight increase, with a gain of 1,000 to 1,936,000 in the Netherlands and of 5,000 to 61,000 in Belgium.
- United Kingdom: RWE npower's gas sales were down 24%, dropping to 23.2 billion kWh. The weather had the biggest impact, with energy savings also playing a role. On top of that, RWE npower lost some industrial and corporate customers. The number of households and small commercial enterprises to which we supply gas was roughly on a par year on year, amounting to 2,554,000 at the end of June, of which 2,298,000 customers also obtained electricity from us.
- Central Eastern and South Eastern Europe: Gas sales achieved by this division were down 22% to 32.8 billion kWh. The reduced need for heating played a central role here as well. But an even bigger factor was the mounting competitive pressure in our core market, the Czech Republic, where we lost industrial and corporate customers. Moreover, a distributor we supply further diversified its procurement. The number of our Czech residential and commercial customers declined by 240,000 to 2,017,000. The growth of our share of the Slovak market had a positive impact. In the first half of the year, our subsidiary RWE Gas Slovensko sold 5.3 billion kWh of gas, which was more than in the corresponding period last year (4.6 billion kWh), despite the unfavourable effect of the weather.
- Upstream Gas & Oil: External gas sales by RWE Dea totalled 9.5 billion kWh, 10% lower than a year earlier. This reflects the decline in gas production.
- Trading/Gas Midstream: The division sold 20.5 billion kWh of gas outside the Group, slightly more than in the first half of 2010. RWE Supply & Trading focuses on procuring gas for RWE companies and therefore predominantly generates internal sales. The company's external sales consist of deliveries to key accounts, some of which are surplus gas, which we sell on.

#### **External revenue on a par year on year**

The RWE Group generated €27,457 million in external revenue, roughly the level achieved a year earlier. Revenue was added in particular by the full consolidation of the NVV Group and by the rise in oil prices. This was contrasted by shortfalls at RWE Supply & Trading when selling in-house electricity generation. Developments of foreign exchange rates had varying effects on the revenue trend. In the period under review, the British pound cost an average of €1.14, as opposed to €1.16 in the first six months of 2010. The US dollar was also down on the euro, decreasing in value from €0.76 to €0.70. Conversely, the Czech crown, the Hungarian forint and the Polish zloty appreciated over the euro. Net of consolidation and foreign exchange effects, consolidated revenues were down 2%.



- Germany: External revenue achieved by this division totalled €10,767 million, up 8% on the same period in 2010. Disregarding the effect of the full consolidation of NVV would lead to a gain of 3%. Electricity revenue rose by 12% to €7,873 million. Positive volume effects (mainly the inclusion of NVV) played a role in this regard as did price adjustments: at the beginning of the year, our regional utilities lifted their electricity tariffs in response to the rise in expenses caused by the German Renewable Energy Act (REA). The fee pursuant to the REA now amounts to 3.5 euro cents per kilowatt hour. This is 1.5 cents up on 2010. However, our price increases were less pronounced, as we realised savings in electricity purchasing and passed these through to our customers. Despite the inclusion of the NVV Group, revenue in the gas business declined by 8% to €2,003 million. The main reason is the fall in sales set out earlier.
- Netherlands/Belgium: The division earned €3,253 million in revenue, 7% less than in the first six months of 2010. Electricity revenue rose by 8% to €1,160 million. The marginal improvement of the sales volume was a contributing factor. Conversely, gas revenue decreased by 14% to €1,982 million due to sales shortfalls.
- United Kingdom: External revenue generated by RWE npower was down 4% to €3,846 million. Net of the foreign exchange impact, it would have declined by 2%. Despite slightly lower sales volumes, electricity revenue amounted to €2,673 million, up 1% and 3% in Sterling terms. This was because RWE npower had adjusted tariffs in view of mounting procurement costs. The company lifted both electricity and gas tariffs for residential customers by an average of 5.1% with effect from 4 January 2011. Gas revenue achieved by RWE npower totalled €901 million, down 20% despite the tariff increase and down 19% excluding currency movements. This reflects the decline in sales. In addition, the tariff rise in early 2011 was preceded by a 7% reduction as of 26 March 2010. Gas prices in the first quarter of 2011 were thus a little lower than in the corresponding period in 2010.
- Central Eastern and South Eastern Europe: At €2,633 million, external revenue was 3% lower than a year earlier. Net of currency effects, it declined by 7%. Electricity revenue amounted to €1,264 million, up slightly on the year-earlier figure and slightly down on it excluding the impact of currencies. Revenue in the gas business decreased by 8% to €1,315 million. Excluding foreign exchange effects results in a drop of 12%, largely due to weather and competition-induced sales shortfalls in the Czech Republic.
- Renewables: RWE Innogy improved external revenue by 27% to €224 million. The increase in generation was a contributing factor. Furthermore, we benefited from the rise in prices on electricity wholesale markets. This primarily related to run-of-river power stations in Germany and our wind turbines in Spain. We also achieved higher revenue from German power stations, the electricity of which we market directly and was thus exempted from the subsidies provided by the German Renewable Energy Act. This mainly applies to biomass-fired and hydroelectric plants. In addition to electricity, we also sell certificates of origin with which resellers can prove that the electricity they market comes from renewable sources.

- Upstream Gas & Oil: RWE Dea improved external revenue by 30% to €886 million. The company realised much higher prices for its crude oil and gas production than in the first half of 2010. The rise in oil production also had a positive impact, whereas the decline in gas production and the depreciation of the US dollar against the euro curtailed revenue growth.
- Trading/Gas Midstream: External revenue generated by RWE Supply & Trading fell by 11% to €3,515 million. Revenue earned by marketing in-house electricity generation experienced a steep decline. In addition to the decrease in sales volume, the development of prices witnessed on wholesale markets since 2008 was a contributing factor, as electricity for delivery in 2011 was largely sold forward in earlier years. In contrast, revenue was added by the fair valuation of the oil futures we concluded in order to limit risks associated with our long-term oil-indexed gas purchasing agreements.

External revenue € million	Jan – Jun 2011	Jan – Jun 2010	+/- %	Jan – Dec 2010
Germany	10,767	10,000	7.7	19,528
Power Generation	558	502	11.2	1,072
Sales/Distribution Networks	10,209	9,498	7.5	18,456
Netherlands/Belgium	3,253	3,485	-6.7	6,510
United Kingdom	3,846	3,998	-3.8	7,759
Central Eastern and South Eastern Europe	2,633	2,727	-3.4	5,297
Renewables	224	177	26.6	366
Upstream Gas & Oil	886	680	30.3	1,353
Trading/Gas Midstream	3,515	3,942	-10.8	7,517
Other, consolidation	2,333	2,345	-0.5	4,990
<b>RWE Group</b>	<b>27,457</b>	<b>27,354</b>	<b>0.4</b>	<b>53,320</b>
of which:				
Electricity revenue	17,398	17,298	0.6	34,803
Direct electricity tax	765	695	10.1	1,323
Gas revenue	7,418	8,155	-9.0	14,491
Oil revenue	1,093	415	163.4	1,049

Internal revenue € million	Jan – Jun 2011	Jan – Jun 2010	+/- %	Jan – Dec 2010
Germany	6,767	7,336	-7.8	14,804
Power Generation	4,659	5,250	-11.3	10,378
Sales/Distribution Networks	2,108	2,086	1.1	4,426
Netherlands/Belgium	23	263	-91.3	551
United Kingdom	5	5	-	11
Central Eastern and South Eastern Europe	271	243	11.5	474
Renewables	111	99	12.1	203
Upstream Gas & Oil	100	63	58.7	134
Trading/Gas Midstream	10,934	11,321	-3.4	21,466

<b>Reconciliation of income from operating activities to EBITDA</b> € million	Jan – Jun 2011	Jan – Jun 2010	+/- %	Jan – Dec 2010
Income from operating activities <sup>1</sup>	2,794	3,738	-25.3	6,507
+ Operating income from investments	353	209	68.9	345
+ Non-operating income from investments	-16	-	-	62
- Non-operating result	210	1,009	-79.2	767
Operating result	3,341	4,956	-32.6	7,681
+ Operating depreciation and amortisation	1,281	1,194	7.3	2,575
<b>EBITDA</b>	<b>4,622</b>	<b>6,150</b>	<b>-24.8</b>	<b>10,256</b>

1 See the income statement on page 44.

<b>EBITDA</b> € million	Jan – Jun 2011	Jan – Jun 2010	+/- %	Jan – Dec 2010
Germany	2,807	3,746	-25.1	6,728
Power Generation	1,544	2,478	-37.7	4,510
Sales/Distribution Networks	1,263	1,268	-0.4	2,218
Netherlands/Belgium	291	467	-37.7	660
United Kingdom	457	255	79.2	504
Central Eastern and South Eastern Europe	817	846	-3.4	1,440
Renewables	166	95	74.7	211
Upstream Gas & Oil	497	345	44.1	619
Trading/Gas Midstream	-591	281	-310.3	-7
Other, consolidation	178	115	54.8	101
<b>RWE Group</b>	<b>4,622</b>	<b>6,150</b>	<b>-24.8</b>	<b>10,256</b>

<b>Operating result</b> € million	Jan – Jun 2011	Jan – Jun 2010	+/- %	Jan – Dec 2010
Germany	2,211	3,214	-31.2	5,575
Power Generation	1,268	2,229	-43.1	4,000
Sales/Distribution Networks	943	985	-4.3	1,575
Netherlands/Belgium	187	345	-45.8	391
United Kingdom	352	154	128.6	272
Central Eastern and South Eastern Europe	691	722	-4.3	1,173
Renewables	89	26	242.3	72
Upstream Gas & Oil	334	192	74.0	305
Trading/Gas Midstream	-598	278	-315.1	-21
Other, consolidation	75	25	200.0	-86
<b>RWE Group</b>	<b>3,341</b>	<b>4,956</b>	<b>-32.6</b>	<b>7,681</b>

### **Operating result reflects burdens from German energy policy**

The RWE Group's earnings deteriorated considerably compared to the first half of 2010. EBITDA declined by 25% to €4,622 million, and the operating result was down 33% to €3,341 million. The lifetime reduction imposed on our German nuclear power stations was a major contributing factor. Together with the new nuclear fuel tax, it reduced the operating result by about €900 million compared to the first six months of 2010. Lower electricity generation margins and an unusually weak performance in the trading business also led to a significant earnings shortfall. Net of consolidation and foreign exchange effects, EBITDA and the operating result would have dropped by 27% and 35%, respectively.

- **Germany:** The division posted an operating result of €2,211 million, down 31% on the first half of last year. The following development was observed in the Power Generation and Sales/Distribution Networks Business Areas:

**Power Generation:** The operating result recorded by this business area declined by 43% to €1,268 million. Decisions reached on energy policy following the reactor disaster at Fukushima played a substantial role. Our margins declined significantly as a result of the nuclear moratorium imposed by the German government in March, which included the immediate cessation of operation of both Biblis A and B and was initially limited to three months. Further burdens came from the amendment to the Nuclear Energy Act. Our Biblis A and B units cannot be put back online. RWE's remaining reactors must be taken offline no later than the end of 2017 (Gundremmingen B), the end of 2021 (Gundremmingen C) and the end of 2022 (Emsland). Due to the accelerated nuclear phase-out, we have to increase the provisions we built to shut down and dismantle the plants. Furthermore, we were forced to write off the fuel elements installed in the Biblis power station, because we probably will not be able to use them any longer. The tax levied on nuclear fuel for the first time reduced our operating result by approximately €200 million. Besides energy policy, unfavourable developments on commodity markets were also a burden. We sold our electricity generation for 2011 at prices that were lower than for 2010. In addition, our hard coal purchases became more expensive. We generally sell our generation up to three years before the electricity is delivered, purchasing the necessary fuel and emission allowances at the same time. We experienced some relief in procuring CO<sub>2</sub> emission allowances, as the associated cost dropped by €56 million to €302 million. A positive effect was felt from the adjustment of our nuclear and mining provisions which counter the lifetime-induced increase in provisions.

**Sales/Distribution Networks:** At €943 million, this business area's operating result was 4% lower than in the corresponding period in 2010. Net of the effect of the full consolidation of NVV, the decline would have amounted to 13%. In the network business, lower throughput due to weather-related reasons caused earnings to decrease, especially from gas. Furthermore, our maintenance costs rose. The German Federal Network Agency is of the opinion that our revenue from the network fees we charged at the beginning of network regulation (2005 to 2007) was too high. The excess amounts must be refunded via rebates on network fees from 2010 onwards. The effect of this issue decreased compared to the first half of 2010. Earnings in our German sales business deteriorated somewhat year on year, reflecting the decline in gas sales volume. In contrast, the business area's income from investments improved.

- Netherlands/Belgium: The division recorded an operating result of €187 million, down 46% on last year's corresponding figure. As set out earlier, we started reporting parts of Essent's gas midstream business under RWE Supply & Trading with effect from 2011. The earnings contribution made by these activities was unusually high in the first half of 2010, partly for weather-related reasons. The fact that Essent's earnings worsened is also due to the decline in electricity generation margins. This was contrasted by the positive effects of cost reductions and higher sales margins.
- United Kingdom: RWE npower more than doubled its operating result to €352 million. This rise is mainly attributable to sales, where we recorded higher margins in business with industrial customers. The rise in residential tariffs at the beginning of January provided further relief. This helps us to cushion higher electricity and gas procurement prices. Moreover, we succeeded in lowering our sales costs, for instance by reducing bad debt. In the generation business, we received compensation for damages paid to us by a supplier for project delays and saw a slight improvement in the margins of our hard coal-fired power plants. RWE npower also benefited from the fact that some of the old accounts receivable from Enron, the energy trader which went bankrupt at the end of 2001, have been paid. However, the earnings trend witnessed in the first six months should not be extrapolated for the full year. We expect that realised generation margins will worsen over the course of the year. In the supply business, we must also brace ourselves for burdens caused by the continued increase in the cost of purchasing electricity and gas.
- Central Eastern and South Eastern Europe: The operating result we achieved in this division decreased by 4% to €691 million. Net of currency effects, it declined by 8%. In Hungary, the regulator reduced the electricity sales margins in the residential customer business; a negative impact was also felt from the special tax for energy utilities and companies in some other sectors introduced by the country's government last year. In the Czech gas business, sales shortfalls adversely affected the result and lower throughput curtailed margins in the distribution network, whereas NET4GAS, the operator of our long-distance gas network, benefited from an increase in revenue.
- Renewables: A rise in our generation output and the recent increase in electricity prices helped this division to grow its operating result by €63 million to €89 million. Similar to RWE npower, a positive effect was felt from the compensation for damages which we received for delays in the construction of the Greater Gabbard offshore wind farm, in which RWE Innogy has a 50% stake. However, RWE Innogy's growth strategy continues to have a negative impact on the bottom line, as both ongoing and planned capital expenditure projects go hand in hand with high run-up costs.
- Upstream Gas & Oil: RWE Dea lifted its operating result by 74% to €334 million, due to higher realised oil and gas prices and an increase in oil production. Since we finished exploring reserves and began making preparations for production activity in several concession areas, exploration costs dropped. Negative effects on earnings stemmed from the weaker US dollar, a rise in the royalties on our German gas production and higher production costs.

- **Trading/Gas Midstream:** RWE Supply & Trading closed the first half with an operating loss of €598 million, after recording a profit of €278 million in the same period last year. Our performance in the trading business was unusually weak. On top of that, we benefited less from the realisation of successful forward transactions from earlier years than in 2010. This related above all to the external marketing of RWE Power and RWE npower's electricity generation. The realised trading margins are recognised in earnings once the underlying transactions are effected, i.e. on delivery of the electricity. Earnings in the gas midstream business remain hampered by the fact that parts of our gas purchases are based on oil-indexed long-term contracts and that we have to pay prices for this gas that are currently much higher than when we re-sell it on the market. This was contrasted by the positive impact of the inclusion of parts of Essent's gas midstream activities.

### Reconciliation to net income: significant special items

The reconciliation from the operating result to net income is characterised by a number of special items. Whereas capital gains and the absence of burdens arising from commodity derivatives in previous years had a positive impact, the impairment loss recognised for our Dutch power plants and provisions for personnel measures led to earnings shortfalls.

<b>Non-operating result</b> € million	Jan – Jun 2011	Jan – Jun 2010	+/- € million	Jan – Dec 2010
Capital gains	315	1	314	68
Impact of commodity derivatives on earnings	-3	-1,064	1,061	-337
Restructuring, other	-522	54	-576	-498
<b>Non-operating result</b>	<b>-210</b>	<b>-1,009</b>	<b>799</b>	<b>-767</b>

The aforementioned special items were reflected in the non-operating result, which improved by €799 million to -€210 million. Its components developed as follows:

- In the period under review, we realised €315 million in capital gains stemming nearly exclusively from the sale of Thyssengas and a minority stake in a hard coal-fired power station in Rostock. We reported on this transaction on page 11 of the interim report on the first quarter of 2011. In the year-earlier period, almost no gains on disposals were achieved.
- The accounting treatment of commodity derivative transactions did not have a notable effect on earnings (-€3 million). Conversely, in the first half of 2010, we stated an expense of €1,064 million in this item, a large share of which stemmed from the hedging of the price of gas forwards concluded by RWE Supply & Trading. The background to this is that pursuant to International Financial Reporting Standards (IFRS), certain derivatives used to hedge the prices of forward contracts (underlying transactions) are accounted for at fair value, 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.

- The result stated under 'Restructuring, other' deteriorated by €576 million to –€522 million. An impairment loss of about €270 million was recognised for our Dutch generation portfolio. This was because the margins realisable by gas and hard coal-fired power stations on the wholesale market shrank considerably. Furthermore, we accrued some €220 million in provisions for old-age part-time employment schemes and severance payments with which RWE Power and RWE Deutschland can take personnel reduction measures in a socially acceptable manner. In so doing, we are adapting to changes in the framework conditions on the energy market, in particular the need for more flexibility in power generation and Germany's accelerated nuclear phase-out. The amortisation of RWE npower's customer base amounted to €128 million and was thus slightly lower than in the year-earlier period (€130 million) due to foreign exchange rates.

<b>Financial result</b> € million	Jan – Jun 2011	Jan – Jun 2010	+/- € million	Jan – Dec 2010
Interest income	210	239	-29	448
Interest expenses	-467	-576	109	-1,258
<b>Net interest</b>	<b>-257</b>	<b>-337</b>	<b>80</b>	<b>-810</b>
Interest accretion to non-current provisions	-416	-442	26	-940
Other financial result	-33	-8	-25	-186
<b>Financial result</b>	<b>-706</b>	<b>-787</b>	<b>81</b>	<b>-1,936</b>

The financial result improved by €81 million to –€706 million. Its components changed as follows:

- Net interest rose by €80 million to –€257 million. The reversal of provisions for the financing of non interest-bearing advance payments was a major contributing factor.
- The interest accretion to non-current provisions decreased by €26 million to €416 million. This stems from an increase in discount rates and the associated re-measurement of provisions.
- The 'Other financial result' worsened by €25 million to –€33 million. The positive effects of the fair valuation of financial transactions were contrasted by a decline in income from the sale of securities.

Our income before tax decreased by 23% to €2,425 million. The effective tax rate dropped from 30% to 27%, in part because capital gains were higher than in the same period last year and this income was largely tax-free. After tax, income declined by 20% to €1,782 million. The minority interest was down by 11% to €162 million. Some companies in which third parties hold a minority interest saw earnings drop, e.g. our regional gas utilities in the Czech Republic. The share in net income allocable to the holders of the hybrid bond issued in September 2010 totalled €30 million. This sum corresponds to the post-tax financing costs allocable to the period under review. Detailed information on our hybrid bond can be found on pages 102 and 195 of our 2010 Annual Report.

As a result of the developments presented, the RWE Group's net income amounted to €1,590 million, 22% less than in the same period last year. Accordingly, our earnings per share dropped from €3.83 to €2.98. The number of RWE shares outstanding in the first half averaged 533.6 million, unchanged from the comparable period in 2010.

Reconciliation to net income		Jan – Jun 2011	Jan – Jun 2010	+/- %	Jan – Dec 2010
Operating result	€ million	3,341	4,956	-32.6	7,681
Non-operating result	€ million	-210	-1,009	79.2	-767
Financial result	€ million	-706	-787	10.3	-1,936
<b>Income before tax</b>	€ million	<b>2,425</b>	<b>3,160</b>	<b>-23.3</b>	<b>4,978</b>
Taxes on income	€ million	-643	-934	31.2	-1,376
<b>Income</b>	€ million	<b>1,782</b>	<b>2,226</b>	<b>-19.9</b>	<b>3,602</b>
Minority interest	€ million	162	183	-11.5	279
RWE AG hybrid investor's interest	€ million	30	-	-	15
<b>Net income/RWE AG shareholders' share in net income</b>	€ million	<b>1,590</b>	<b>2,043</b>	<b>-22.2</b>	<b>3,308</b>
<b>Recurrent net income</b>	€ million	<b>1,667</b>	<b>2,746</b>	<b>-39.3</b>	<b>3,752</b>
Earnings per share	€	2.98	3.83	-22.2	6.20
Recurrent net income per share	€	3.13	5.15	-39.2	7.03
Effective tax rate	%	27	30	-	28

### Recurrent net income down 39% year on year

The yardstick for determining the dividend is recurrent net income, which does not include the non-operating result or the tax on it. If major non-recurrent effects in the financial result and income taxes occur, these are also excluded. In the period under review, recurrent net income totalled €1,667 million, 39% down on the first six months of 2010.



<b>Capital expenditure on property, plant and equipment and on intangible assets</b> € million	Jan – Jun 2011	Jan – Jun 2010	+/- € million	Jan – Dec 2010
Germany	752	970	-218	2,410
Power Generation	482	717	-235	1,180
Sales/Distribution Networks	270	253	17	1,230
Netherlands/Belgium	484	463	21	1,144
United Kingdom	180	404	-224	876
Central Eastern and South Eastern Europe	344	137	207	430
Renewables	467	202	265	614
Upstream Gas & Oil	368	191	177	507
Trading/Gas Midstream	12	-	12	4
Other, consolidation	102	130	-28	394
<b>RWE Group</b>	<b>2,709</b>	<b>2,497</b>	<b>212</b>	<b>6,379</b>

<b>Capital expenditure on financial assets</b> € million	Jan – Jun 2011	Jan – Jun 2010	+/- € million	Jan – Dec 2010
Germany	3	16	-13	45
Power Generation	-	1	-1	2
Sales/Distribution Networks	3	15	-12	43
Netherlands/Belgium	-	1	-1	3
United Kingdom	23	-	23	23
Central Eastern and South Eastern Europe	1	7	-6	8
Renewables	16	20	-4	95
Upstream Gas & Oil	-	-	-	-
Trading/Gas Midstream	8	9	-1	61
Other, consolidation	-	17	-17	29
<b>RWE Group</b>	<b>51</b>	<b>70</b>	<b>-19</b>	<b>264</b>

### Capital expenditure up 8%

The RWE Group spent €2,760 million in capital, 8% more than in the equivalent period last year (€2,567 million). At €51 million, capital spending on financial assets was negligible. Capital expenditure on property, plant and equipment and intangible assets amounted to €2,709 million. Expanding and modernising our electricity generation capacity is the focal point of the RWE Group's investments. The Germany Division's major projects are a 2,100 MW dual-block lignite-fired power plant at the Neurath site and a 1,528 MW twin-unit hard coal facility in Hamm. These power stations are under construction and scheduled to go online in 2011/2012 (Neurath) and 2013 (Hamm). In addition, the Germany Division is investing in improving network infrastructure. A large proportion of capital expenditure at the Netherlands/Belgium Division is dedicated to the construction of the 1,560 MW twin-unit hard coal facility at Eemshaven, which is expected to be completed in 2014. Essent is also building the 426 MW Moerdijk 2 and 1,304 MW Claus C gas-fired power stations. These are scheduled to come on stream in 2011 and 2012, respectively. RWE npower's major project is the gas-fired

power plant at Pembroke, with a planned net installed capacity of 2,188 MW and an expected commissioning date in 2012. The Central Eastern and South Eastern Europe Division is focusing capital spending on measures to improve electricity and gas network infrastructure and on the construction of the 775 MW combined-cycle gas turbine power station in the Turkish town of Denizli, which is scheduled for completion by the end of 2012. RWE Innogy aims to expand its renewable generation base significantly. In the first six months of the year, the company concentrated on wind power projects, with the construction of offshore wind farms in the United Kingdom and Germany leading the way. Additional funds were dedicated to purchasing special ships which we will use to transport and build wind turbines. Our upstream subsidiary, RWE Dea, focuses on the development of oil and gas fields in preparation for production. Its single-largest undertaking at present is the construction of a rig in the Breagh North Sea field and of its pipeline connection to the UK mainland.

<b>Cash flow statement</b>	Jan – Jun	Jan – Jun	+/-	Jan – Dec
€ million	2011	2010	%	2010
Cash flows from operating activities	3,139	1,736	80.8	5,500
of which: changes in working capital	155	-2,284	106.8	-2,349
Cash flows from investing activities	-1,672	-1,625	-2.9	-6,683
Cash flows from financing activities	-2,439	-916	-166.3	638
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	7	1	-	6
<b>Total net changes in cash and cash equivalents</b>	<b>-965<sup>1</sup></b>	<b>-804</b>	<b>-20.0</b>	<b>-539</b>
Cash flows from operating activities	3,139	1,736	80.8	5,500
Minus capital expenditure on property, plant and equipment and on intangible assets	-2,709	-2,497	-8.5	-6,379
<b>Free cash flow</b>	<b>430</b>	<b>-761</b>	<b>156.5</b>	<b>-879</b>

<sup>1</sup> Including a €59 million reduction in the cash and cash equivalents reported on the balance sheet for the period ending on 31 December 2010 as 'assets held for sale.'

### **Cash flows from operating activities up 81 % year on year due to special items**

In the first half of 2011, we generated €3,139 million in cash flows from operating activities. This was 81 % more than in the same period last year. These cash flows therefore developed much better than earnings. The main reasons are effects in working capital, which provided substantial relief compared to 2010. In the first six months, the expense incurred for purchasing CO<sub>2</sub> certificates was reduced, as we had already paid for some of our CO<sub>2</sub> certificates by the end of 2010. Furthermore, liquidity was temporarily improved by the increased lump sum Amprion received under the Renewable Energy Act as of 1 January 2011 in compensation for added costs resulting from electricity from renewables being fed into the grid. The apportionment is re-determined once a year on the basis of estimates. Cash outflows for investing activities totalled €1,672 million. This is the sum by which our cash outflows for investing activities (including cash investments) exceeded proceeds from the disposal of assets and the sale of companies. Our financing activities led to a net

cash outflow of €2,439 million. The lion's share (€1,867 million) was allocable to the dividends paid by RWE AG for the 2010 financial year. Overall, our cash and cash equivalents have dropped by €965 million since the beginning of the year.

Cash flows from operating activities, minus capital expenditure on property, plant and equipment and intangible assets, result in free cash flow, which amounted to €430 million. This was €1,191 million more than in the first half of 2010, largely due to the marked improvement in operating cash inflows.

<b>Net debt</b> € million	30 Jun 2011	31 Dec 2010	+/- %
Cash and cash equivalents	1,570	2,476	-36.6
Marketable securities	3,003	3,445	-12.8
Other financial assets	2,063	1,985	3.9
<b>Financial assets</b>	<b>6,636</b>	<b>7,906</b>	<b>-16.1</b>
Bonds, other notes payable, bank debt, commercial paper	17,069	17,572	-2.9
Other financial liabilities	2,415	2,238	7.9
<b>Financial liabilities</b>	<b>19,484</b>	<b>19,810</b>	<b>-1.6</b>
<b>Net financial debt</b>	<b>12,848</b>	<b>11,904</b>	<b>7.9</b>
Provisions for pensions and similar obligations	3,256	3,318	-1.9
Surplus of plan assets over benefit obligations	49	56	-12.5
Provisions for nuclear waste management	10,288	10,010	2.8
Mining provisions	2,851	2,920	-2.4
Hybrid capital (share of relevance to rating)	890	880	1.1
Net assets held for sale	-	12	-
<b>Net debt of the RWE Group</b>	<b>30,084</b>	<b>28,964</b>	<b>3.9</b>

### **Net debt rises to €30.1 billion**

As of 30 June 2011, our net debt amounted to €30.1 billion, up €1.1 billion on the level at 31 December 2010. Capital expenditure (€2.7 billion) and the dividends paid by RWE AG (€1.9 billion) were the major factors, whereas the high level of cash inflows from operating activities (€3.1 billion) and proceeds from the disposal of investments (€0.4 billion) had a counteracting effect.

RWE Group's balance sheet structure	30 Jun 2011		31 Dec 2010	
	€ million	%	€ million	%
<b>Assets</b>				
Non-current assets	62,472	70.3	60,465	65.0
Intangible assets	17,211	19.4	17,350	18.6
Property, plant and equipment	33,850	38.1	32,237	34.6
Current assets	26,397	29.7	32,612	35.0
Receivables and other assets <sup>1</sup>	19,010	21.4	23,258	25.0
<b>Total</b>	<b>88,869</b>	<b>100.0</b>	<b>93,077</b>	<b>100.0</b>
<b>Equity and liabilities</b>				
Equity	16,719	18.8	17,417	18.7
Non-current liabilities	45,049	50.7	45,162	48.5
Provisions	23,495	26.4	23,485	25.2
Financial liabilities	15,714	17.7	15,908	17.1
Current liabilities	27,101	30.5	30,498	32.8
Other liabilities <sup>2</sup>	18,640	21.0	20,881	22.4
<b>Total</b>	<b>88,869</b>	<b>100.0</b>	<b>93,077</b>	<b>100.0</b>

1 Including financial accounts receivable, trade accounts receivable and tax refund claims.

2 Including trade accounts payable and income tax liabilities.

### Balance sheet structure: marginal increase in the equity ratio

As of 30 June 2011, the RWE Group had a balance sheet total of €88.9 billion. This was €4.2 billion less than at the end of 2010. Derivative positions changed considerably, declining by €1.3 billion on the assets side of the balance sheet. Current accounts receivable were also down €1.3 billion, with cash and cash equivalents and current securities decreasing by €1.4 billion. In contrast, there was a €1.6 billion increase in property, plant and equipment. The RWE Group's equity decreased by €0.7 billion due to the dividend payment, accounting for 18.8% of the balance sheet total as of the balance sheet date. The equity ratio was thus marginally higher than at 31 December 2010 (18.7%).

### RWE creates new jobs

As of 30 June 2011, the RWE Group employed 72,700 people, 42,447, or 58%, of whom worked at German sites. Part-time positions were calculated in these figures on a pro-rata basis. The workforce increased by 3%, or 1,844 employees compared to 31 December 2010. For the first time, our figures include the 1,057 staff members of the NVV Group, which is now fully consolidated. Due to the sale of Thyssengas, 289 employees left the Group.

<b>Workforce<sup>1</sup></b>	<b>30 Jun 2011</b>	<b>31 Dec 2010</b>	<b>+/- %</b>
Germany	35,791	34,184	4.7
Power Generation	15,502	15,409	0.6
Sales/Distribution Networks	20,289	18,775	8.1
Netherlands/Belgium	3,888	3,899	-0.3
United Kingdom	11,775	11,711	0.5
Central Eastern and South Eastern Europe	11,413	11,163	2.2
Renewables	1,395	1,232	13.2
Upstream Gas & Oil	1,363	1,363	-
Trading/Gas Midstream	1,529	1,512	1.1
Other	5,546 <sup>2</sup>	5,792	-4.2
<b>RWE Group</b>	<b>72,700</b>	<b>70,856</b>	<b>2.6</b>

1 Converted to full-time positions.

2 Of which 2,357 at RWE IT and 1,556 at RWE Service.

### **Research and development: RWE tests smart grid in trial region**

We spent €45 million on research and development (R&D) in the first half of 2011 (first half of 2010: €58 million). In addition, we capitalised €45 million in development costs (first half of 2010: €50 million). Our R&D activities focus on the development of solutions for an energy supply that is gentle on the environment, reliable and affordable over the long term. Electricity networks play a key role. They must be designed so that electricity is available when needed despite the increasing amounts of weather-dependent electricity from renewables being fed into the system. Demands placed on networks are becoming much higher, especially in rural areas where consumer figures are low, but the expansion of photovoltaic and wind power plants is high. Sometimes more electricity is produced in these areas than is consumed. To ensure that the grid does not fall out of balance, 'intelligent' balancing mechanisms have to be created using new technologies. One example is the use of transformers that automatically provide the right voltage depending on the state of the grid. Furthermore, intelligent storage options are being tested, e.g. for biogas, which can then be used to generate electricity when necessary, for instance when there is no sunshine. To test and refine these types of technologies under real life conditions, in June 2011, RWE Deutschland AG officially launched one of the first smart grids in Germany as consortium leader. Over a period of three years, the project will gain an insight into the operation of this type of network in a trial region in Bitburg-Prüm County. Our partners are ABB, Consentec and Dortmund Technical University.

Detailed information on our R&D activities and major projects is provided on pages 112 to 115 of RWE's 2010 Annual Report.

## OUTLOOK FOR 2011

### **World economy maintains course for growth**

Based on current forecasts, global economic output will rise by about 3% in 2011, with China remaining the economy's engine. However, growth in that country has already slowed somewhat, as the government recently started to pursue a less expansionary monetary and fiscal policy. In the Eurozone, investing activity is likely to pick up due to the increased utilisation of industrial capacity, whereas measures to consolidate the state budgets will dampen the upturn. Economic growth in the Eurozone may slightly exceed last year's level of 1.7%. The economic forecast for Germany is much more favourable. The Cologne-based German Economic Institute believes that a gain of 3.5% is possible. As a result, Germany would exceed the gross domestic product (GDP) achieved in 2008. In addition to exports and capital investments, consumer spending will also support growth. The reasons are the encouraging employment trend and the rise in discretionary income. Prognoses for the Netherlands and Belgium are slightly more cautious, with growth anticipated at a little over 2%. In the United Kingdom, austerity measures mandated by the state and the increase in value-added tax will probably curtail consumer spending. UK GDP is only anticipated to grow by just over 1%. In Central Eastern Europe, initial estimates for our core markets indicate growth rates in excess of 2%, with Poland and Slovakia having potential for more than 3%.

### **Economy stimulates electricity consumption**

Energy usage will benefit from the economy's positive effects. We expect that production growth in Germany's energy-intensive sectors will remain strong. If demand in the other consumption sectors remains stable, the need for electricity in 2011 should increase marginally overall. In the United Kingdom, however, it is unlikely to match last year's level even if industrial production continues to rise. This is due to progress made in the field of energy efficiency and the milder weather in the first half of the year. In contrast, we expect to see a slight increase in the Netherlands. Our key Central Eastern European electricity markets may well be able to post a bigger gain.

Since demand for gas is more dependent on the weather than electricity consumption it is subject to greater fluctuation. If temperatures are normal in the second half of the year, overall gas consumption in our core markets in 2011 will be lower than in 2010.

### **Fuel expected to be more expensive than in 2010**

Prices on international crude oil, hard coal and natural gas markets are currently expected to be much higher than in 2010. Dynamic economic development displayed by emerging countries such as China and India was the main reason, with natural disasters such as the earthquake in Japan and the persistent unrest in North Africa and the Middle East also playing a role. On 29 July, the last trading day of the month, a barrel of Brent crude traded at US\$116. Forward prices through to the end of 2011 witnessed on that day reveal that market participants expect the average for the year as a whole to be around US\$110. This would represent a significant jump compared to 2010 (US\$79). The rise in crude oil prices is reflected on the

Continental European gas market as a result of the link to oil prices in numerous import agreements. However, the contracts also increasingly take developments in gas spot trading into account. Corresponding contractual revisions should dampen the rise in import prices. Gas quotations on Europe's major trading hubs have risen recently, but remain clearly below the price of oil-indexed supply agreements due to the ample supply of gas. Market signals indicate that this situation will persist for the rest of the year. The development of thermal hard coal was as follows: at the end of July, a metric ton cost US\$125 (including freight and insurance) in Rotterdam spot trading. A similar figure is expected for the year as a whole, which would represent a significant increase over 2010 (US\$93). In European trading of CO<sub>2</sub> emission allowances, prices have recently declined. Their development will depend in part on the economic trend. An adjustment to the European emission reduction goals would also influence prices significantly.

#### **Realised electricity price lower year on year**

The rise in fuel prices and the German nuclear phase-out have already caused electricity quotations on wholesale markets to increase. Spot and forward prices for the year as a whole will probably be higher than in 2010. But this will only have a minor effect on our earnings this year, as we have sold forward nearly all of our generation for 2011. The price we realised for our German production was below the comparable figure of €67 per MWh for 2010. Part of our generation for the years ahead has also already been placed on the market. In Germany, this applies to over 80% of production for 2012 and over 30% for 2013 (as of 30 June 2011).

#### **Forecast for 2011: revenue marginally lower year on year**

From our current point of view, our external revenue is expected to be slightly down on 2010. The main reason is that RWE Supply & Trading realised lower prices when selling in-house electricity generation. Furthermore, we expect to be able to complete the sale of a 74.9% stake in Amprion in the third quarter. The electricity transmission system operator would then be accounted for using the equity method from October at the latest, and as a result will no longer contribute to Group revenue. In contrast, we expect RWE Dea to increase revenue, mainly due to higher oil and gas prices.

#### **Significant drop in earnings expected**

In the current financial year, the difficult economic and political framework conditions will have a significant impact on our earnings. The new nuclear fuel tax and the early nuclear phase-out will affect earnings substantially in Germany. Furthermore, due to the market environment, we sold our electricity production for this year at less favourable conditions than for 2010. Burdens in the gas midstream business will increase further. We have to pay much more to purchase gas based on oil-indexed contracts than we can realise when selling it on. Any positive outcome of ongoing price renegotiations with our gas suppliers are not expected to be reflected in our figures until 2012/2013.

Outlook for 2011 € million	2010	2011 forecast vs. 2010	Change vs. prior forecast
External revenue	53,320	Below previous year	–
EBITDA	10,256	Approx. –20%	↓
Operating result	7,681	Approx. –25%	↓
Germany	5,575	Significantly below previous year	–
Power Generation	4,000	Significantly below previous year	–
Sales/Distribution Networks	1,575	Below previous year	–
Netherlands/Belgium	391	Significantly below previous year	–
United Kingdom	272	Significantly above previous year	↑
Central Eastern and South Eastern Europe	1,173	Below previous year	↑
Renewables	72	Significantly above previous year	–
Upstream Gas & Oil	305	Significantly above previous year	–
Trading/Gas Midstream	–21	Significantly below previous year	–
Recurrent net income	3,752	Approx. –35%	↓

We must make a downward adjustment to the earnings outlook we issued in February 2011 due to the unforeseen burdens resulting from Germany's revised energy policy. The improvement in the earnings outlooks for RWE Dea, RWE npower and the Central Eastern and South Eastern Europe Division will be unable to offset them. The RWE Group's EBITDA is anticipated to be approximately 20% down year on year. In February, we had forecast a decline of about 15%. We now expect the operating result to drop by approximately 25% instead of the decrease of approximately 20% anticipated previously. Recurrent net income is likely to decline by about 35% instead of approximately 30%.

- Germany: From our current perspective, the division's operating result is expected to decline significantly.

**Power Generation:** The earnings drop predicted for the Germany Division will largely come from RWE Power. As mentioned earlier, the shortening of the lifetimes of our nuclear power plants will lead to substantial earnings shortfalls. We had already sold forward the generation of the Biblis units, which have now been shut down. This forces us to fulfil our supply commitments with more expensive in-house generation or through electricity purchases at market prices which have recently increased. In addition, we have written off nuclear fuel elements as we probably cannot use them any longer. The accelerated nuclear phase-out also means that we had to increase the provisions for shutting down and dismantling our plants. On top of that, the new nuclear fuel tax is having a very negative impact. In addition to the political framework conditions, the development of prices on the wholesale market will also have a negative effect on earnings. When we sold our electricity generation forward in earlier years, the average price realised was lower than for our 2010 generation, which we had placed on the market for an average of €67 per MWh. Additional adjustments to the nuclear and mining provisions will have positive effects and counter the impact of the reduced lifetimes of nuclear power plants.



Sales/Distribution Networks: We also expect this business area to close down on last year. Our earnings in the gas sales business will probably fall short of last year's high level due to the weather. In addition, we anticipate that expenses for improving network infrastructure will be higher. This will be contrasted by our declining refunds of excess fees (see commentary on page 26).

- Netherlands/Belgium: The operating result posted by this division will decline significantly compared to last year's good result. This is primarily because we transferred parts of Essent's gas midstream activities to the Trading/Gas Midstream Division with effect from 1 January 2011. In 2010, these had recorded strong earnings, in part due to the cold weather. Essent's electricity generation is also expected to make a smaller contribution to earnings, as we anticipate that the margins of our Dutch gas and hard coal-fired power plants will shrink. In contrast, cost reductions in the fields of IT and HR among others as well as efficiency enhancements will have a positive impact.
- United Kingdom: We now expect this division to grow its operating result substantially. A key success factor are our extensive measures taken to improve efficiency. Furthermore, we believe that margins in the supply business will recover. However, we also expect to be charged higher network operation costs. In addition, we will incur higher expenses for measures to promote energy savings in households. UK utilities are obliged to do this within the scope of government programmes. Earnings in the generation business are likely to deteriorate, as the margins of our hard coal and gas-fired power plants for the full year will probably be lower than in 2010 due to the market conditions in the UK, which are difficult at present. The cash inflows from claims for damages and old accounts receivable set out on page 27 are having a positive effect.
- Central Eastern and South Eastern Europe: From our current perspective, the operating result of this division is likely to be lower than the high figure posted last year. Margins in the Czech gas supply business are expected to deteriorate, albeit not as much as originally expected. Prospects in the Hungarian electricity business have also become brighter. We expect earnings achieved by these activities to stabilise. We predict that in Poland we will benefit from improved electricity network margins.
- Renewables: The progressive expansion of RWE Innogy's renewable generation portfolio will add to revenue, contributing to a significant improvement in the operating result. Despite the low wind levels in the first half of the year, we expect that our wind turbines will be used much more than in 2010. A counteracting effect will come from ongoing investment projects causing substantial run-up costs.
- Upstream Gas & Oil: RWE Dea's operating result should also improve significantly compared to 2010, driven by the unexpectedly strong rise in prices on oil and gas markets. Furthermore, we expect that growth in oil production volume and a reduction in exploration costs will have a positive impact. The increase in royalties on our German gas production and the weaker US dollar will have a negative effect. On top of that, production costs will be higher than in 2010.

- **Trading/Gas Midstream:** We expect this division to close the year with an operating loss, which will be much more significant than in 2010 (€21 million). As explained earlier, since 2009, oil-indexed gas purchase prices have been higher than the sales prices realisable on the market. The resulting effects on earnings will be even more substantial in 2011. We are conducting price reviews with our gas suppliers, the outcome of which will have a significant influence on medium-term earnings. However, these decisions will probably be taken in 2012 or 2013 and therefore will not provide relief this year. We expect that, given the very disappointing first six months, earnings generated by the trading activities of RWE Supply & Trading will also close 2011 markedly down on the level achieved in 2010.

#### **Pay-out ratio of 50% to 60%**

Our dividend proposal for fiscal 2011 will be in line with our usual pay-out ratio of 50% to 60%. The basis for calculating the dividend is recurrent net income. As set out earlier, we expect the latter to decline by approximately 35%. Our dividend will therefore be lower than the one for 2010.

#### **Capex of more than €7 billion planned**

Our capital expenditure on property, plant and equipment in 2011 will reach a record level of between €7.0 billion and €7.5 billion, after which it will decrease as large-scale projects are gradually completed. Compared to the €6.4 billion posted in 2010, we expect spending to increase above all in the Renewables, Germany, Central Eastern and South Eastern Europe and Upstream Gas & Oil Divisions. The focus of our investing activity will be the construction of highly efficient fossil-fuelled power plants, the enlargement of our renewable generation base, the modernisation of network infrastructure and the development of oil and gas fields.

#### **Leverage factor: upper limit likely to be exceeded**

As set out on page 14, we plan to strengthen the Group's financial power by issuing new shares and selling treasury shares. We expect this to raise about €2.5 billion in capital. Under the condition that this measure be implemented by the end of 2011, we will probably be able to keep our net debt below the level it had at the end of 2010 (€29.0 billion), despite our extensive capital expenditure programme. However, the leverage factor, which reflects the ratio of net debt to EBITDA, will be higher than in 2010 (2.8) and exceed the upper limit of 3.0, to which we are orientating ourselves. We intend to return the leverage factor closer to this limit over the medium term.

#### **New earnings forecast for 2013**

The change in the framework of energy policy will significantly affect the development of earnings in the upcoming years as well. However, the associated earnings shortfalls will be contrasted by the positive impact of higher oil and gas prices, improved electricity margins and further efficiency enhancements. Against this backdrop, we are slightly raising the forecast for our medium-term earnings trend that we issued in February 2011. Based on our current planning, EBITDA will total some €9.4 billion in 2013 and the operating result will amount to about €5.9 billion. Recurrent net income is expected to be in the order of €2.5 billion. These figures do not yet consider future sales of companies within the scope of our divestment programme, with the exception of the Amprion transaction, which is just about to be completed.

## DEVELOPMENT OF RISKS AND OPPORTUNITIES

### **Systematic risk management more important than ever**

Traditionally, the energy industry is considered to be crisis-proof. Nevertheless, sector-specific risks have recently experienced a big rise. Uncertain political framework conditions, changing market structures and volatile electricity and fuel prices bring 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 business management. 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, and measures taken to control and monitor major risks in detail on pages 116 to 126 of our 2010 Annual Report.

### **Overall assessment of the risk and opportunity situation by executive management**

As an energy company that makes long-term investments, RWE is especially dependent on reliable political framework conditions. However, we are witnessing a trend towards the energy market being subjected to regulatory intervention. On top of this, state budgetary deficits are increasing the pressure on governments in many European countries to impose new burdens on companies such as energy utilities, which are bound to certain locations.

The sudden change of course in German energy policy following the reactor catastrophe at Fukushima proves that the risks in the utility sector have risen. The 13<sup>th</sup> amendment to the German Nuclear Energy Act reversed the lifetime extension for German nuclear power stations which entered into force at the end of 2010. In addition, the German government set deadlines for shutting down each individual reactor. We have provided detailed information on this on page 13 of this report. The legally mandated shutdown of Biblis forces us to purchase electricity from other sources at conditions that may be much less favourable, in order to supply the generation that has already been sold forward. In view of the remaining lifetimes of the nuclear power stations that are still in operation, there is a risk that we may not be able to make full use of the legally determined residual generation volumes before the shutdown deadline. We are reviewing aspects of the amendment to the German Nuclear Energy Act concerning constitutional law. We have filed lawsuits against the nuclear moratorium for Biblis A and B of March 2011 and the nuclear fuel tax. These legal proceedings may last for a few years.

In addition to political framework conditions, the development of supply and demand on electricity and gas markets affects our earning power in particular. Cyclical influences as well as changes in market structure come to bear in this respect. For instance, the continued rise in the number of wind turbines and solar panels is crowding out conventional generation. Changes in the price of fuel and CO<sub>2</sub> certificates can have a substantial impact on earnings if electricity prices do not move accordingly. This gives rise to risks and opportunities. As set out earlier, we sell most of our electricity forward early on, while hedging the price of the fuel and emission certificates needed to generate it. Risks arise in the gas midstream business, because parts of our gas purchases are based on long-term contracts linked to the price of oil and the market price of gas has been decoupled from that of oil since the middle of 2009. Consequently, the price of some of the gas we buy is higher than the price we can realise when we sell it on. We are currently conducting price reviews in order to obtain better purchasing conditions. Their outcome will have a major influence on our medium-term earnings. The risk arising from this is that the outcomes of the price reviews may fall short of our expectations, contrasted by the chance that we may succeed in obtaining more favourable conditions than assumed.

Despite this and other imponderables, there are no identifiable risks that jeopardise the continued operation of RWE AG or the RWE Group.

### **Current key Value at Risk figures**

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

The central risk controlling parameter for commodity positions is the Global VaR, which is related to the trading business of RWE Supply & Trading and may not exceed €40 million. It averaged €18 million in the first half of 2011; its maximum daily value was €27 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 we hold. 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 in the period under review averaged €6 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 in the first six months averaged €19 million.

The securities we hold in our portfolio include shares. In the period under review, the VaR for the risk associated with changes in share prices averaged €9 million. The VaR for our foreign currency position was less than €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. These statements are assessments that we have made based on information available to us at the time this document was prepared. In the event that the underlying assumptions do not materialise or additional risks arise, actual performance can deviate from the performance expected at present. Therefore, we cannot assume responsibility for the correctness of these statements.

## RESPONSIBILITY STATEMENT

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

Essen, 8 August 2011

The Executive Board



Großmann




Birnbaum



Fitting



Pohlig



Schmitz

# CONSOLIDATED FINANCIAL STATEMENTS (CONDENSED)

## Income statement

€ million	Apr – Jun 2011	Apr – Jun 2010	Jan – Jun 2011	Jan – Jun 2010
<b>Revenue (including natural gas tax/electricity tax)</b>	<b>11,703</b>	<b>12,087</b>	<b>27,457</b>	<b>27,354</b>
Natural gas tax/electricity tax	-532	-668	-1,400	-1,412
<b>Revenue</b>	<b>11,171</b>	<b>11,419</b>	<b>26,057</b>	<b>25,942</b>
Changes in finished goods and work in progress/other own work capitalised	162	71	211	124
Cost of materials	-8,100	-8,164	-18,002	-17,530
Staff costs	-1,293	-1,116	-2,514	-2,368
Depreciation, amortisation, and impairment losses	-1,042	-751	-1,706	-1,402
Other operating income	-923	-373	-1,252	-1,028
<b>Income from operating activities</b>	<b>-25</b>	<b>1,086</b>	<b>2,794</b>	<b>3,738</b>
Income from investments accounted for using the equity method	94	74	228	155
Other income from investments	26	44	109	54
Financial income	167	290	361	760
Finance costs	-501	-675	-1,067	-1,547
<b>Income before tax</b>	<b>-239</b>	<b>819</b>	<b>2,425</b>	<b>3,160</b>
Taxes on income	83	-267	-643	-934
<b>Income</b>	<b>-156</b>	<b>552</b>	<b>1,782</b>	<b>2,226</b>
of which: minority interest	58	66	162	183
of which: RWE AG hybrid capital investors' interest	15		30	
<b>of which: net income/income attributable to RWE AG shareholders</b>	<b>-229</b>	<b>486</b>	<b>1,590</b>	<b>2,043</b>
<b>Basic and diluted earnings per common and preferred share in €</b>	<b>-0.43</b>	<b>0.91</b>	<b>2.98</b>	<b>3.83</b>

Statement of recognised income and expenses<sup>1</sup>

€ million	Apr – Jun 2011	Apr – Jun 2010	Jan – Jun 2011	Jan – Jun 2010
<b>Income</b>	<b>-156</b>	<b>552</b>	<b>1,782</b>	<b>2,226</b>
Currency translation adjustment	30	-138	131	93
Fair valuation of financial instruments available for sale	-11	-43	-69	-31
Fair valuation of financial instruments used for hedging purposes	-524	195	-488	244
Other comprehensive income of investments accounted for using the equity method (pro rata)	-8	-66	-6	-68
Actuarial gains and losses of defined benefit pension plans and similar obligations	-62	-405	-154	-324
<b>Other comprehensive income</b>	<b>-575</b>	<b>-457</b>	<b>-586</b>	<b>-86</b>
<b>Total comprehensive income</b>	<b>-731</b>	<b>95</b>	<b>1,196</b>	<b>2,140</b>
of which: attributable to RWE AG shareholders	(-804)	(84)	(977)	(2,004)
of which: attributable to RWE AG hybrid capital investors	(15)		(30)	
of which: attributable to minority interests	(58)	(11)	(189)	(136)

<sup>1</sup> Figures stated after taxes.

## Balance sheet

<b>Assets</b> € million	30 Jun 2011	31 Dec 2010
<b>Non-current assets</b>		
Intangible assets	17,211	17,350
Property, plant and equipment	33,850	32,237
Investment property	150	162
Investments accounted for using the equity method	3,682	3,694
Other non-current financial assets	887	750
Receivables and other assets	4,261	3,881
Deferred taxes	2,431	2,391
	<b>62,472</b>	<b>60,465</b>
<b>Current assets</b>		
Inventories	3,161	3,293
Trade accounts receivable	8,157	9,485
Receivables and other assets	10,853	13,773
Marketable securities	2,656	3,196
Cash and cash equivalents	1,570	2,476
Assets held for sale		389
	<b>26,397</b>	<b>32,612</b>
	<b>88,869</b>	<b>93,077</b>
<b>Equity and liabilities</b> € million	30 Jun 2011	31 Dec 2010
<b>Equity</b>		
RWE AG shareholders' interest	13,683	14,574
RWE AG hybrid capital investors' interest	1,800	1,759
Minority interest	1,236	1,084
	<b>16,719</b>	<b>17,417</b>
<b>Non-current liabilities</b>		
Provisions	23,495	23,485
Financial liabilities	15,714	15,908
Other liabilities	3,707	3,584
Deferred taxes	2,133	2,185
	<b>45,049</b>	<b>45,162</b>
<b>Current liabilities</b>		
Provisions	4,691	5,572
Financial liabilities	3,770	3,902
Trade accounts payable	7,149	8,415
Other liabilities	11,491	12,466
Liabilities held for sale		143
	<b>27,101</b>	<b>30,498</b>
	<b>88,869</b>	<b>93,077</b>



## Cash flow statement

€ million	Jan – Jun 2011	Jan – Jun 2010
Income	1,782	2,226
Depreciation, amortisation, impairment losses/write-backs	1,711	1,398
Changes in provisions	-511	-745
Deferred taxes/non-cash income and expenses/income from disposal of non-current assets and marketable securities	2	1,141
Changes in working capital	155	-2,284
<b>Cash flows from operating activities</b>	<b>3,139</b>	<b>1,736</b>
Capital expenditure on non-current assets/acquisitions	-2,695	-2,564
Proceeds from disposal of assets/divestitures	560	202
Changes in marketable securities and cash investments	463	737
<b>Cash flows from investing activities</b>	<b>-1,672</b>	<b>-1,625</b>
<b>Cash flows from financing activities</b>	<b>-2,439</b>	<b>-916</b>
Net cash change in cash and cash equivalents	-972	-805
Effects of changes in foreign exchange rates and other changes on cash and cash equivalents	7	1
<b>Net change in cash and cash equivalents<sup>1</sup></b>	<b>-965</b>	<b>-804</b>
Cash and cash equivalents at beginning of the reporting period	2,535	3,074
of which: reported as "Assets held for sale"	-59	
Cash and cash equivalents at beginning of the reporting period as per the consolidated balance sheet	2,476	3,074
<b>Cash and cash equivalents at end of the reporting period as per the consolidated balance sheet</b>	<b>1,570</b>	<b>2,270</b>

1 Of which -€59 million are changes due to the cash and cash equivalents reported as "Assets held for sale" as of 31 December 2010.

## Statement of changes in equity

€ million	Subscribed capital and additional paid-in capital of RWE AG	Retained earnings and distributable profit	Own shares	Accumulated other comprehensive income	RWE AG share-holders' interest	RWE AG hybrid investors' interest	Minority interest	Total
<b>Balance at 1 Jan 2010</b>	<b>2,598</b>	<b>11,537</b>	<b>-2,272</b>	<b>929</b>	<b>12,792</b>		<b>925</b>	<b>13,717</b>
Dividends paid		-1,867			-1,867		-168	-2,035
Income		2,043			2,043		183	2,226
Other comprehensive income		-301		262	-39		-47	-86
Total comprehensive income		1,742		262	2,004		136	2,140
Other changes		-4			-4		10	6
<b>Balance at 30 Jun 2010</b>	<b>2,598</b>	<b>11,408</b>	<b>-2,272</b>	<b>1,191</b>	<b>12,925</b>		<b>903</b>	<b>13,828</b>
<b>Balance at 1 Jan 2011</b>	<b>2,598</b>	<b>12,970</b>	<b>-2,272</b>	<b>1,278</b>	<b>14,574</b>	<b>1,759</b>	<b>1,084</b>	<b>17,417</b>
Dividends paid		-1,867			-1,867		-268	-2,135
Income		1,590			1,590	30	162	1,782
Other comprehensive income		-161		-452	-613		27	-586
Total comprehensive income		1,429		-452	977	30	189	1,196
Other changes		-1			-1	11	231	241
<b>Balance at 30 Jun 2011</b>	<b>2,598</b>	<b>12,531</b>	<b>-2,272</b>	<b>826</b>	<b>13,683</b>	<b>1,800</b>	<b>1,236</b>	<b>16,719</b>

## NOTES

### Accounting policies

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

The consolidated interim financial statements as of 30 June 2011 were approved for publication on 8 August 2011. 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 consolidated interim financial statements of RWE AG for the period ended 30 June 2011 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 2010. For further information, please see the legally required version of the Group's 2010 Annual Report, which provides the basis for this interim report.

The discount rate applied to provisions for nuclear waste management and provisions for mining damage is 5.00% (31 December 2010: 5.00%). Provisions for pensions and similar obligations are discounted at an interest rate of 5.50% in Germany and 5.50% abroad (31 December 2010: 5.25% and 5.30%, respectively).

### Changes in accounting policies

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have approved a number of changes to the existing International Financial Reporting Standards (IFRSs) and adopted several new IFRSs and interpretations, which became effective for the RWE Group as of fiscal 2011.

- Improvements to International Financial Reporting Standards (2010)
- Amendment to IFRS 1 (2010) – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters

- IAS 24 (2009) – Related Party Disclosures
- Amendment to IAS 32 (2009) – Classification of Rights Issues
- Amendment to IFRIC 14 (2009) – Prepayments of a Minimum Funding Requirement
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

The standards and interpretations as well as amendments to standards and interpretations applicable for the first time have no material effects on the RWE Group's consolidated financial statements.

### New accounting policies

The IASB has adopted further standards and amendments to standards, which are not yet mandatory in the European Union for fiscal 2011. EU endorsement is still pending in some cases.

**IFRS 9 (2010) "Financial Instruments"** replaces the previous regulations of IAS 39 for the classification and measurement of financial assets. The adopted amendments primarily relate to the reduction in the number of measurement categories for financial assets. IFRS 9 (2010) becomes effective for the first time for fiscal years starting on or after 1 January 2013.

**IFRS 10 (2011) "Consolidated Financial Statements"** replaces the previous regulations of IAS 27 and of SIC-12 for consolidation. IFRS 10 (2011) implements a uniform concept of control according to the following three requirements which must be cumulatively fulfilled in order for control to exist: power over the relevant

activities of the investee, 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. IFRS 10 (2011) becomes effective for the first time for fiscal years starting on or after 1 January 2013.

**IFRS 11 (2011) "Joint Arrangements"** 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. An important amendment compared to the previous regulations is the abolishment of the option to apply the proportionate consolidation method to joint ventures. In the future, these must be accounted for using the equity method by applying the rules of IAS 28. IFRS 11 (2011) becomes effective for the first time for fiscal years starting on or after 1 January 2013.

**IFRS 12 (2011) "Disclosure of Interests in Other Entities"** encompasses the disclosure obligations resulting from the application of IFRS 10, IFRS 11 and IAS 28. The mandatory disclosures are to enable users of financial statements to evaluate the risks and financial effects resulting from subsidiaries, joint ventures and joint operations, associated companies and unconsolidated structured entities. IFRS 12 (2011) becomes effective for the first time for fiscal years starting on or after 1 January 2013.

**IFRS 13 (2011) "Fair Value Measurement"** defines a single framework for measuring fair value across all standards. Furthermore, IFRS 13 (2011) introduces extensive disclosure on fair valuations in the notes. IFRS 13 (2011) becomes effective for the first time for fiscal years starting on or after 1 January 2013.

**IAS 28 (2011) "Investments in Associates and Joint Ventures"** was supplemented with regulations for the accounting treatment of investments in joint ventures when it was revised. IAS 28 (2011) becomes effective for the first time for fiscal years starting on or after 1 January 2013.

**"Presentation of Other Comprehensive Income" (Amendments of IAS 1)** relates to the presentation of items included in other income in the presentation of total comprehensive income. In the future, they have to be divided into two categories when they are presented. The criterion for separation is their future recognition in the income statement ("recycling"). The amendments become effective for the first time for fiscal years starting on or after 1 July 2012.

**Amendments to IAS 19 "Employee Benefits"** encompass the abolishment of the previously existing options to recognise actuarial gains and losses as well as new regulations for considering the expected return on plan assets. In addition, the disclosure obligations in the notes are expanded. These amendments become effective for the first time for fiscal years starting on or after 1 January 2013.

The effects of the standards on the RWE Group's consolidated financial statements are currently being reviewed.

The following standards and amendments to standards are not expected to have any material effects on the RWE Group's consolidated financial statements:

- IAS 27 (2011) – Separate Financial Statements
- Amendment to IFRS 1 (2010) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- Amendment to IFRS 7 (2010) – Financial Instruments: Disclosures
- Amendment to IAS 12 (2010) – Deferred Tax: Recovery of Underlying Assets

## 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.

Changes in the scope of consolidation in the first half of 2011 relate to 23 companies that were consolidated for the first time, thereof 10 companies in the Sales/Distribution Networks Segment and nine in the Renewables Segment. Seven former fully consolidated companies were removed from the scope of consolidation, three of which belonged to the United Kingdom Segment and two of which belonged to the Trading/Gas Midstream Segment; seven were merged, five of which belonged to the Sales/Distribution Networks Segment.

The scope of consolidation is as follows:

	30 Jun 2011	31 Dec 2010
Fully consolidated companies	454	445
Investments accounted for using the equity method	120	121

**Corporate acquisitions.** The following business combination is worth mentioning:

A contractual agreement dated 10 January 2011 gave RWE control over Niederrheinische Versorgung und Verkehr AG, Mönchengladbach, (NVV), which was previously included in the consolidated financial statements using the equity method. The following table shows the assets and liabilities assumed:

Balance-sheet items	IFRS carrying amounts (fair value) upon first-time consolidation
€ million (preliminary figures)	
Non-current assets	669
Current assets	337
Non-current liabilities	334
Current liabilities	326
<b>Net assets</b>	<b>346</b>
Minority interest	-200
Acquisition costs (non-cash)	179
<b>Goodwill</b>	<b>33</b>

The fair value of the previous shares amounted to €137 million. The first-time consolidation of the previous shares resulted in a gain of €42 million, which was recognised as other operating income in the income statement.

The fair value of the receivables and other assets included in current assets totalled €242 million.

The measurement of the minority interest was based on the pro-rated net assets of the group of companies that was consolidated for the first time.

The goodwill largely results from anticipated future economic benefits and synergy effects.

Since its first-time consolidation, the NVV Group has contributed €459 million to Group revenue and €16 million to Group income.

The initial accounting treatment of the business combination has not yet been finalised due to the complex structure of the transaction.

**Assets and liabilities held for sale.** RWE concluded a contract on the sale of its 100% stake in Thyssengas GmbH in December 2010. The transaction was subject to the approval of the EU Commission and the competent anti-trust authorities. The anti-trust authorities and the EU Commission granted approval in December 2010 and late January 2011, respectively. The following assets and liabilities of Thyssengas are stated as held for sale as of 31 December 2010.

Key figures for Thyssengas	31 Dec 2010
€ million	
Non-current assets	296
Current assets	93
Non-current liabilities	36
Current liabilities	107

The sale of Thyssengas was completed in February 2011. The company was deconsolidated in the first quarter of 2011. The deconsolidation gain amounted to €207 million and was reported on the income statement as part of other operating income.

The total sales price for business transactions amounted to €478 million (first half of 2010: €153 million) which was fully paid in cash.

## Revenue

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

## Research and development costs

In the first half of 2011, research and development costs totalled €45 million (first half of 2010: €58 million).

## Borrowing costs

In the first half of 2011, €15 million in borrowing costs were capitalised as costs in connection with the acquisition, construction

or production of qualifying assets (first half of 2010: €0 million). The underlying capitalisation rate was 5.30%.

## Equity

Pursuant to a resolution passed by the Annual General Meeting on 22 April 2010, the company was authorised to conduct share buybacks accounting for up to 10% of the company's capital stock until 21 October 2011. This resolution was replaced by the resolution passed by the Annual General Meeting on 20 April 2011, authorising the company to conduct share buybacks accounting

for up to 10% of the company's capital stock and to sell own common shares under certain conditions waiving shareholder subscription rights until 19 October 2012. The company's Executive Board was further authorised to withdraw own shares. As per the preceding resolution, the purchase and sale of these shares can also be carried out using put and call options.

## 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 2010.

In the first quarter of 2011, another tranche was issued within the framework of the Long-Term Incentive Plan for executive staff ("Beat 2010").

## Dividend distribution

RWE AG's 20 April 2011 Annual General Meeting decided to pay a dividend of €3.50 per individual, dividend-bearing share for

fiscal 2010 (fiscal 2009: €3.50). The dividend payment totalled €1,867 million.

## Other liabilities

Other liabilities include €1,782 million (31 December 2010: €1,775 million) in current redemption liabilities from put options

of minority interests that are recognised in accordance with IAS 32.

## Financial commitments

The last cross-border leases (CBLs) Essent had were contractually terminated with US investors at the end of June 2011. Only certain liability clauses resulting from the previously existing CBL-related liabilities, which were reported in the consolidated

financial statements for the period ending on 31 December 2010, will continue to be in effect after the termination of the contracts. The probability of a related claim is estimated to be extremely low.

## Earnings per share

		Jan – Jun 2011	Jan – Jun 2010
Net income/income attributable to RWE AG shareholders	€ million	1,590	2,043
Number of shares outstanding (weighted average)	thousands	533,559	533,559
Basic and diluted earnings per common and preferred share	€	2.98	3.83

## Related party disclosures

The RWE Group classifies associated entities as related parties. In the first half of 2011, transactions concluded with material related parties generated €521 million in income (first half of 2010: €481 million) and €142 million in expenses (first half of 2010: €119 million). As of 30 June 2011, accounts receivable amounted to €1,698 million (31 December 2010: €1,004 million), and accounts payable totalled €19 million (31 December 2010: €12 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 €3,588 million (31 December 2010: €4,044 million).

Furthermore, companies in which Dr. Jürgen Großmann, the CEO of RWE AG, is a partner, are classified as related parties of the RWE Group. These are Georgsmarienhütte Holding GmbH and RGM Gebäudemanagement GmbH. In the first half of

2011, RWE Group companies provided services and deliveries to these companies amounting to €7.1 million (first half of 2010: €4.9 million) and received services and deliveries from these companies amounting to €1.4 million (first half of 2010: €1.1 million). As of 30 June 2011, there were receivables of €1.1 million (31 December 2010: €0.8 million) from and liabilities of €0.7 million to these companies (31 December 2010: €0.5 million). Other obligations from executory contracts primarily relate to a network usage agreement with an annual volume of €5.3 million. All transactions are completed at arm's length prices and on principle, the business relations do not differ from those maintained with other enterprises.

## Events after the balance-sheet date

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

## REVIEW REPORT

### To RWE Aktiengesellschaft, Essen

We have reviewed the condensed consolidated interim financial statements – comprising the income statement and statement of recognised income and expense, balance sheet, cash flow statement, statement of changes in equity and selected explanatory notes – and the interim group management report of RWE Aktiengesellschaft, Essen, for the period from 1 January to 30 June 2011 which are part of the half-year financial report pursuant to § 37w WpHG (“Wertpapierhandelsgesetz”: German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company’s Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standard on Review Engagements “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial report-

ing as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

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

Essen, 8 August 2011

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Manfred Wiegand  
Wirtschaftsprüfer  
(German Public Auditor)

Markus Dittmann  
Wirtschaftsprüfer  
(German Public Auditor)



## SUPERVISORY BOARD

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Chairman

**Frank Bsirske**  
Deputy Chairman

**Dr. Paul Achleitner**

**Werner Bischoff**

**Carl-Ludwig von Boehm-Bezing**

**Heinz Büchel**

**Dieter Faust**

**Roger Graef**  
- since 20 April 2011 -

**Andreas Henrich**  
- until 20 April 2011 -

**Manfred Holz**  
- since 20 April 2011 -

**Frithjof Kühn**

**Hans Peter Lafos**

**Dr. Gerhard Langemeyer**  
- until 20 April 2011 -

**Christine Merkamp**  
- since 20 April 2011 -

**Dagmar Mühlenfeld**

**Dr. Wolfgang Reiniger**  
- until 20 April 2011 -

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- until 20 April 2011 -

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**Dr.-Ing. Ekkehard D. Schulz**

**Dr. Wolfgang Schüssel**

**Ullrich Sierau**  
- since 20 April 2011 -

**Uwe Tigges**

**Manfred Weber**

**Dr. Dieter Zetsche**

## EXECUTIVE BOARD

**Dr. Jürgen Großmann**  
President and CEO

**Dr. Leonhard Birnbaum**

**Alwin Fitting**

**Dr. Rolf Pohl**

**Dr. Rolf Martin Schmitz**

As of 8 August 2011

## FINANCIAL CALENDAR 2011/2012

<b>10 November 2011</b>	Interim report for the first three quarters of 2011
<b>6 March 2012</b>	Annual report for fiscal 2011
<b>19 April 2012</b>	Annual General Meeting
<b>20 April 2012</b>	Dividend payment
<b>10 May 2012</b>	Interim report for the first quarter of 2012
<b>14 August 2012</b>	Interim report for the first half of 2012
<b>14 November 2012</b>	Interim report for the first three quarters of 2012

The interim report for the first half of 2011 was published on 9 August 2011.

This is a translation of the German interim report. 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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