REPORT ON THE FIRST QUARTER OF 2011

- Operating result 5% down year on year
- Recurrent net income decreased by 7%
- Earnings forecast for 2011 confirmed for the time being

RWE
The energy to lead

AT A GLANCE

RWE Group — key figures		Jan – Mar 2011	Jan – Mar 2010	+/– in %	Jan – Dec 2010
External electricity sales volume	billion kWh	81.5	81.4	0.1	311.2
External gas sales volume	billion kWh	129.3	155.1	–16.6	395.4
External revenue	€ million	15,754	15,267	3.2	53,320
EBITDA	€ million	3,426	3,574	–4.1	10,256
Operating result	€ million	2,827	2,987	–5.4	7,681
Income before tax	€ million	2,664	2,341	13.8	4,978
Net income	€ million	1,819	1,557	16.8	3,308
Recurrent net income	€ million	1,609	1,739	–7.5	3,752
Earnings per share	€	3.41	2.92	16.8	6.20
Recurrent net income per share	€	3.02	3.26	–7.4	7.03
Cash flows from operating activities	€ million	2,284	1,509	51.4	5,500
Capital expenditure	€ million	1,184	1,193	–0.8	6,643
Property, plant and equipment and intangible assets	€ million	1,144	1,175	–2.6	6,379
Financial assets	€ million	40	18	122.2	264
Free cash flow	€ million	1,140	334	241.3	–879
		31 Mar 2011	31 Dec 2010		
Net debt of the RWE Group	€ million	27,479	28,964	–5.1	
Workforce[1]		71,405	70,856	0.8	

1 Converted to full-time positions.

Contents

»Despite the nuclear moratorium and current energy debate, we maintain our earnings outlook for 2011 for the time being.«

Dear Investors,

In the middle of March, the German government ordered a three-month cessation of operation for seven nuclear power stations. Policymakers from all parties are demanding that the phase-out process for nuclear energy be accelerated. The transformation of the German energy industry mandated by the country's politicians is a Herculean task placing high demands on the sector's ability to make investments. We can and want to use our experience and strength to help accomplish it. However, we need clear framework conditions and no time should be wasted in establishing them. The fact of the matter is that in the short term, without nuclear energy one cannot ensure a supply of energy that is gentle on the environment and provides security of supply at affordable prices without jeopardising Germany as an industrial nation.

Political reactions to Fukushima only had a minor impact on our business performance in the first quarter. The RWE Group's operating result was down 5%, with recurrent net income declining by 7%. The Trading/Gas Midstream Division closed the period clearly down year on year. In contrast, earnings generated by our UK energy company and our oil and gas production business improved. For the time being, we maintain the forecast for the full 2011 fiscal year which we published in February, despite the negative effects of the three-month nuclear moratorium. We expect the operating result to decrease by some 20%. Recurrent net income, the basis for determining your dividend, is likely to be about 30% lower than in 2010. However, there is still no way of telling what decisions the German government will take in relation to energy policy after the moratorium.

Despite this uncertainty, we continue to make our contribution to an energy supply that will be reliable and gentle on the environment both tomorrow and the day after. Our capital expenditure on property, plant and equipment will amount to more than €7 billion, making it higher than ever before. By the end of 2013, over €5 billion will be spent on expanding electricity generation based on CO_2-free and low-CO_2 technologies alone. As you can see, besides shaping the future of energy supply, we are laying the foundations for our operating success in the coming years.

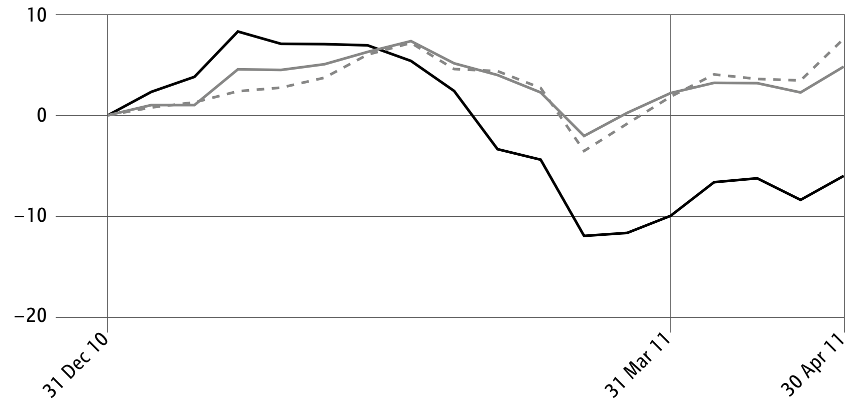
Sincerely yours,

Jürgen Großmann

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

Uncertainty surrounding energy policy weighs on RWE share price development

Performance of the RWE common share compared with the DAX 30 and the Dow Jones STOXX Utilities indices
%

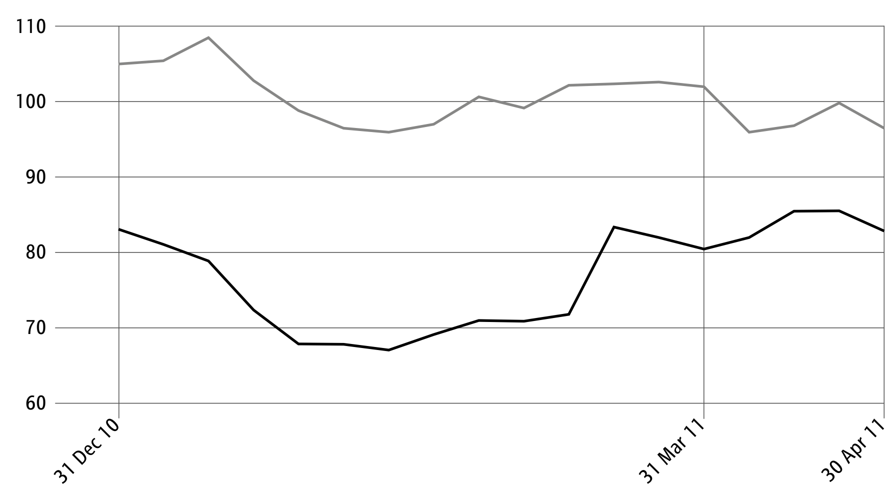


DAX 30
Dow Jones STOXX Utilities
RWE common share

Average weekly figures.
Source: Bloomberg.

Germany's lead index, the DAX, got off to a good start in 2011, spurred by the robust economy. By the middle of February, it had reached 7,427 points, the highest it had been in over three years. Following this, stock markets were increasingly affected by the political unrest in North Africa, especially in Libya. The rise in oil prices triggered by this conflict fuelled fears about the economy that intensified as a result of the severe earthquake and the tsunami in Japan. By mid-March, the DAX had fallen to just over 6,500 points, after which it recovered. At the end of the quarter, it closed trading at 7,041 points, up 2% on its quotation at the end of 2010. Share price developments in the European utility sector were similar. The sector index, Dow Jones STOXX Utilities, also gained 2% in the first quarter. In contrast, the price of German utility stocks declined. RWE common shares fell 10% to €44.95, while RWE preferred shares declined by 11% to €42.85. The main reason is the uncertainty surrounding Germany's energy policy after the disastrous accident at the Fukushima nuclear power plant in Japan, which caused the German government to impose a three-month operating ban on the country's seven oldest reactors (referred to as the nuclear moratorium). This is covered in more detail on page 11.

Development of the five-year credit default swap (CDS) for RWE and of the iTraxx Europe CDS Index
in basis points



iTraxx Europe
CDS for RWE

Average weekly figures.
Source: Bloomberg.

The corporate bond market was marked by a rise in interest rates. The positive economic development and ensuing expectations of inflation led to a rise in interbank lending rates in the Eurozone. At the beginning of April 2011, the European Central Bank lifted the lead interest rate by 0.25 percentage points to 1.25%. In contrast, the risk premiums that bond issuers have to pay on top of the interbank interest rates declined somewhat. The same applies to 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, closed the month of April at 97 basis points, having started the year at 105 points. The CDS for RWE initially fell below 70 points from over 80 points. However, in light of the events at Fukushima and the German nuclear moratorium, it returned to the level it had at the beginning of the year.

ECONOMIC ENVIRONMENT

Economic upturn continues

Following the strong recovery in 2010, the world economy lost some momentum in early 2011. The effects of the US stimulus package were curtailed by waning growth in China and the decline in Japanese economic output caused by the severe earthquake. Based on initial estimates, cumulative gross domestic product (GDP) of all OECD countries in the first quarter of 2011 was approximately 3% higher than in the same period last year. The Eurozone is estimated to have posted a gain of more than 2%. In Germany, the largest economy in the currency area, economic output is likely to have risen by over 4%. The main reason for this was the strong demand for German industrial goods, which was 13.5% and 15.3% up year on year in January and February, respectively. In the Netherlands, the economy also benefited from a robust business cycle, but did not grow quite as much as in Germany. The United Kingdom has still not fully overcome the real estate and financial market crisis. UK GDP was only up by a little less than 2%. Countries in Central Eastern Europe had a dynamic start to the year. Industrial production in Poland, the Czech Republic, Slovakia and Hungary posted double-digit gains. Accordingly, the economic growth of these countries was probably above the European average.

Weather milder than in very cold 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. Temperatures in Germany, the United Kingdom, the Netherlands and Central Eastern Europe in the first quarter of 2011 were roughly the same as the long-term average. However, they were higher than in the first quarter of 2010, which was unusually cold. In addition to energy consumption, weather conditions also influence the generation of electricity, especially from renewable sources. Together, wind levels in Germany and the United Kingdom, our most important wind power sites, were marginally higher than a year earlier. However, they were far below the long-term seasonal average. The latter also applies to Spain, which experienced above-average wind levels in the first quarter of 2010.

Energy consumption: weather and economy have opposing effects

Both the robust economy and the much milder weather compared to the same period last year characterised the development of demand for energy in our markets. Based on available data, electricity consumption in Germany in the first quarter of 2011 was about 1% higher than in the same period last year. Demand for electricity in the Netherlands is likely to have increased a little more. The same applies to Hungary (+2.5%), Poland (+2%), the Czech Republic (+2%) and Slovakia (+1.5%). Conversely, the need for electricity in the United Kingdom was down some 3%, because in the UK the impact of the weather was greater than that of the economy. Progress in improving energy efficiency also played a role. 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 compared to 2010. Initial estimates have the need for gas dropping by 8% in Germany, by 11% in the Netherlands, and by as much as 16% in the United Kingdom. Declines recorded in the Czech Republic and Hungary were more moderate, at 5% and 6%, respectively.

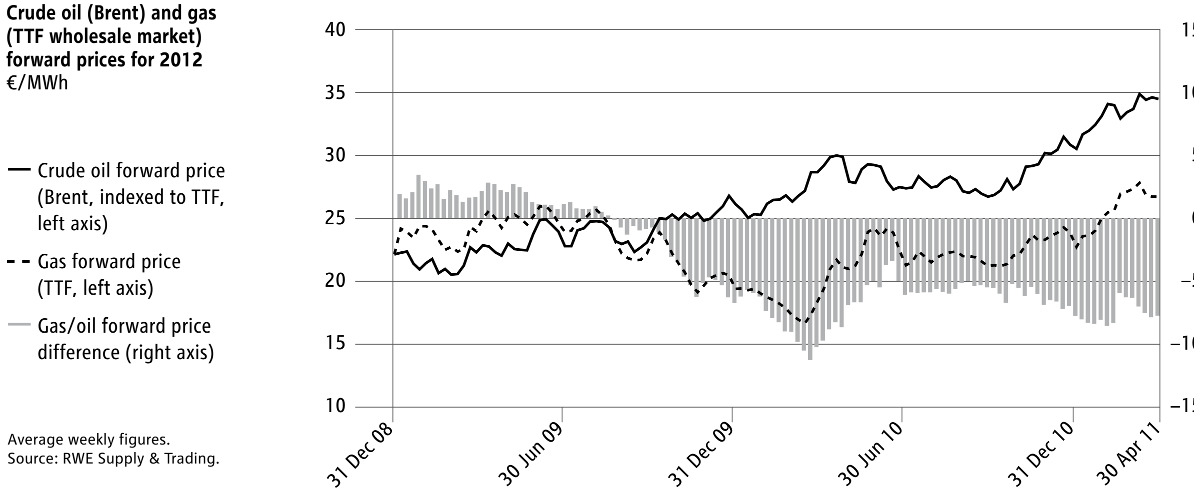
Oil price climbs above 100 dollar mark

The fuel price curve continued to trend upwards on international markets, as was the case with crude oil. In the first quarter of 2011, a barrel of Brent crude traded at an average of US$105, making it US$29 more expensive than in the same period last year. Asia's fast-growing economies contributed to this significantly on account of their high demand. Another major factor was the political unrest in North Africa and the Middle East, which curtailed production and gave rise to the concern that oil supplies may tighten further. In addition, numerous investors turned to commodities on fear of inflation, which also drove up prices.

Gas becomes much more expensive

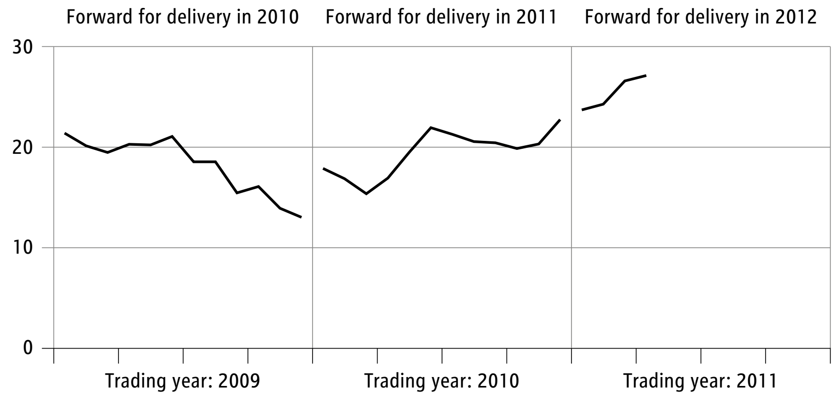
As a large proportion of gas imports to Continental Europe is based on long-term agreements linked to the price of oil, developments on the oil market also influence the price of gas. However, this typically occurs with a time lag of several months. In addition to the oil-indexed supply contracts, trades of freely available quantities with increasingly 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. Certain volumes are no longer indexed to oil and are instead priced on gas wholesale spot prices.

Crude oil (Brent) and gas (TTF wholesale market) forward prices for 2012
€/MWh



Average weekly figures.
Source: RWE Supply & Trading.

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



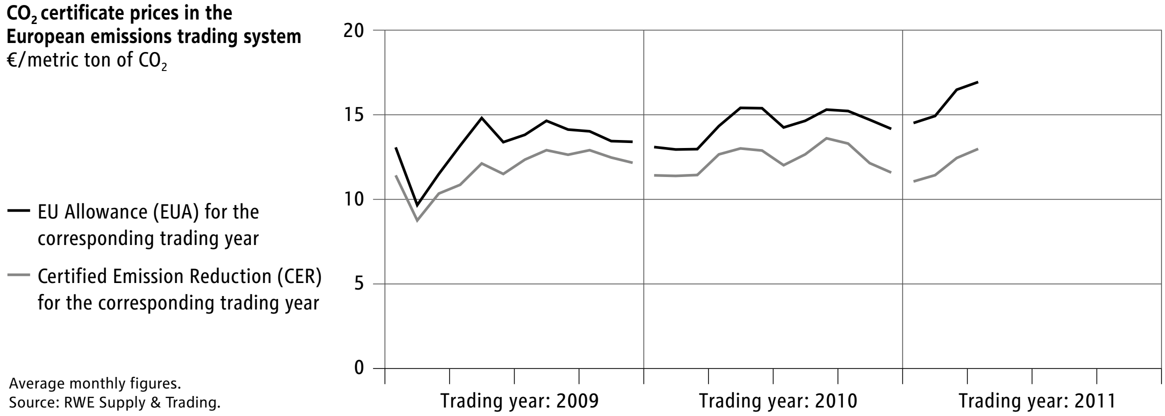
Average monthly figures.
Source: RWE Supply & Trading.

Prices of gas imports to Germany in the first quarter of 2011 were an average of 28% higher than a year ago. This was largely due to the continued boom on oil markets. Quotations on European gas markets also rose. The TTF spot price in the period under review averaged €23 per megawatt hour (MWh), up €9 on the comparable figure in 2010. In gas forward trading, contracts for delivery in the coming calendar year (2012 forward) sold for €25 per MWh on the TTF wholesale market. This is €8 more than what had to be paid for the 2011 forward in the first quarter of 2010.

In Germany, residential gas tariffs were 3% up compared to the first quarter of 2010. They were 15% higher for industrial enterprises, as prices in this customer segment react much faster to developments on the wholesale market. Gas also became much more expensive in our other Continental European markets. In the Netherlands, households and industrial enterprises had to pay 5% and 22% more, respectively, with prices for both customer groups rising by 11% in the Czech Republic and 9% in Hungary. In the United Kingdom, residential gas prices were just below the level witnessed in the first quarter of 2010. However, for UK industrial customers gas was 19% more expensive, as purchase conditions are more strongly linked to the NBP.

Demand from Asia causes boom on hard coal markets
Prices of thermal coal on international markets also increased. A metric ton cost an average of US$123 (including freight and insurance) in Rotterdam spot trading, compared to US$78 a year earlier. This was predominantly due to persistently strong demand in Asia. The events in North Africa and Japan also caused prices to rise. Sea freight rates are a major component of hard coal quotations. The standard route from South Africa to Rotterdam cost an average of US$9.50 per metric ton, which was US$3.90 less than in the first quarter of 2010. 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 average figure was available for the first quarter of 2011 when this report went to print, but experts estimate it to be €105 per metric ton of hard coal unit. This would be €30 more than in the same period last year.

CO_2 certificate prices in the European emissions trading system
€/metric ton of CO_2



Average monthly figures.
Source: RWE Supply & Trading.

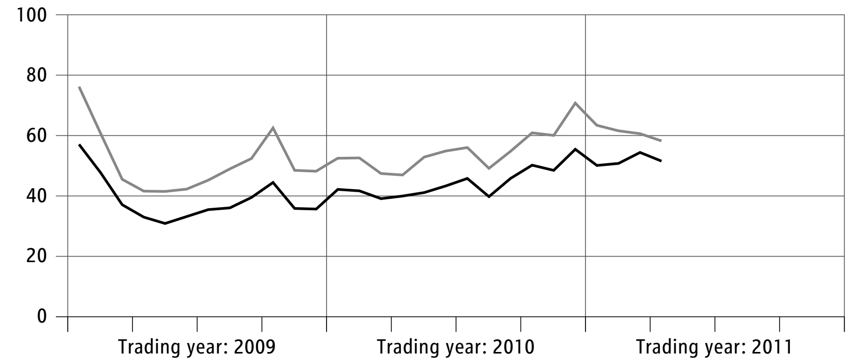
CO_2 emissions trading: German nuclear moratorium causes certificate prices to rise

The development of prices in European trading of CO_2 emission allowances (referred to as EU Allowances – EUAs) was significantly influenced by the reactor disaster at Fukushima and the German nuclear energy moratorium. The temporary cessation of operation of seven older reactors ordered by the German government led to a rise in the use of hard coal and gas-fired power plants and consequently to an increase in carbon emissions. Many market participants now expect an accelerated nuclear phase-out in Germany and, as a result, a shortage of emission allowances. Over the course of the first quarter, EUAs for 2011 rose in price from €14.40 to €17.30 per metric ton of carbon dioxide. On average, they cost €15.40. This is €2.30 more than what was paid for 2010 certificates in the same period last year. European companies may also cover domestic emissions up to a predetermined level by submitting Certified Emission Reductions (CERs) obtained through projects within the scope of the Clean Development Mechanism (CDM) created by the Kyoto Protocol. These are credits earned from emission-reduction measures taken in developing and newly industrialising countries. In the first quarter, CERs for 2011 traded at an average of €11.70. The comparable figure for 2010 was €11.50.

Higher wholesale electricity prices

The rise in fuel prices and the German nuclear moratorium clearly left their mark on electricity wholesale markets. In German spot trading in the first three months of 2011, base-load power sold for an average of €52 per MWh, while peak-load electricity was settled for €62 per MWh. In both cases, it was therefore €11 more expensive than in the first quarter of 2010. Quotations in electricity forward trading were also up. This is because market participants expect to see the higher fuel costs and reduced use of German nuclear power plants continuing in the medium term. German prices in supply contracts for the coming calendar year (2012 forward) increased over the course of the first quarter, rising from €53 to €59 per MWh of base-load power. The average price was €54 per MWh and for peak-load electricity it was €66. This was €6 and €2 more than what had to be paid for 2011 forwards in the same period last year.

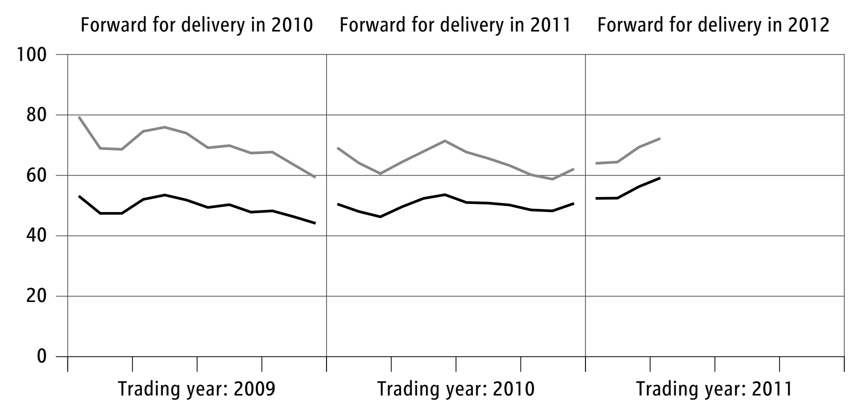
Wholesale electricity spot prices in Germany
€/MWh



— 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.

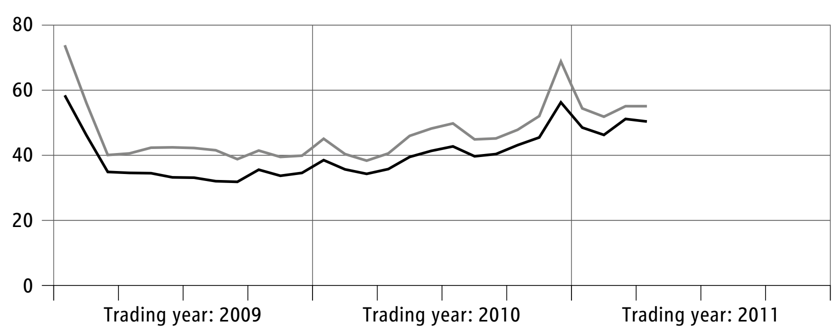
We sell forward nearly all of the output of our power plants in order to reduce volume and price risks. Therefore, current electricity prices only had a minor impact on our income in the period under review. What is much more decisive is the price at which we concluded electricity contracts for delivery in 2011 in preceding years. In the 2009/2010 trading period, the 2011 base-load forward sold for an average of €52 per MWh in the German market. The comparable figure for the 2010 forward in 2008/2009 was €59 per MWh. Electricity was thus €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 current debate on the future of nuclear energy in Germany, this opinion has begun to change.

When concluding electricity forward sales, we usually procure the fuel and CO_2 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 nuclear and lignite-fired 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.

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

Wholesale electricity spot prices in the United Kingdom
£/MWh

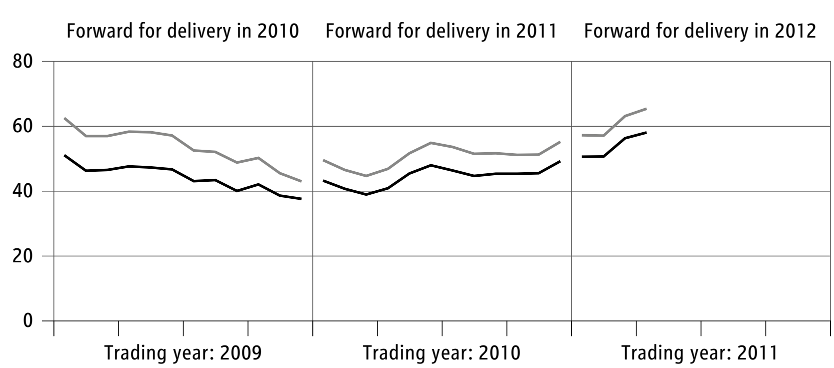
— Peak load
— Base load



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.

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 £54 (€62) per MWh of peak-load power, increasing by £13 in both cases. In the UK electricity forward market, contracts for delivery in the 2012 calendar year were settled for an average of £53 (€61) per MWh of base-load power in the first three months of 2011. This is £12 more than what was paid for the 2011 forward. Peak-load power also rose in price by £12, climbing to £59 (€68).

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 basically the same as in the first quarter of 2010.

The majority of UK energy suppliers raised their electricity tariffs for customers at the end of 2010 or the beginning of 2011. As a result, prices for households and small commercial enterprises were an average of 4% higher than in the first quarter of 2010. Industrial customers were subjected to a similar increase in tariffs.

Wholesale electricity prices in the Netherlands 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. End-customer electricity bills grew by 2% for households and 4% for industrial customers.

End-customer prices in our Central Eastern European electricity markets displayed varied developments. Households had to pay 2.9% more in Poland and 5.6% more in Slovakia, whereas in Hungary, they paid 1.8% less. Electricity supplied to industrial customers in Poland and Hungary was 1.6% and 13% cheaper, respectively, and 4% more expensive in Slovakia.

MAJOR EVENTS

In the period under review

Temporary stoppage for Biblis after reactor accident in Japan
The nuclear disaster in Japan has rekindled the debate on the future of nuclear energy in Germany. In view of the events at Fukushima, in the middle of March Germany's federal and state governments agreed to take the seven oldest reactors offline for a period of three months and to subject these and all the country's other reactors to extensive safety reviews. The temporary cessation of operation affects two RWE units, namely Biblis A and B. On 18 March, RWE Power took Biblis A offline as ordered by the Hessian Ministry for the Environment, Energy, Agriculture and Consumer Protection. Biblis B has already been off the system since 25 February 2011 for maintenance purposes and is not allowed to go back online during the moratorium. The German government draws the legal basis for their action from paragraph 19 of the German Nuclear Act, according to which the operation of nuclear facilities can be forbidden if they pose a danger. In our legal opinion, however, the prerequisites for the legal basis for a cessation of operation have not been met. On 1 April, RWE Power therefore initiated a legal action with the Kassel Higher Administrative Court against the order of the Hessian regulatory authority to interrupt the operation of Biblis. Our grounds for the legal recourse is that Biblis – along with all the other German nuclear power stations – fulfils the safety standards in force. By filing the lawsuit, we are safeguarding the interests of our shareholders. Nevertheless, we are in support of reviewing the safety of nuclear power plants as ordered by the federal government.

Exit from Romanian nuclear energy project
In January 2011, RWE, GDF Suez (France) and Iberdrola (Spain) announced their exit from the Cernadova nuclear power plant project in Romania. Two units, each with an installed capacity of 720 MW, are to be built at the site. The project is spearheaded by a joint venture, in which state-owned SN Nuclearelectrica owns a majority stake and further investors hold interests. RWE owned a share of 9.15%. Our withdrawal will not have a material financial impact on us. The reasons for our decision are economic and market-induced uncertainties, which are partly caused by the after-effects of the financial crisis.

RWE concludes divestment of Thyssengas
We completed the sale of Thyssengas at the end of February. Our German long-distance gas network is subsumed in this company. It was acquired by infrastructure funds managed by Australian financial services provider Macquarie. The divestment received approval from the EU Commission and the German Federal Cartel Office. Thyssengas transmits nearly 10 billion cubic metres of natural gas over a long-distance network with an aggregate length of approximately 4,100 kilometres. We had made a commitment to the EU Commission to sell this activity.

RWE divests minority interest in coal-fired power plant in Rostock.
Also in February, we sold our 24.6% share in a hard coal-fired power station in Rostock, Germany, to RheinEnergie AG. In addition, RheinEnergie also acquired Vattenfall's 25% stake. The remaining 50.4% is still owned by EnBW. The power plant has an electricity generation capacity of 553 MW and supplies district heat to the grid of the Rostock municipal utility (Stadtwerke Rostock).

After the period under review

Foundation stone laid for gas-fired power station in Turkey
On 13 April, RWE and the Turkish energy company Turcas laid the foundation stone for the combined-cycle gas turbine (CCGT) power plant in Denizli in the west of Turkey. Taner Yildiz, the country's energy minister, attended the ceremony. The power station will have a net installed capacity of 775 MW, enough to supply around 3.5 million households with electricity. It is scheduled to begin generation in 2013 and will be owned and operated by a joint venture between RWE (70%) and Turcas (30%). The investment budget is expected to total around €500 million.

Personnel changes on the Supervisory Board of RWE AG
RWE AG's new Supervisory Board was elected in April. The RWE Supervisory Board has two new shareholder representatives: Ullrich Sierau, Mayor of Dortmund, and Roger Graef, Member of the Board of Directors of the Association of Municipal RWE Shareholders. This was resolved by the Annual General Meeting of RWE AG held on 20 April. Messrs. Sierau and Graef succeed Dr. Gerhard Langemeyer and Dr. Wolfgang Reiniger. Christine Merkamp and Manfred Holz, both employees of RWE Power, replace Andreas Henrich and Günter Reppien on the Board as employee representatives. In its first constituent meeting of 20 April, the Supervisory Board re-elected Dr. Manfred Schneider as Chairman and Frank Bsirske as Deputy Chairman.

NOTES ON REPORTING

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 consists of the seven following 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. Since then, some of the Dutch energy utility's activities have 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 (see page 12). 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 essentially includes the following companies; our electricity transmission system operator, Amprion; the Group holding company, RWE AG; our internal service providers, namely RWE Service, RWE IT and RWE Consulting; as well as RWE Technology. The interim financial statements include the January and February figures of Thyssengas, which was sold on 28 February 2011 (see page 11).

BUSINESS PERFORMANCE

Electricity production by division January – March	Germany		Netherlands/ Belgium		United Kingdom		Central Eastern and South Eastern Europe		Renewables		RWE Group	
Billion kWh	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
In-house generation	43.3[1]	43.8[1]	3.4	4.3	10.3	9.0	1.5	1.6	1.8	1.7	60.3	60.4
Lignite	17.5	17.0	-	-	-	-	1.5	1.5	-	-	19.0	18.5
Hard coal	9.5	11.2	1.6	1.7	3.8	3.7	-	-	-	-	14.9	16.6
Nuclear	12.2	11.3	-	-	-	-	-	-	-	-	12.2	11.3
Gas	3.3	3.5	1.4	2.1	6.5	5.3	-	0.1	0.1	0.1	11.3	11.1
Renewable energy	0.4	0.3	0.4	0.5	-	-	-	-	1.7	1.6	2.5	2.4
Pumped storage, oil, other	0.4	0.5	-	-	-	-	-	-	-	-	0.4	0.5
Electricity purchased from third parties	7.0	6.0	2.8[2]	2.0[2]	3.4[2]	5.7[2]	5.2[2]	5.7[2]	-	-	26.2[3]	26.4[3]
Total	**50.3**	**49.8**	**6.2**	**6.3**	**13.7**	**14.7**	**6.7**	**7.3**	**1.8**	**1.7**	**86.5**	**86.8**

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 quarter of 2011, it amounted to 5.9 billion kWh, of which 5.5 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 on a par with year-earlier level

In the first quarter of 2011, the RWE Group produced 60.3 billion kilowatt hours (kWh) of electricity, nearly exactly as much as in the first three months of 2010. In-house generation and power purchases combined for 86.5 billion kWh. This was also very close to the year-earlier figure. In the period under review, 32% of electricity generation was from lignite, 25% from hard coal, 20% nuclear, and 19% gas. The share of renewable energy amounted to 4%.

- Germany: The Germany Division produced 43.3 billion kWh of electricity. Relative to the Group, this corresponds to a share of 72%. In addition to RWE Power's generation, this figure includes small amounts of electricity produced by regional companies. It also encompasses 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 units. Compared to the first quarter of 2010, generation by the Germany Division was essentially unchanged. Production by our hard coal-fired power stations dropped considerably because market conditions for these plants were worse than in 2010. Our nuclear electricity generation increased despite the nuclear moratorium. This was mainly due to the higher availability of Biblis A. Last year, the unit was offline for maintenance until the middle of March, whereas in 2011, it had been online until the beginning of the moratorium.

- Netherlands/Belgium: Essent's first-quarter electricity production was down 21% to 3.4 billion kWh. Our Dutch gas-fired power plants in particular were used much less than in 2010, owing to unfavourable market conditions.

- United Kingdom: RWE npower contributed 10.3 billion kWh to our electricity generation, 14% more than in the same period last year. Whereas production from hard coal was practically unchanged, it was markedly up from gas. The latter results from the commissioning of our new combined-cycle gas turbine power station at Staythorpe. Its four units have an aggregate net installed capacity of 1,650 MW and went online in the second half of 2010.

- Central Eastern and South Eastern Europe: At 1.5 billion kWh, generation by this division was roughly on a par year on year. It stems from the Hungarian lignite-based power producer Mátra.

- Renewables: This division generated 1.8 billion kWh of electricity, nearly all of which came from renewable sources. The 6% rise in production was partly driven by the growth of our onshore wind power capacity. Over the course of 2010, we commissioned two wind farms in Poland with a combined net installed capacity of 67 MW, and two in Italy with a total of 51 MW. Although our wind turbine usage lagged behind expectations due to weather conditions, it was slightly higher than in the first quarter of 2010.

In addition to in-house generation, we procure electricity from external suppliers. These purchases totalled 26.2 billion kWh, roughly matching the year-earlier level. They included electricity which was fed into RWE's network by third parties, in accordance with the German Renewable Energy Act.

RWE Dea: 12% jump in crude oil production; 6% drop in gas production

In the period being reviewed, our upstream subsidiary RWE Dea produced 790 million cubic metres of gas and 648 thousand cubic metres of oil. Converting the gas to oil equivalent and adding it to crude oil production results in a total output of 1,412 thousand cubic metres, or 8.9 million barrels. This compares to 1,391 thousand cubic metres, or 8.7 million barrels in the first quarter of 2010. Gas production dropped by 6%, in part due to a natural decline in output as existing reserves are being depleted. This mainly affects our German and UK concession areas. A counteracting effect was felt because we started producing oil and gas from the Norwegian Gjøa field in November 2010. This was also one of the reasons why our crude oil volume was 12% up year on year. This increase is also a result of our commissioning of an additional production 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.

Electricity sales volume matches year-earlier level

In the first quarter of 2011, we supplied 81.5 billion kWh of power to external customers, roughly the same 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.

External electricity sales volume January – March	Residential and commercial customers		Industrial and corporate customers		Distributors		Electricity trading		Total	
Billion kWh	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Germany	7.6	8.4	7.8	6.9	14.9	14.1	-	-	30.3	29.4
Netherlands/Belgium[1]	3.1	3.0	2.9	2.8	-	-	-	-	6.0	5.8
United Kingdom	5.3	5.9	7.9	8.1	-	-	-	-	13.2	14.0
Central Eastern and South Eastern Europe	2.3	2.2	2.5	2.7	1.6	1.8	-	-	6.4	6.7
Trading/Gas Midstream	-	-	5.7	6.3	-	-	9.2	8.9	14.9	15.2
RWE Group[1,2]	**18.4**	**19.6**	**26.8**	**26.8**	**27.1**	**25.8**	**9.2**	**8.9**	**81.5**	**81.1**

1 Prior-year figures adjusted.
2 Including sales of the Renewables Division and of companies stated under 'Other, consolidation' (mainly Amprion).

- Germany: The division sold 30.3 billion kWh of electricity, 3% more than in the first quarter of 2010. We won new customers in 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. Sales to industrial and corporate customers increased thanks to the robust economic cycle, customer acquisitions and the inclusion of parts of RWE Supply & Trading's key account business. In contrast, we suffered competition-induced losses in volume in the residential and small commercial customer group. By 31 March 2011, we were supplying 6,569,000 customers with electricity, 264,000 fewer at the same point in time last year. The fact that the weather was milder compared to the same period last year also dampened the development of sales volume, as users of electric storage heaters needed less electricity.

- Netherlands/Belgium: Essent sold 6.0 billion kWh of electricity, slightly more than in the first quarter of 2010. As of 31 March 2011, Essent was serving 2,329,000 residential and commercial customers, 19,000 more than a year earlier. Our customer figures were up by 23,000 to 2,170,000 in the Netherlands and down by 4,000 to 159,000 in Belgium.

- United Kingdom: Electricity sales by RWE npower were down 6% to 13.2 billion kWh as a result of the milder weather and reduced consumption due to progress made in energy efficiency. Furthermore, the number of residential and small commercial enterprises we served decreased by 105,000 to 3,861,000. In contrast, we won new industrial and corporate customers.

- Central Eastern and South Eastern Europe: We sold 6.4 billion kWh of electricity in this division, 4% less than in the first three months of 2010. This is due to the fact that, in the second quarter of 2010, we started netting out certain sales volumes against wholesale purchases. Moreover, 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 31 March, we were supplying electricity to 2,192,000 customers in Hungary and to 848,000 in Poland. These numbers represent decreases of 11,000 and 49,000, respectively. We started marketing electricity in the Czech Republic in the spring of 2010. Our expansion in this market had a positive impact on sales volumes.

- Trading/Gas Midstream: External electricity sales achieved by this division totalled 14.9 billion kWh, declining marginally because parts of the key account business were transferred to RWE Deutschland.

External gas sales volume January – March	Residential and commercial customers		Industrial and corporate customers		Distributors		Total	
Billion kWh	2011	2010	2011	2010	2011	2010	2011	2010
Germany	11.2	12.0	7.4	7.9	14.9	20.6	33.5	40.5
Netherlands/Belgium[1]	18.7	22.5	17.1	21.9	-	-	35.8	44.4
United Kingdom	17.1	20.1	0.8	1.9	-	-	17.9	22.0
Central Eastern and South Eastern Europe	13.7	16.7	8.8	10.3	1.9	3.5	24.4	30.5
Upstream Gas & Oil	-	-	1.1	0.6	4.9	5.6	6.0	6.2
Trading/Gas Midstream[1]	-	-	6.1	7.2	5.6[2]	4.3	11.7	11.5
RWE Group[1]	**60.7**	**71.3**	**41.3**	**49.8**	**27.3**	**34.0**	**129.3**	**155.1**

1 Prior-year figures adjusted.
2 Including gas trading.

Milder weather curtails gas sales

Gas sales dropped by 17% to 129.3 billion kWh. Due to normalised weather conditions, demand for heating was down compared to the first quarter of 2010, when temperatures were extremely low. Competition-induced customer losses also contributed to the decline in volume.

- Germany: The division sold 33.5 billion kWh of gas, 17% less than in the comparable period in 2010. The effect of the weather dampened sales across all customer segments. The most significant decline was experienced among 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. 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 31 March 2011, we had 1,095,000 gas customers in this segment, 15,000 more than a year earlier.

- Netherlands/Belgium: The milder weather also had a strong influence on gas sales by Essent, causing them to decline by 19% to 35.8 billion kWh. In addition, some industrial and corporate customers switched suppliers. In contrast, our residential and small commercial customer figures rose by 29,000 to 2,000,000; with a gain of 28,000 to 1,943,000 in the Netherlands and of 1,000 to 57,000 in Belgium.

- United Kingdom: RWE npower’s gas sales were also down 19%, dropping to 17.9 billion kWh. Besides the effect of the weather and energy efficiency measures, the fierce price competition in the UK market was a reason. RWE npower lost some industrial and corporate customers. The number of households and small commercial enterprises to which we supply gas declined by 24,000 to 2,561,000, of which 2,229,000 also obtained electricity from RWE npower.

- Central Eastern and South Eastern Europe: Gas sales achieved by this division were down 20 % to 24.4 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 residential and commercial customers declined by 138,000 to 2,130,000. The growth of our share of the Slovak market had a positive impact. In the first quarter, our sales subsidiary RWE Gas Slovensko sold 2.9 billion kWh of gas, which was more than in the corresponding period last year (2.7 billion kWh), despite the unfavourable effect of the weather.

- Upstream Gas & Oil: External gas sales by RWE Dea totalled 6.0 billion kWh. They were 3 % lower than a year earlier, as a result of the decline in gas production.

- Trading / Gas Midstream: The division sold 11.7 billion kWh of gas outside the Group, basically the same amount as in the first quarter 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 as well as surplus purchases that we sell on.

External revenue € million	Jan – Mar 2011	Jan – Mar 2010	+/– %	Jan – Dec 2010
Germany	5,807	5,630	3.1	19,528
Power Generation	266	233	14.2	1,072
Sales / Distribution Networks	5,541	5,397	2.7	18,456
Netherlands / Belgium	2,137	2,076	2.9	6,510
United Kingdom	2,318	2,418	–4.1	7,759
Central Eastern and South Eastern Europe	1,640	1,685	–2.7	5,297
Renewables	126	103	22.3	366
Upstream Gas & Oil	448	344	30.2	1,353
Trading / Gas Midstream	2,367	2,121	11.6	7,517
Other, consolidation	911	890	2.4	4,990
RWE Group	**15,754**	**15,267**	**3.2**	**53,320**
of which:				
Electricity revenue	8,970	8,511	5.4	34,803
Direct electricity tax	429	371	15.6	1,323
Gas revenue	5,143	5,601	–8.2	14,491
Oil revenue	904	241	275.1	1,049

External revenue 3 % up year on year

In the first quarter of 2011, the RWE Group generated €15,754 million in external revenue, surpassing the year-earlier figure by 3 % partly due to higher oil prices. Additions to and eliminations from the scope of consolidation only had a small effect on the development of revenue. On balance, foreign exchange movements had a positive impact, as the British pound and the Czech crown, our main foreign currencies, appreciated over the euro. The British pound cost an average of €1.16, compared to €1.13 in the first quarter of 2010. The crown rose in price from €0.039 to €0.041. In contrast, the US dollar dropped slightly in price, declining from €0.73 to €0.72. Disregarding consolidation and currency effects, Group revenue gained 2 %.

- Germany: External revenue achieved by this division totalled €5,807 million, up 3 % on the same period in 2010. Electricity revenue improved by 7 % to €4,031 million. This reflects the increase in sales volume. Price effects also played a role. At the beginning of the year, our regional utilities lifted their electricity tariffs in view of 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 adjustments were less pronounced, as we realised savings in electricity purchasing and passed these through to our customers. Revenue in the gas business declined by 8 % to €1,352 million. The main reasons were sales shortfalls caused by the milder weather and the diversification of suppliers by the distributors we serve. A counteracting effect was felt from the fact that RWE Vertrieb AG raised its basic tariff at the beginning of the year.

- Netherlands/Belgium: The division earned €2,137 million in revenue, 3 % more than in the first quarter of 2010. Electricity revenue rose by 28 % to €661 million. Disregarding the effects of hedges, the growth was more moderate. The increase was partly due to the gain in electricity sales volumes. Conversely, gas revenue decreased by 6 % to €1,404 million due to the aforementioned sales shortfalls.

- United Kingdom: External revenue generated by RWE npower was down 4 % to €2,318 million. Net of the foreign exchange impact it would have declined by 6 %. Despite lower sales volumes, electricity revenue amounted to €1,465 million, basically consistent with the year-earlier level (+1 %), also in Sterling terms (–1 %). This was because RWE npower had raised 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 €733 million, down 14 % despite the tariff increases and down 16 % 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. Therefore, our residential gas prices were still lower than the average level in the first quarter of last year.

- Central Eastern and South Eastern Europe: At €1,640 million, external revenue was 3 % lower than a year earlier. Net of currency movements, it declined by 6 %. Electricity revenue amounted to €655 million, down 3 % even excluding the impact of currencies. The development of revenue was characterised by negative volume effects. The same applies to the gas business, where revenue also decreased by 3 %, dropping to €956 million. Deducting foreign exchange effects results in a decline of 8 %.

- Renewables: RWE Innogy boosted external revenue by 22% to €126 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 benefited from the sale of wood pellets produced in our new plant in Siegen-Wittgenstein.

- Upstream Gas & Oil: RWE Dea improved external revenue by 30% to €448 million. The company realised much higher prices for its crude oil and gas production than in the first quarter of 2010. The rise in oil production also had a positive impact, whereas the slight decline in gas volumes had a counteracting effect.

- Trading/Gas Midstream: External revenue generated by RWE Supply & Trading advanced by 12% to €2,367 million. This was mainly due to the positive effects of the fair valuation of the oil futures we concluded in order to limit risks associated with our long-term oil-indexed gas purchasing agreements.

Internal revenue € million	Jan – Mar 2011	Jan – Mar 2010	+/– %	Jan – Dec 2010
Germany	3,544	3,732	–5.0	14,804
Power Generation	2,590	2,766	–6.4	10,378
Sales/Distribution Networks	954	966	–1.2	4,426
Netherlands/Belgium	234	109	114.7	551
United Kingdom	5	2	150.0	11
Central Eastern and South Eastern Europe	130	116	12.1	474
Renewables	65	53	22.6	203
Upstream Gas & Oil	57	42	35.7	134
Trading/Gas Midstream	6,378	6,611	–3.5	21,466

Reconciliation of income from operating activities to EBITDA € million	Jan – Mar 2011	Jan – Mar 2010	+/– %	Jan – Dec 2010
Income from operating activities[1]	2,819	2,652	6.3	6,507
+ Operating income from investments	217	90	141.1	345
+ Non-operating income from investments	-	1	-	62
– Non-operating result	–209	244	-	767
Operating result	2,827	2,987	–5.4	7,681
+ Operating depreciation and amortisation	599	587	2.0	2,575
EBITDA	**3,426**	**3,574**	**–4.1**	**10,256**

1 See the income statement on page 39.

EBITDA € million	Jan – Mar 2011	Jan – Mar 2010	+/– %	Jan – Dec 2010
Germany	2,066	2,087	–1.0	6,728
Power Generation	1,321	1,294	2.1	4,510
Sales/Distribution Networks	745	793	–6.1	2,218
Netherlands/Belgium	198	346	–42.8	660
United Kingdom	462	274	68.6	504
Central Eastern and South Eastern Europe	506	509	–0.6	1,440
Renewables	106	64	65.6	211
Upstream Gas & Oil	251	204	23.0	619
Trading/Gas Midstream	–273	90	–403.3	–7
Other, consolidation	110	-	-	101
RWE Group	**3,426**	**3,574**	**–4.1**	**10,256**

Operating result € million	Jan – Mar 2011	Jan – Mar 2010	+/– %	Jan – Dec 2010
Germany	1,796	1,828	–1.8	5,575
Power Generation	1,201	1,173	2.4	4,000
Sales/Distribution Networks	595	655	–9.2	1,575
Netherlands/Belgium	145	281	–48.4	391
United Kingdom	409	227	80.2	272
Central Eastern and South Eastern Europe	444	447	–0.7	1,173
Renewables	68	30	126.7	72
Upstream Gas & Oil	176	128	37.5	305
Trading/Gas Midstream	–276	88	–413.6	–21
Other, consolidation	65	–42	254.8	–86
RWE Group	**2,827**	**2,987**	**–5.4**	**7,681**

Operating result down 5% year on year

Earnings in the first quarter were encouraging, albeit not quite as good as in the same period last year. EBITDA declined by 4% to €3,426 million, with the operating result decreasing by 5% to €2,827 million. This is largely attributable to the Trading/Gas Midstream Division. Net of consolidation and currency effects, EBITDA and the operating result were down 5% and 6%, respectively.

- Germany: The division posted an operating result of €1,796 million, down 2% on the same quarter last year. The following development was observed in the Power Generation and Sales/Distribution Networks Business Areas:

  Power Generation: This business area recorded a gain of 2% to €1,201 million. The main reason was the absence of burdens from the same period last year, which affected our nuclear provisions. Earnings shortfalls resulted from the fact that we sold our electricity generation for 2011 at prices that were lower than for 2010. 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. Hard coal used to produce electricity in the period under review was slightly more expensive than in the first quarter of 2010, whereas gas was cheaper. On balance, the effect of prices on fuel purchases was therefore negligible. The expense we incurred purchasing CO_2 emission allowances amounted to €171 million, which was slightly lower than the level recorded in the first three months of 2010 (€183 million).

Sales/Distribution Networks: This business area's operating result fell by 9% to €595 million. In the network business, lower throughput for weather-related reasons caused earnings to decrease, especially from gas. On top of that, the balance between the payments we made to put electricity complying with the German Renewable Energy Act on the system and the refunds we received from the transmission network operators deteriorated. However, this discrepancy should neutralise over the course of the year. In addition, 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 reduced network fees from 2010 onwards. The effect of this issue decreased compared to the first quarter of 2010. In our German sales business, the decline in gas volume curtailed earnings. In contrast, the business area's income from investments improved.

- Netherlands/Belgium: The division recorded an operating result of €145 million, down 48% 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 quarter 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's operating result improved by 80% to €409 million. Net of foreign exchange effects, the increase amounted to 77%, which was mainly attributable to the supply business where we reduced costs, for example by decreasing bad debt. The rise in residential electricity and gas tariffs which came into effect in early January provided further relief. It helps us to offset higher procurement costs. Earnings in the industrial customer business also improved. In the generation business, we benefited from compensation for damages paid to us by a supplier for project delays. The additional electricity produced by the 1,650 MW gas-fired power plant at Staythorpe, which was commissioned in the second half of 2010, also contributed to the rise in earnings. However, RWE npower's operating result for the full 2011 fiscal year will probably be lower than in the first quarter, because the generation margins realised over the course of the year will deteriorate. Another reason is the seasonality of the supply business. Furthermore, electricity and gas purchase prices are expected to continue to rise.

- Central Eastern and South Eastern Europe: The operating result we achieved in this division amounted to €444 million, nearly matching the year-earlier level. However, net of currency effects, it declined by 5%. Earnings from Hungarian electricity sales worsened somewhat, partly because the national regulator reduced the margins allowed 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 Hungarian government last year. In the Czech Republic, the decline in gas sales volume adversely affected the result, whereas NET4GAS, the operator of our Czech long-distance gas network, benefited from an increase in revenue.

- Renewables: A rise in our generation output and in the level of electricity prices helped this division to grow its operating result by €38 million to €68 million. Similar to RWE npower, a positive effect was felt from a special item, in the form of compensation for damages. We received it 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 38% to €176 million, due to higher realised oil and gas prices, a rise in oil production and a drop in exploration costs. Counteracting effects came from higher production costs and an increase in royalties in the German gas upstream business.

- Trading/Gas Midstream: RWE Supply & Trading closed the first quarter with an operating loss of €276 million, after having recorded a profit of €88 million in the same period last year. A significant deterioration was experienced in the performance of our trading business. Unexpected price fluctuations in the aftermath of the events in Japan and North Africa were a factor. Earnings in the gas midstream business remain hampered by the fact that in some cases gas sales prices are much lower than the procurement costs. The consequence is changes in value within the gas procurement portfolio. This was contrasted by the positive impact of the inclusion of parts of Essent's gas midstream activities.

Reconciliation to net income: positive special items

The reconciliation from the operating result to net income is characterised by positive one-off effects. These arose from the sale of investments, among other things. Furthermore, the fair valuation of commodity derivatives had much less of a negative effect than in the same period last year.

Non-operating result € million	Jan – Mar 2011	Jan – Mar 2010	+/– € million	Jan – Dec 2010
Capital gains/losses	310	–3	313	68
Impact of commodity derivatives on earnings	–39	–443	404	–337
Restructuring, other	–62	202	–264	–498
Non-operating result	**209**	**–244**	**453**	**–767**

The aforementioned effects were the main reason why the non-operating result improved by €453 million to €209 million. Its components developed as follows:

- In the period under review, we realised €310 million in capital gains on the sale of both Thyssengas and a minority interest in a hard coal-fired power plant in Rostock. We reported on these two transactions on page 11. In the first quarter of 2010, we booked a small capital loss (€3 million).

- The accounting treatment of commodity derivative transactions had an effect of –€39 million. Losses in the first quarter of 2010 were much higher, because we changed the way in which we account for our German gas purchase agreements at the beginning of 2010. From then on, we started recognising these contracts at fair value instead of as pending transactions. As – like today – some oil-indexed gas procurement prices were far above the sales prices realisable on the market, the change had a negative impact on the result.

- The result stated under 'Restructuring, other' amounted to –€62 million. It was thus much lower than the year-earlier figure (€202 million) which was positively affected by the release of provisions for impending losses. The amortisation of RWE npower's customer base by €65 million was the single-largest item in the first quarter of 2011 (first quarter of 2010: €63 million).

Financial result € million	Jan – Mar 2011	Jan – Mar 2010	+/– € million	Jan – Dec 2010
Interest income	102	104	–2	448
Interest expenses	–294	–303	9	–1,258
Net interest	**–192**	**–199**	**7**	**–810**
Interest accretion to non-current provisions	–196	–218	22	–940
Other financial result	16	15	1	–186
Financial result	**–372**	**–402**	**30**	**–1,936**

The financial result improved by €30 million to -€372 million. This was primarily due to the €22 million reduction in cost in connection with the interest accretion to our non-current provisions. The reason for this is the increase in discount rates and the associated re-measurement of provisions. Net interest also rose, albeit only marginally (+€7 million). The same applies to the other financial result (+€1 million); positive effects of the fair valuation of financial transactions were contrasted by the decline in income from the sale of securities.

Reconciliation to net income		Jan – Mar 2011	Jan – Mar 2010	+/– %	Jan – Dec 2010
Operating result	€ million	2,827	2,987	–5.4	7,681
Non-operating result	€ million	209	–244	-	–767
Financial result	€ million	–372	–402	7.5	–1,936
Income before tax	€ million	**2,664**	**2,341**	**13.8**	**4,978**
Taxes on income	€ million	–726	–667	–8.8	–1,376
Income	€ million	**1,938**	**1,674**	**15.8**	**3,602**
Minority interest	€ million	104	117	–11.1	279
RWE AG hybrid investor's interest	€ million	15	-	-	15
Net income/RWE AG shareholders' share in net income	€ million	**1,819**	**1,557**	**16.8**	**3,308**
Recurrent net income	€ million	**1,609**	**1,739**	**–7.5**	**3,752**
Earnings per share	€	3.41	2.92	16.8	6.20
Recurrent net income per share	€	3.02	3.26	–7.4	7.03
Effective tax rate	%	27	28	-	28

We earned €2,664 million in income before tax, 14 % more year on year. The effective tax rate was 27 %, dropping slightly below the year-earlier figure (28 %). After tax, income increased by 16 % to €1,938 million. The minority interest declined by 11 % to €104 million. Some companies in which third parties hold a minority interest saw earnings drop, e.g. Saarland-based VSE and Czech-based regional companies. The share in net income allocable to the holders of the hybrid bond issued in September 2010 totalled €15 million. This sum corresponds to the post-tax financing costs allocable to the period under review. You can find detailed information on our hybrid bond on pages 102 and 195 of our 2010 Annual Report.

The RWE Group's net income rose by 17 % to €1,819 million. Accordingly, our earnings per share advanced from €2.92 to €3.41. The number of RWE shares outstanding in the first quarter averaged 533.6 million, as in the comparable period in 2010.

Recurrent net income down 7 % 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 €1,609 million, 7 % down on the first three months of 2010. We expect the decline for the full year to be more significant (approx. 30 %).

Capital expenditure on property, plant and equipment and on intangible assets € million	Jan – Mar 2011	Jan – Mar 2010	+/– € million	Jan – Dec 2010
Germany	354	402	–48	2,410
Power Generation	267	332	–65	1,180
Sales/Distribution Networks	87	70	17	1,230
Netherlands/Belgium	185	316	–131	1,144
United Kingdom	96	169	–73	876
Central Eastern and South Eastern Europe	79	46	33	430
Renewables	210	106	104	614
Upstream Gas & Oil	170	92	78	507
Trading/Gas Midstream	10	-	10	4
Other, consolidation	40	44	–4	394
RWE Group	**1,144**	**1,175**	**–31**	**6,379**

Capital expenditure on financial assets € million	Jan – Mar 2011	Jan – Mar 2010	+/– € million	Jan – Dec 2010
Germany	2	3	–1	45
Power Generation	-	2	–2	2
Sales/Distribution Networks	2	1	1	43
Netherlands/Belgium	-	1	–1	3
United Kingdom	23	-	23	23
Central Eastern and South Eastern Europe	-	5	–5	8
Renewables	12	11	1	95
Upstream Gas & Oil	-	-	-	-
Trading/Gas Midstream	3	2	1	61
Other, consolidation	-	–4	4	29
RWE Group	**40**	**18**	**22**	**264**

Capital expenditure almost unchanged, at €1.2 billion

The RWE Group spent €1,184 million in capital, roughly the same as in the equivalent period last year (€1,193 million). At €40 million, capital spending on financial assets was negligible. Capital expenditure on property, plant and equipment and intangible assets amounted to €1,144 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 and 2013, respectively. 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 in 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. 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. So far, the Central Eastern and South Eastern Europe Division has focused capital spending on measures to improve electricity and gas network infrastructure. The construction of a 775 MW combined-cycle gas turbine power station in the Turkish town of Denizli adds a major individual project (see page 12). RWE Innogy aims to expand its renewable generation base significantly. In the first quarter, 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 construct 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 mainland.

Cash flow statement € million	Jan – Mar 2011	Jan – Mar 2010	+/– %	Jan – Dec 2010
Cash flows from operating activities	2,284	1,509	51.4	5,500
of which: changes in working capital	–787	–853	7.7	–2,349
Cash flows from investing activities	–1,213	–1,427	15.0	–6,683
Cash flows from financing activities	28	666	–95.8	638
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	7	10	–30.0	6
Total net changes in cash and cash equivalents	**1,106**[1]	**758**	**45.9**	**–539**
Cash flows from operating activities	2,284	1,509	51.4	5,500
Minus capital expenditure on property, plant and equipment and on intangible assets	–1,144	–1,175	2.6	–6,379
Free cash flow	**1,140**	**334**	**241.3**	**–879**

1 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 51 % year on year

In the first quarter of 2011, we generated €2,284 million in cash flows from operating activities. This was 51 % more than in the same period last year. These cash flows thus developed much better than earnings. One of the factors is that changes in the fair value of commodity contracts have only partly had an impact on our cash position. However, cash flow suffered from effects in working capital, but these were not as strong as in the equivalent period last year. Cash outflows for investing activities totalled €1,213 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 flow of €28 million. The presented cash flows resulted in a substantial increase in liquidity. Our cash and cash equivalents have risen by €1,106 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 €1,140 million. This was €806 million more than in the year-earlier period, reflecting the marked improvement in operating cash inflows.

Net debt € million	31 Mar 2011	31 Dec 2010	+/– %
Cash and cash equivalents	3,641	2,476	47.1
Marketable securities	4,004	3,445	16.2
Other financial assets	1,995	1,985	0.5
Financial assets	**9,640**	**7,906**	**21.9**
Bonds, other notes payable, bank debt, commercial paper	17,314	17,572	–1.5
Other financial liabilities	2,529	2,238	13.0
Financial liabilities	**19,843**	**19,810**	**0.2**
Net financial debt	**10,203**	**11,904**	**–14.3**
Provisions for pensions and similar obligations	3,428	3,318	3.3
Surplus of plan assets over benefit obligations	53	56	–5.4
Provisions for nuclear waste management	10,089	10,010	0.8
Mining provisions	2,922	2,920	0.1
Hybrid capital (share of relevance to rating)	890	880	1.1
Net assets held for sale	-	12	–100.0
Net debt of the RWE Group	**27,479**	**28,964**	**–5.1**

Net debt drops to €27.5 billion

As of 31 March 2011, our net debt amounted to €27.5 billion, down €1.5 billion on the level at 31 December 2010. Cash inflows from operating activities (€2.3 billion) and proceeds from divestments (€0.5 billion) were the major factors, whereas our capital expenditure (€1.2 billion) had a counteracting effect.

Balance sheet structure: equity ratio increases to 19.7 %

As of 31 March 2011, the RWE Group had a balance sheet total of €97.8 billion. This was €4.7 billion more than at the end of 2010. Derivative positions changed considerably, rising by €2.1 billion on the assets side and by €2.6 billion on the equity and liabilities side of the balance sheet. Cash and cash equivalents and current securities were up €1.7 billion while property, plant and equipment was €0.6 billion higher than the levels at 31 December 2010. The RWE Group's equity advanced by €1.9 billion. As of the balance sheet date, it accounted for 19.7 % of the balance sheet total. The equity ratio thus climbed by a percentage point. Our non-current assets were fully covered by equity and non-current liabilities as of the balance sheet date.

RWE Group's balance sheet structure	31 Mar 2011		31 Dec 2010	
	€ million	%	€ million	%
Assets				
Non-current assets	62,167	63.6	60,465	65.0
Intangible assets	17,415	17.8	17,350	18.6
Property, plant and equipment	32,864	33.6	32,237	34.6
Current assets	35,601	36.4	32,612	35.0
Receivables and other assets[1]	25,361	25.9	23,258	25.0
Total	**97,768**	**100.0**	**93,077**	**100.0**
Equity and liabilities				
Equity	19,269	19.7	17,417	18.7
Non-current liabilities	45,597	46.6	45,162	48.5
Provisions	23,712	24.3	23,485	25.2
Financial liabilities	15,850	16.2	15,908	17.1
Current liabilities	32,902	33.7	30,498	32.8
Other liabilities[2]	23,247	23.8	20,881	22.4
Total	**97,768**	**100.0**	**93,077**	**100.0**

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

RWE creates more than 500 jobs

As of 31 March 2011, the RWE Group employed 71,405 people, 41,244, 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 549 employees compared to 31 December 2010. In Germany, it grew by 205 staff members. All divisions created jobs, with the exception of the United Kingdom and Trading/Gas Midstream Divisions. Consolidations only had a minor impact on the development of personnel figures. The sale of Thyssengas removed 289 staff from the RWE Group's payroll, whereas 81 employees were added through the acquisition of Georgia Biomass LLC by RWE Innogy. There were shifts of personnel between the divisions, partly because RWE AG employees were transferred to RWE Service and RWE Deutschland as reorganisation measures were implemented.

Workforce[1]	31 Mar 2011	31 Dec 2010	+/– %
Germany	34,663	34,184	1.4
Power Generation	15,524	15,409	0.7
Sales/Distribution Networks	19,139	18,775	1.9
Netherlands/Belgium	4,130	3,899	5.9
United Kingdom	11,597	11,711	–1.0
Central Eastern and South Eastern Europe	11,300	11,163	1.2
Renewables	1,353	1,232	9.8
Upstream Gas & Oil	1,367	1,363	0.3
Trading/Gas Midstream	1,494	1,512	–1.2
Other	5,501[2]	5,792	–5.0
RWE Group	**71,405**	**70,856**	**0.8**

1 Converted to full-time positions.
2 Of which 2,313 at RWE IT and 1,552 at RWE Service.

Research and development: RWE launches smart home initiative
In the first quarter of 2011, research and development (R&D) costs amounted to €23 million (first quarter of 2010: €25 million). In addition, we capitalised €23 million in development costs (first quarter of 2010: €31 million). Our R&D activity focuses on the development of solutions for an energy supply that is gentle on the environment, reliable and affordable.

We dedicate a lot of attention to measures to improve energy efficiency. This is the purpose of smart home technology, which we started offering our German residential customers in March 2011. Smart homes are equipped with economically efficient, easy-to-operate systems used to control household appliances and heating systems. An increasing number of homeowners want to control their home lighting and heat remotely from their smartphones or PCs. Our new product 'RWE SmartHome' is a quickly installed wireless solution and is suitable for use by both homeowners and renters alike. It enables heat and electricity consumption to be reduced by more than 10%, depending on the property and usage patterns, resulting in nearly half a metric ton in CO_2 emission savings per year. In addition to the components already commercially available, we are working on devices and features for the system's future expansion. Development partners are Microsoft Deutschland GmbH, ELV/eQ3 AG and designaffairs GmbH.

We are also seeking to make more efficient use of energy by developing and testing a 'wind heater.' This device is an innovative electric storage heater with flexible charging times suited to take advantage of renewable energy. Traditionally, storage heaters have been charged overnight. In March, RWE Effizienz joined forces with Siemens and tekmar GmbH to initiate an R&D project addressing load management and the economic feasibility of wind heaters. Fifty customers of RWE Vertrieb AG are also participating in the trial. Results are scheduled for the end of the 2011/12 heating period.

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 initial forecasts, global economic output will rise by more than 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, measures to consolidate the state budgets will dampen the upturn. The high price of oil and the events in Japan are also having negative effects. However, given the increased utilisation of industrial capacity, investing activity is likely to pick up. Economic growth in the Eurozone may exceed last year's level of 1.7%. The economic forecast for Germany is a little more favourable. Experts believe that a gain of just over 2.5% is possible. As a result, Germany would return to the gross domestic product achieved in 2008. In addition to exports and capital investments, consumer spending will also support the country's 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 below 2%. In the United Kingdom, savings programmes mandated by the state and the increase in value-added tax will probably curtail consumer spending. UK GDP is only anticipated to grow by about 1%. Initial estimates for our core markets, i.e. Poland, the Czech Republic and Hungary indicate growth rates in excess of 2%.

Economy stimulates electricity consumption

Energy usage will probably continue to benefit from the economy's positive effects in 2011. 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 should increase marginally overall. In the United Kingdom, however, it is unlikely to surpass last year's level even if industrial production rises. This is due to progress made in the field of energy efficiency and the milder weather in the first quarter. In contrast, we expect to see a marginal increase in demand for electricity in the Netherlands. Our Central Eastern European markets may well be able to post a gain of more than 2%. Given the economy's momentum in these countries, electricity usage will probably grow considerably in the next few years as well.

Since demand for gas is more dependent on the weather than for electricity, it is subject to greater fluctuation and is difficult to predict. Given that 2010 was colder than average, a normalisation of temperatures would curtail gas consumption, similar to the first quarter. In view of the high share of the market accounted for by heating gas in our core markets, i.e. Germany, the United Kingdom, the Netherlands and the Czech Republic, this kind of weather-related effect may overshadow any positive economic stimulus.

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 including the earthquake in Japan and the persistent unrest in North Africa and the Middle East also playing a role. On 30 April 2011, a barrel of Brent crude traded at US$125. Monthly 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 slightly higher than US$100. This would represent a significant jump compared to 2010 (US$79). The rise in crude oil prices will be reflected on the Continental European gas market, resulting from 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 may persist for the rest of the year. The development of thermal hard coal was as follows: at the end of April, a metric ton cost US$128 (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_2 emission allowances, prices have risen somewhat since January. Their development is likely to depend greatly on the course set by the German government with respect to the continued use of nuclear energy.

Realised electricity price lower year on year

The rise in fuel prices and the German nuclear moratorium have already caused electricity quotations on wholesale markets to increase. Spot and forward prices will probably also be higher than in 2010 for the year as a whole. But this will only have a minor effect on our earnings in 2011, as we have sold forward nearly all of our generation for this year. 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 70% of production for 2012 and over 20% for 2013 (as of 31 March 2011). With respect to forward sales, we generally purchase or hedge the price of the fuel and emission allowances required to generate the electricity when we enter into the supply contracts.

Forecast for 2011: revenue lower year on year

From our current point of view, our external Group revenue is expected to be down on 2010. The main reason is that we anticipate that we will have to switch the accounting treatment of our electricity transmission system operator, Amprion, over the course of the year to the equity method. Should certain EU unbundling regulations be translated into German law in 2011, we would no longer be able to exert entrepreneurial control over the company. Pursuant to IFRS, this is a prerequisite for full consolidation. Companies stated at equity are not considered in external revenue, but they are factored into EBITDA and the operating result based on their income after tax.

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. As mentioned earlier, due to the market environment, we sold our electricity production for this year at less favourable conditions than for 2010. On top of that, we will be faced with the burdens imposed by Germany's new nuclear fuel tax and the nuclear moratorium ordered by the government. Charges in the gas midstream business will again be higher year on year. In some cases, we still have to pay much more to purchase gas based on oil-indexed contracts than we can realise when selling it on. Positive effects on earnings from ongoing contract renegotiations with our gas suppliers are expected to be felt no earlier than 2012.

Outlook for 2011 € million	2010	2011 forecast vs. 2010	Change vs. prior forecast
External revenue	53,320	Below previous year	-
EBITDA	10,256	Approx. –15%	-
Operating result	7,681	Approx. –20%	-
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	Above previous year	-
Central Eastern and South Eastern Europe	1,173	Significantly 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. –30%	-

For the time being, we maintain the earnings forecast we issued in February 2011 despite the nuclear moratorium. Pending political decisions concerning the future of nuclear energy in Germany will reveal whether we will have to face additional burdens in 2011 and if so, to what extent. It has been impossible to predict them so far. Therefore, for the time being, we still anticipate that the RWE Group's EBITDA will close some 15% down on last year's level. The operating result is expected to decline by approximately 20%. Our forecast for recurrent net income is a decrease of about 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. We have already sold forward nearly all of our German generation for the current year. The average realised price is lower than the €67 per MWh recorded in 2010. The new nuclear fuel tax will also lead to earnings shortfalls. The nuclear moratorium will curtail earnings by up to €200 million. We had already sold forward the Biblis generation which will now not be available due to the moratorium, and must now meet our obligations through more expensive in-house generation or purchases on the electricity market where prices have just risen. We expect to see positive effects compared to 2010 in relation to nuclear provisions.

  Sales/Distribution Networks: We also expect this business area to close with lower earnings. If weather conditions normalise, our earnings in the gas sales business will fall short of last year's high level. In addition, we anticipate that expenses incurred to improve network infrastructure will be higher. This will be contrasted by our declining refunds of excess fees (see commentary on page 23).

- Netherlands/Belgium: The operating result posted by this division will close the year significantly down on 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 expect this division to grow its operating result, in part driven by extensive measures taken to improve efficiency. Furthermore, we believe that margins in the supply business will recover. RWE npower raised residential electricity and gas tariffs by an average of 5.1 % with effect from 4 January 2011. Conversely, network usage fees are likely to rise. In addition, we expect to 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 again, although the new gas-fired power plant at Staythorpe will contribute to our electricity production for a full year for the first time. Due to the current difficult market conditions in the UK, the margins of our hard coal and gas-fired power plants will be lower than in 2010.

- Central Eastern and South Eastern Europe: From our current perspective, the operating result of this division is likely to be much lower than the good figure posted last year. Margins in the Czech gas supply business are expected to deteriorate. The earnings contribution by the Hungarian electricity business is also anticipated to be smaller than in 2010. However, 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, thus contributing to a significant improvement in the operating result. Despite the low wind levels in the first quarter, we expect higher wind levels throughout 2011, meaning that our wind turbines will be used much more than in 2010. Higher wholesale electricity prices are also likely to have a positive impact on earnings. A counteracting effect will come from ongoing and planned investment projects causing substantial run-up costs.

- Upstream Gas & Oil: RWE Dea's operating result should improve significantly, as we anticipate being able to realise higher oil and gas prices. Furthermore, we expect that growth in oil production volume and a reduction in exploration costs will have a positive impact. However, production costs will be higher than in 2010. The rise in the operating result will also be curtailed by the increase in royalties on our German gas production.

- 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). This is due to burdens in the gas midstream business. As explained earlier, since 2009, in some cases oil-indexed gas purchase prices have been much higher than the sale prices realisable on the market. The resulting effects on earnings will be even more substantial in 2011. We are renegotiating our procurement contracts with our gas suppliers, the outcome of which will have a significant influence on medium-term earnings. However, most of these decisions will probably not be taken until 2012 or 2013 and therefore will not provide relief this year. We expect that earnings generated by the trading activities of RWE Supply & Trading will also decline.

Payout ratio of 50% to 60%

Our dividend proposal for fiscal 2011 will be in line with our usual payout 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 30%. 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 amount to between €7.0 billion and €7.5 billion. This would clearly exceed the record figure of €6.4 billion posted in 2010. We plan to increase spending above all in the Renewables, Central Eastern and South Eastern Europe, Germany and Upstream Gas & Oil Divisions. As before, the focus of our investing activity in 2011 will be the construction of highly efficient fossil fuel-fired 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

Our net debt, which amounted to €29.0 billion at the end of 2010, is expected to increase due to our comprehensive investment programme. We expect a rise in the order of €1 billion. This and the earnings trend presented above will cause the leverage factor, which reflects the ratio of net debt to EBITDA, to increase considerably. It will probably 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.

DEVELOPMENT OF RISKS AND OPPORTUNITIES

Systematic risk management more important than ever
Traditionally, the energy sector is considered to be a crisis-proof industry. 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, RWE is especially dependent on reliable political framework conditions in the energy sector. However, these have recently become more and more uncertain, as evidenced by the introduction of the German nuclear fuel tax last year and the three-month moratorium on Germany's older nuclear power plants following the events at Fukushima. 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.

Since the events at Fukushima, the future of nuclear energy in Germany has become uncertain. The government and the opposition have developed various scenarios for an accelerated phase-out. It is still too early to assess the economic effects they may have on RWE. There may be a significant impact on the Group's long-term earning trend depending on the speed of the phase-out and the framework conditions under which nuclear power stations are allowed to continue operating.

Our upstream business is also exposed to political risks, most recently due to the national uprisings in North Africa and the Middle East. However, the political situation in Egypt, the focal point of our ongoing activities in the region, has already calmed. All of our projects in Libya and Algeria are still in the development phase. The risks we have identified in connection with our capital expenditure so far are limited, as most of them have been hedged against political risks through investment guarantees issued by the German government.

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_2 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 we purchase some of our gas on the basis of 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 parts of the gas we buy is higher than the price we can realise when we sell it on. To obtain better purchasing conditions, we entered into contract renegotiations with our gas suppliers. 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 €12 million in the first quarter of 2011; its maximum daily value was €17 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 quarter averaged €15 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 €8 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.

CONSOLIDATED FINANCIAL STATEMENTS (CONDENSED)

Income statement

€ million	Jan – Mar 2011	Jan – Mar 2010
Revenue (including natural gas tax/electricity tax)	**15,754**	**15,267**
Natural gas tax/electricity tax	–868	–744
Revenue	**14,886**	**14,523**
Changes in finished goods and work in progress/other own work capitalised	49	53
Cost of materials	–9,902	–9,366
Staff costs	–1,221	–1,252
Depreciation, amortisation, and impairment losses	–664	–651
Other operating income	–329	–655
Income from operating activities	**2,819**	**2,652**
Income from investments accounted for using the equity method	134	81
Other income from investments	83	10
Financial income	194	470
Finance costs	–566	–872
Income before tax	**2,664**	**2,341**
Taxes on income	–726	–667
Income	**1,938**	**1,674**
of which: minority interest	104	117
of which: RWE AG hybrid capital investors' interest	15	
of which: net income/income attributable to RWE AG shareholders	**1,819**	**1,557**
Basic and diluted earnings per common and preferred share in €	**3.41**	**2.92**

Statement of recognised income and expenses[1]

€ million	Jan – Mar 2011	Jan – Mar 2010
Income	**1,938**	**1,674**
Currency translation adjustment	101	231
Fair valuation of financial instruments available for sale	−58	12
Fair valuation of financial instruments used for hedging purposes	36	49
Other comprehensive income of investments accounted for using the equity method (pro rata)	2	−2
Actuarial gains and losses of defined benefit pension plans and similar obligations	−92	81
Other comprehensive income	**−11**	**371**
Total comprehensive income	**1,927**	**2,045**
of which: attributable to RWE AG shareholders	(1,781)	(1,920)
of which: attributable to RWE AG hybrid capital investors	(15)	
of which: attributable to minority interests	(131)	(125)

1 Figures stated after taxes.

Balance sheet

Assets € million	31 Mar 2011	31 Dec 2010
Non-current assets		
Intangible assets	17,415	17,350
Property, plant and equipment	32,864	32,237
Investment property	152	162
Investments accounted for using the equity method	3,788	3,694
Other non-current financial assets	794	750
Receivables and other assets	4,824	3,881
Deferred taxes	2,330	2,391
	62,167	**60,465**
Current assets		
Inventories	2,917	3,293
Trade accounts receivable	10,665	9,485
Receivables and other assets	14,696	13,773
Marketable securities	3,682	3,196
Cash and cash equivalents	3,641	2,476
Assets held for sale		389
	35,601	**32,612**
	97,768	**93,077**

Equity and liabilities € million	31 Mar 2011	31 Dec 2010
Equity		
RWE AG shareholders' interest	16,354	14,574
RWE AG hybrid capital investors' interest	1,779	1,759
Minority interest	1,136	1,084
	19,269	**17,417**
Non-current liabilities		
Provisions	23,712	23,485
Financial liabilities	15,850	15,908
Other liabilities	3,791	3,584
Deferred taxes	2,244	2,185
	45,597	**45,162**
Current liabilities		
Provisions	5,662	5,572
Financial liabilities	3,993	3,902
Trade accounts payable	8,351	8,415
Other liabilities	14,896	12,466
Liabilities held for sale		143
	32,902	**30,498**
	97,768	**93,077**

Cash flow statement

€ million	Jan – Mar 2011	Jan – Mar 2010
Income	1,938	1,674
Depreciation, amortisation, impairment losses/write-backs	652	651
Changes in provisions	65	–120
Deferred taxes/non-cash income and expenses/income from disposal of non-current assets and marketable securities	416	157
Changes in working capital	–787	–853
Cash flows from operating activities	**2,284**	**1,509**
Capital expenditure on non-current assets/acquisitions	–1,179	–1,191
Proceeds from disposal of assets/divestitures	518	49
Changes in marketable securities and cash investments	–552	–285
Cash flows from investing activities	**–1,213**	**–1,427**
Cash flows from financing activities	**28**	**666**
Net cash change in cash and cash equivalents	1,099	748
Effects of changes in foreign exchange rates and other changes on cash and cash equivalents	7	10
Net change in cash and cash equivalents[1]	**1,106**	**758**
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
Cash and cash equivalents at end of the reporting period as per the consolidated balance sheet	**3,641**	**3,832**

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 shareholders' interest**	RWE AG hybrid investors' interest	Minority interest	**Total**
Balance at 1 Jan 2010	**2,598**	**11,537**	**−2,272**	**929**	**12,792**		**925**	**13,717**
Dividends paid							−50	−50
Income		1,557			1,557		117	1,674
Other comprehensive income		95		268	363		8	371
Total comprehensive income		1,652		268	1,920		125	2,045
Other changes		−2			−2		5	3
Balance at 31 Mar 2010	**2,598**	**13,187**	**−2,272**	**1,197**	**14,710**		**1,005**	**15,715**
Balance at 1 Jan 2011	**2,598**	**12,970**	**−2,272**	**1,278**	**14,574**	**1,759**	**1,084**	**17,417**
Dividends paid							−98	−98
Income		1,819			1,819	15	104	1,938
Other comprehensive income		−99		61	−38		27	−11
Total comprehensive income		1,720		61	1,781	15	131	1,927
Other changes		−1			−1	5	19	23
Balance at 31 Mar 2011	**2,598**	**14,689**	**−2,272**	**1,339**	**16,354**	**1,779**	**1,136**	**19,269**

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 31 March 2011 were approved for publication on 10 May 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 financial statements of RWE AG for the period ended 31 March 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 5.40 % 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. IFRS 9 (2010) becomes effective for the first time for fiscal years starting on or after 1 January 2013. The effects of IFRS 9 (2010) 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:

- 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 quarter of 2011 relate to 11 companies that were consolidated for the first time, thereof seven companies in the Renewables Segment. Five former fully consolidated companies were removed from the scope of consolidation, two of which belonged to the Trading/Gas Midstream Segment; five were merged, four of which belong to the Sales/Distribution Networks Segment.

The scope of consolidation is as follows:

	31 Mar 2011	31 Dec 2010
Fully consolidated companies	446	445
Investments accounted for using the equity method	120	121

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 € million	31 Dec 2010
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 €465 million (first quarter of 2010: €31 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 quarter of 2011, research and development costs totalled €23 million (first quarter of 2010: €25 million).

Borrowing costs

In the first quarter of 2011, €8 million in borrowing costs were capitalised as costs in connection with the acquisition, construction or production of qualifying assets (first quarter 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.

Earnings per share

		Jan – Mar 2011	Jan – Mar 2010
Net income/income attributable to RWE AG shareholders	€ million	1,819	1,557
Number of shares outstanding (weighted average)	thousands	533,559	533,559
Basic and diluted earnings per common and preferred share	€	3.41	2.92

The earnings per share are the same for both common and preferred shares.

Related party disclosures

The RWE Group classifies associated companies as related parties. In the first quarter of 2011, transactions concluded with material related parties generated €365 million in income (first quarter of 2010: €277 million) and €77 million in expenses (first quarter of 2010: €72 million). As of 31 March 2011, accounts receivable amounted to €1,774 million (31 December 2010: €1,004 million), and accounts payable totalled €27 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 €3,947 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 quarter of 2011, RWE Group companies provided services and deliveries to these companies amounting to €3.3 million (first quarter of 2010: €2.0 million) and received services and deliveries from these companies amounting to €0.6 million (first quarter of 2010: €0.3 million). As of 31 March 2011, there were receivables of €0.8 million (31 December 2010: €0.8 million) from and liabilities of €0.6 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 31 March 2011 which are part of the interim financial report pursuant to § 37x, Para. 3 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

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

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

Essen, 11 May 2011

PricewaterhouseCoopers
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Wirtschaftsprüfungsgesellschaft

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Wirtschaftsprüfer
(German Public Auditor)

Markus Dittmann
Wirtschaftsprüfer
(German Public Auditor)

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President and CEO

Dr. Leonhard Birnbaum

Alwin Fitting

Dr. Rolf Pohlig

Dr. Rolf Martin Schmitz

As of 10 May 2011

FINANCIAL CALENDAR 2011/2012

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

The interim report for the first quarter of 2011 was published on 12 May 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.

RWE Aktiengesellschaft

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