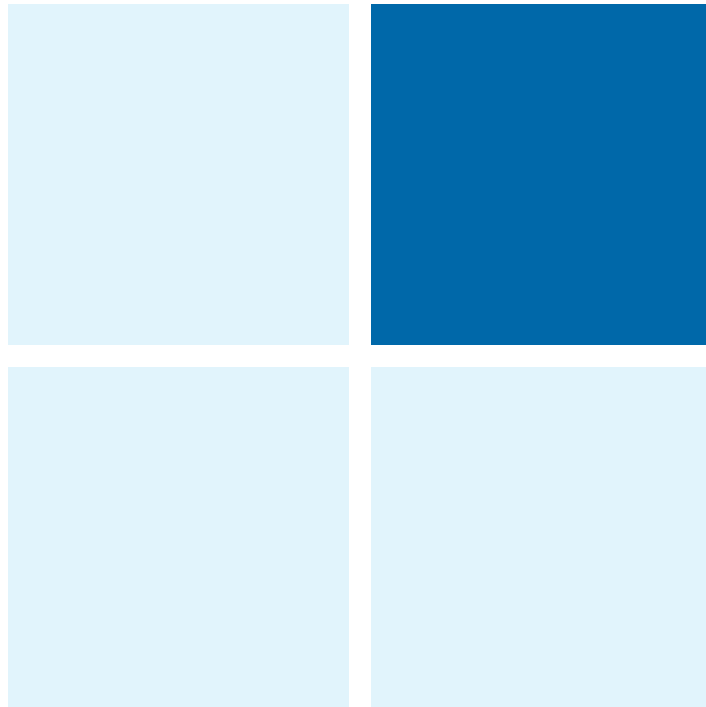


REPORT ON THE FIRST QUARTER OF 2016

- RWE confirms earnings forecast for 2016
- Operating result for the quarter up 7 % year on year
- Reorganisation of the RWE Group progressing as planned
- New company RWE International SE takes up operation



AT A GLANCE

RWE Group – key figures		Jan – Mar 2016	Jan – Mar 2015 ¹	+/- %	Jan – Dec 2015 ¹
Power generation	billion kWh	57.4	56.5	1.6	213.0
External electricity sales volume	billion kWh	70.1	66.9	4.8	261.5
External gas sales volume	billion kWh	97.1	107.1	-9.3	273.0
External revenue	€ million	13,657	14,512	-5.9	48,090
EBITDA	€ million	2,312	2,204	4.9	7,017
Operating result	€ million	1,746	1,630	7.1	3,837
Income from continuing operations before tax	€ million	1,185	1,068	11.0	-637
Net income	€ million	879	2,166	-59.4	-170
Adjusted net income	€ million	857	877	-2.3	1,125
Earnings per share	€	1.43	3.52	-59.4	-0.28
Adjusted net income per share	€	1.39	1.43	-2.8	1.83
Cash flows from operating activities of continuing operations	€ million	-2,000	-627	-219.0	3,339
Capital expenditure	€ million	373	414	-9.9	3,303
Property, plant and equipment and intangible assets	€ million	326	364	-10.4	2,898
Financial assets	€ million	47	50	-6.0	405
Free cash flow	€ million	-2,291	-991	-131.2	441
		31 Mar 2016	31 Dec 2015		
Net debt	€ million	27,917	25,126	11.1	
Workforce ²		59,331	59,762	-0.7	

1 Some figures adjusted; see commentary on page 2.

2 Converted to full-time positions.

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INTRODUCTORY COMMENTARY ON REPORTING

Shortened interim reports on the first and third quarters

In October 2015, the German legislator decided to release domestic share issuers from their obligation to prepare quarterly statements by management in accordance with Section 37x of the old version of the German Stock Corporation Act (WpHG). However, they are still required to publish half-year financial reports. The Frankfurt Stock Exchange (FWB) took this as an opportunity to relax the reporting requirements imposed on issuers of stock in the Prime Standard segment. The FWB's previous regulations stipulated that companies had to prepare quarterly financial reports complying with WpHG half-year reporting standards after the first three and nine months of a fiscal year. This obligation has been removed. Instead of the quarterly financial reports, companies may now publish quarterly statements that are subject to reduced content requirements. This gives them more freedom to optimise the cost benefit of their financial reporting, which RWE has chosen to make use of. From now on, our interim reports on the first three and nine months will be much shorter than in the past.

New segment structure as of 1 January 2016

Our reporting for the current fiscal year is based on a new segment structure. It reflects the stages of the energy value chain, which we adapted into our management model. In the future, we will report on the five following divisions: (1) Conventional Power Generation, (2) Renewables, (3) Trading/Gas Midstream, (4) Grids/ Participations/Other and (5) Supply. The last two divisions are new and cover the activities that were assigned to these former segments: Supply/Distribution Networks Germany, Supply Netherlands/Belgium, Supply United Kingdom and Central Eastern and South Eastern Europe. To ensure comparability of the 2016 figures to those of the previous year, we restated the latter in the new structure on a pro-forma basis. The ongoing reorganisation of the RWE Group, on which we report on pages 11 et seq., will not have an effect on reporting for the time being.

The five divisions cover the following activities:

- (1) Conventional Power Generation: Our conventional electricity generation operations in Germany, the United Kingdom, the Netherlands and Turkey are subsumed under this division. It also includes the lignite mining business of RWE Power in the Rhineland and RWE Technology International, which specialises in project management and engineering services. At the beginning of this financial year, our controlling interest in Mátra, which specialises in lignite production and the generation of electricity from lignite in Hungary (formerly assigned to the Central Eastern and South Eastern Europe Division), and the Scottish biomass-fired power station Markinch (formerly assigned to the Renewables Division), were also assigned to Conventional Power Generation. Prior-year figures have been adjusted accordingly. All the aforementioned activities are overseen by RWE Generation.
- (2) Renewables: This is where we report on our electricity generation from renewable sources focussing on onshore and offshore wind as well as hydroelectric power. Besides the operation of renewable energy plants, this division also encompasses the development and construction of these assets. Its major production sites are located in Germany, the United Kingdom, the Netherlands, Spain and Poland.

- (3) Trading/Gas Midstream: This division covers the activities of RWE Supply & Trading. The company is responsible for trading energy and commodities, marketing and hedging the RWE Group's electricity position, as well as running the entire gas midstream business. Furthermore, it supplies some major German and Dutch industrial and corporate customers with electricity and gas.
- (4) Grids/Participations/Other: Assigned to this division are the distribution network operations in Germany (electricity and gas), the Czech Republic (gas), as well as Slovakia, Hungary and Poland (all three electricity). With the exception of supply, it also includes the activities of the fully consolidated regional utilities (grids, power generation, water, etc.) and large parts of our gas storage business. Non-controlling interests in utilities (e.g. German municipal utilities and Austria-based KELAG) are fully disclosed under Grids/Participations/Other.
- (5) Supply: This is where our retail activities in Germany, the Netherlands/Belgium, the United Kingdom and numerous Eastern European countries (the Czech Republic, Slovakia, Hungary, Poland, etc.) are subsumed. Besides electricity and gas, in most of these markets we also offer energy solutions.

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

Changed recognition of gas trading transactions

Further adjustments to reporting relate to the manner in which sales volumes and revenue from trading transactions are recognised. We are making increased use of the net disclosure method, particularly in gas trading. When stating net figures, purchases and sales are netted against each other. Therefore, unlike the gross recognition, they do not impact on sales volume and only the trading margins are recognised in revenue. This reduces sales volume and revenue in the Trading/Gas Midstream Division. The switch does not affect earnings. The figures for 2015 have been adjusted accordingly.

BUSINESS PERFORMANCE

External revenue 6% down year on year

In the first quarter of 2016, the RWE Group generated €13,657 million in external revenue. This figure includes taxes on natural gas and electricity. Revenue dropped by 6% compared to the same period last year. This was in part attributable to the supply business in the United Kingdom, where we suffered customer losses. Furthermore, the British pound became cheaper relative to the euro, falling from €1.36 in the first quarter of 2015 to €1.28 in the period under review. As a consequence, UK revenue was lower once converted to euros. The fact that we fully consolidated the Slovak energy utility VSE at the end of August 2015 had a slightly positive effect (see page 43 of the 2015 Annual Report), having previously accounted for the company at equity. Disregarding all material consolidation and foreign exchange effects, our external revenue decreased by 7%.

External revenue € million	Jan – Mar 2016	Jan – Mar 2015 ¹	+/- %	Jan – Dec 2015 ¹
Conventional Power Generation	474	534	-11.2	2,224
Renewables	120	88	36.4	382
Trading/Gas Midstream	911	1,378	-33.9	3,318
Grids/Participations/Other	2,756	2,384	15.6	9,941
Supply	9,370	10,101	-7.2	32,137
Other/consolidation	26	27	-3.7	88
RWE Group	13,657	14,512	-5.9	48,090
Natural gas tax/electricity tax	829	741	11.9	2,242
RWE Group (excluding natural gas tax/electricity tax)	12,828	13,771	-6.8	45,848

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

Internal revenue € million	Jan – Mar 2016	Jan – Mar 2015 ¹	+/- %	Jan – Dec 2015 ¹
Conventional Power Generation	2,216	2,454	-9.7	9,005
Renewables	230	215	7.0	776
Trading/Gas Midstream	5,369	6,712	-20.0	19,081
Grids/Participations/Other	847	736	15.1	3,284
Supply	572	580	-1.4	1,831

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

EBITDA € million	Jan – Mar 2016	Jan – Mar 2015 ¹	+/- %	Jan – Dec 2015 ¹
Conventional Power Generation	554	687	-19.4	2,285
Renewables	233	224	4.0	818
Trading/GasMidstream	167	13	-	164
Grids/Participations/Other	802	780	2.8	2,896
Supply	598	589	1.5	988
Other/consolidation	-42	-89	52.8	-134
RWE Group	2,312	2,204	4.9	7,017

¹ Some figures adjusted; see commentary on page 1.

Operating result € million	Jan – Mar 2016	Jan – Mar 2015 ¹	+/- %	Jan – Dec 2015 ¹
Conventional Power Generation	354	441	-19.7	596
Renewables	154	153	0.7	488
Trading/Gas Midstream	166	7	-	156
Grids/Participations/Other	583	575	1.4	1,955
Supply	543	555	-2.2	830
Other/consolidation	-54	-101	46.5	-188
RWE Group	1,746	1,630	7.1	3,837

¹ Some figures adjusted; see commentary on page 1.

Operating result 7 % up year on year

In the period under review, we posted EBITDA of €2,312 million and an operating result of €1,746 million. We therefore exceeded last year's corresponding figures by 5 % and 7 %, respectively. This is partly attributable to energy trading, which made an above-average contribution to earnings. As regards the year as a whole, account should be taken of the fact that the RWE Group's income is subject to seasonal influences and usually disproportionately high in the first quarter, primarily due to the weather. In the present interim financial statements, this imbalance was greater than usual because certain expenses (e.g. relating to the nuclear fuel tax as well as the maintenance of power stations and grids), which we expect this year, had not been incurred at all or had only been incurred to a limited extent by the end of March. Furthermore, trading performance in the first quarter cannot be extrapolated to the full year. We confirm the earnings forecast for 2016 that we published on page 89 of the 2015 Annual Report. Further related information can be found on page 10 of this report.

The following is an overview of the earnings trend by division in the first quarter:

- **Conventional Power Generation:** As expected, the operating result dropped considerably, falling by 20 % to €354 million. The main reason for this is that we realised lower wholesale prices for our electricity generation than in 2015. This was partially offset by lower fuel purchase prices, which caused the market conditions for our gas-fired power plants to be slightly more favourable and their use to increase, primarily in the United Kingdom. Continued cost-reduction measures and income from property sales helped us limit the decline in earnings. Furthermore, depreciation was lower. This was in part due to the significant impairments for our generation fleet, which we recognised in 2015.
- **Renewables:** The operating result achieved by this division amounted to €154 million, which was essentially unchanged compared to 2015. A positive impact came from the increased electricity production by our new wind farms Gwynt y Môr off the coast of Wales and Nordsee Ost north of Heligoland, which were not yet at full capacity in the first quarter of last year; additionally, we realised capital gains on the sale of small run-of-river power plants along the Upper Ruhr. An opposing effect was the absence of the extraordinary income from the sale of network infrastructure of Gwynt y Môr included in the operating result recorded a year before. Furthermore, the significant drop in wholesale electricity prices weighed on earnings, as some of our renewable assets do not receive fixed feed-in fees from government and are therefore exposed to this market risk.

- **Trading/Gas Midstream:** This division's operating result rose from €7 million to €166 million. Our energy trading operations had a very successful first quarter. Their operating result was far above the below-average level recorded in the same period last year. In contrast, we are still confronted with burdens in the gas midstream business because the cost of managing and marketing gas storage capacity contracted over the long term cannot be recovered.
- **Grids/Participations/Other:** Despite a rise in expenses associated with the maintenance of our grid infrastructure, this division closed the reporting period at €583 million, slightly up year on year. One reason for this is that we revalued our stake in the German distribution network company WestEnergie GmbH at the beginning of 2016, revealing hidden reserves. In addition, book gains from the sale of grids rose, whereas we expect a decrease for the year as a whole. Furthermore, lower temperatures led to a rise in transit volume in our Czech gas distribution network. A counteracting impact resulted from our accrual of provisions for old-age part-time employment measures in Germany.
- **Supply:** This division posted an operating result of €543 million, marginally less than in 2015. In the German retail business, rises in up-front costs (network usage fees, taxes and levies) were only partly offset by price increases. In the Netherlands, we grew earnings in the residential customer segment. However, a positive effect from the previous year resulting from the reversal of a provision for legal risks did not recur. In the UK retail business, there was a significant reduction in the number of our residential customers over the course of last year and some customers could only be retained by offering them contracts at more favourable conditions. In the first quarter of 2016, our position on the residential market stabilised somewhat. We benefited from the decline in electricity and gas procurement prices in the UK. Furthermore, expenses incurred to implement the government Energy Companies Obligation (ECO) programme dropped. Under ECO, major electricity providers are obliged to finance measures to improve energy efficiency in homes.

The non-operating result, in which we recognise certain one-off effects which are not related to operations or to the period being reviewed, improved by €363 million to €30 million. One reason for this is that the accounting treatment of certain derivatives, which we use to hedge price fluctuations, led to net income as opposed to a loss incurred in the first quarter of last year. The operating result achieved in that period was also curbed because we had accrued provisions for legal risks associated with an arbitration proceedings. However, we have also been impacted by a negative one-off item this year, namely impairments recognised for our German gas storage facilities.

Financial result € million	Jan – Mar 2016	Jan – Mar 2015	+/- € million	Jan – Dec 2015
Interest income	92	57	35	265
Interest expenses	-287	-273	-14	-1,069
Net interest	-195	-216	21	-804
Interest accretion to non-current provisions	-200	-223	23	-821
Other financial result	-196	210	-406	36
Financial result	-591	-229	-362	-1,589

At –€591 million, our financial result was €362 million down on the previous year's figure. Slight improvements in net interest and the interest accretion to non-current provisions were contrasted by a significant deterioration in the other financial result. This was because we achieved high gains on the sale of securities in the first quarter of 2015, whereas we incurred losses from such transactions in the period under review. This was compounded by negative effects on earnings from the valuation of financial transactions.

Reconciliation to net income		Jan – Mar 2016	Jan – Mar 2015	+/- %	Jan – Dec 2015
EBITDA	€ million	2,312	2,204	4.9	7,017
Operating depreciation, amortisation and impairment losses	€ million	-566	-574	1.4	-3,180
Operating result	€ million	1,746	1,630	7.1	3,837
Non-operating result	€ million	30	-333	109.0	-2,885
Financial result	€ million	-591	-229	158.1	-1,589
Income from continuing operations before tax	€ million	1,185	1,068	11.0	-637
Taxes on income	€ million	-161	-246	34.6	-603
Income from continuing operations	€ million	1,024	822	24.6	-1,240
Income from discontinued operations	€ million	-	1,524	-	1,524
Income	€ million	1,024	2,346	-56.4	284
of which:					
Non-controlling interests	€ million	135	142	-4.9	356
RWE AG hybrid capital investors' interest	€ million	10	38	-73.7	98
Net income/income attributable to RWE AG shareholders	€ million	879	2,166	-59.4	-170
Adjusted net income	€ million	857	877	-2.3	1,125
Earnings per share	€	1.43	3.52	-59.4	-0.28
Adjusted net income per share	€	1.39	1.43	-2.8	1.83
Number of shares outstanding (average)	millions	614.7	614.7	-	614.7
Effective tax rate	%	14	23	-	-

Income from continuing operations before tax increased by 11 % to €1,185 million. Despite the aforementioned losses from the sale of securities, which were not tax-deductible, our effective tax rate was unusually low, amounting to 14 %. This was because we capitalised substantial deferred taxes. Deferred tax assets constitute the right to future tax reductions resulting from differences in the statement and/or valuation of assets and debt between the tax and IFRS balance sheets. The prerequisite for capitalising

deferred taxes is that tax gains are made later on, which allow the use of the tax reduction. This is very probable in 2016 as we expect one-off income from the hidden reserves revealed within the scope of the reorganisation of the RWE Group.

After taxes, our continuing operations generated income of €1,024 million (first quarter of 2015: €822 million). Discontinued operations did not earn income in the period under review. In the first quarter of 2015, we had stated a figure of €1,524 million for this item, largely due to the capital gain on the sale of RWE Dea.

Non-controlling interests dropped by 5% to €135 million as some fully consolidated companies in which third parties hold stakes closed the period lower year on year. This relates primarily to our German regional utilities, which had benefited from the aforementioned one-off income from the sale of securities in 2015.

The portion of our earnings attributable to hybrid capital investors amounted to €10 million (first quarter of 2015: €38 million). However, only the hybrid bonds classified as equity pursuant to IFRS are considered here. In the reporting period, this applied to just one of our seven hybrid bonds, namely the one with a volume of £750 million. A second bond that met this criterion had been redeemed as of 28 September 2015. It consisted of paper with a nominal volume of €1,750 million, which we had issued in 2010.

The developments presented above are the reason why net income decreased significantly, dropping to €879 million compared to 2015. Based on the 614.7 million in RWE shares outstanding, this corresponds to earnings per share of €1.43 (first quarter of 2015: €3.52).

Adjusted net income slightly down year on year

Adjusted net income amounted to €857 million. It differs from net income in that the non-operating result (including applicable taxes), which is characterised by one-off effects, and – possibly – further special items are deducted from it. Despite higher operating income, adjusted net income decreased by 2% compared to 2015. This was mainly due to the deterioration of the financial result.

Capital expenditure € million	Jan – Mar 2016	Jan – Mar 2015 ¹	+/- € million	Jan – Dec 2015 ¹
Capital expenditure on property, plant and equipment and on intangible assets	326	364	-38	2,898
of which:				
Conventional Power Generation	63	110	-47	855
Renewables	23	69	-46	404
Trading/Gas Midstream	-	1	-1	10
Grids/Participations/Other	163	131	32	1,305
Supply	52	42	10	287
Other/consolidation	25	11	14	37
Capital expenditure on financial assets	47	50	-3	405
Total capital expenditure	373	414	-41	3,303

¹ Some figures adjusted; see commentary on page 1.

Drop in capital expenditure on power generation capacity

At €373 million, our capital spending was 10% lower than the figure recorded in the equivalent period last year. We spent €326 million on property, plant and equipment and intangible assets and €47 million on financial assets, 10% and 6% less than in 2015. We recorded a significant decline in capital expenditure on property, plant and equipment in the Conventional Power Generation Division, after having made substantial investments last year to upgrade the UK gas-fired power stations Pembroke and Staythorpe. Capital spent in the Renewables Division was also down considerably. The completion of two large-scale projects, the offshore wind farms Nordsee Ost and Gwynt y Môr, was the determining factor. They were inaugurated in May and June 2015, respectively. Conversely, we posted an increase in capital expenditure in the Grids/Participations/Other Division, as the favourable weather allowed us to start working on extensive measures to improve grid infrastructure during the winter months.

Cash flow statement € million	Jan – Mar 2016	Jan – Mar 2015	+/- € million	Jan – Dec 2015
Funds from operations	1,496	2,255	-759	3,058
Change in working capital	-3,496	-2,882	-614	281
Cash flows from operating activities of continuing operations	-2,000	-627	-1,373	3,339
Cash flows from investing activities of continuing operations	-97	1,400	-1,497	-1,795
Cash flows from financing activities of continuing operations	3,712	-801	4,513	-2,303
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	-13	27	-40	14
Total net changes in cash and cash equivalents	1,602	-1	-	-745
Cash flows from operating activities of continuing operations	-2,000	-627	-1,373	3,339
Minus capital expenditure on property, plant and equipment and on intangible assets ¹	-291	-364	73	-2,898
Free cash flow	-2,291	-991	-1,300	441

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

Operating cash flows curtailed by special items

The cash flows from operating activities achieved from our continuing operations amounted to -€2,000 million. The figure for the first quarter of 2015 was also negative (-€627 million). This was predominantly due to seasonal influences reflected in changes in working capital. A factor is that electricity and gas sales volumes are above average in the first quarter due to the weather, as opposed to the customer payments, which are spread evenly over the year. This typically leads to a substantial increase in accounts receivable in the retail business and commensurately lower operating cash flow. Furthermore, a large portion of the expenses to purchase CO₂ emission allowances is incurred in the first quarter. The significant deterioration in cash flows from operating activities compared to 2015 was partly due to the fact that we had to pledge much more collateral for forward transactions. This was also reflected in the development of working capital.

Investing activities of continuing operations resulted in a net cash outflow of €97 million, although our proceeds from the sale of equity interests and property, plant and equipment were slightly higher than the expenses incurred for capital expenditures. This was because, as in the same period last year, we topped up the capital set aside to fulfil our pension obligations. To this end, we transferred €0.2 billion to trusts and company pension institutions. In the first quarter of 2015, there were high cash flows from investing activities, which largely stemmed from the sale of RWE Dea.

Our cash flows from the financing activities of continuing operations were unusually high, totalling €3,712 million (first quarter of 2015: –€801 million). The main reason for this was that we raised €3.0 billion under our Commercial Paper Programme. Moreover, we increased our liabilities to banks. An opposing effect came from dividend payments that we made to co-owners of fully consolidated RWE companies and hybrid capital investors.

On balance, the presented cash flows from operating, investing and financing activities caused our cash and cash equivalents to rise by €1,602 million.

Deducting capital expenditure on property, plant and equipment and intangible assets from cash flows from the operating activities results in free cash flow. This amounted to –€2,291 million compared to –€991 million in the same period last year.

Net debt € million	31 March 2016	31 Dec 2015	+/- € million
Cash and cash equivalents	4,138	2,522	1,616
Marketable securities	7,562	7,676	–114
Other financial assets	1,485	1,337	148
Financial assets	13,185	11,535	1,650
Bonds, other notes payable, bank debt, commercial paper	20,278	16,981	3,297
Hedge transactions related to bonds	–130	–192	62
Other financial liabilities	2,267	2,099	168
Financial liabilities	22,415	18,888	3,527
Net financial debt	9,230	7,353	1,877
Provisions for pensions and similar obligations	6,696	5,842	854
Surplus of plan assets over benefit obligations	–14	–15	1
Provisions for nuclear waste management	10,496	10,454	42
Mining provisions	2,550	2,527	23
Adjustment for hybrid capital (portion of relevance to the rating)	–1,041	–1,035	–6
Plus 50% of the hybrid capital stated as equity	448	475	–27
Minus 50% of the hybrid capital stated as debt	–1,489	–1,510	21
Net debt	27,917	25,126	2,791

Net debt increased to €27.9 billion

With effect from 31 March 2016, our net debt totalled €27.9 billion, which was much more than as of 31 December 2015 (€25.1 billion). This was primarily due to the negative free cash flow. Furthermore, provisions for pensions rose as we used lower discount rates to calculate them. This was in reaction to the current development of market interest rates. The new discount rates are currently 1.9% in Germany and 3.4% in the United Kingdom, compared to 2.4% and 3.6% in the 2015 financial statements, respectively. Conversely, proceeds from divestments strengthened our financial position. The single-largest transaction was the sale of our non-controlling interest in the Luxembourg-based energy utility Enovos, which we have reported on page 11. The drop in value of the British pound also had a debt-reducing effect. It caused the volume of our bonds issued in this currency to be lower in euro terms.

OUTLOOK FOR 2016

Expectations of the 2016 earnings trend unchanged

We largely confirm the outlook on the RWE Group's business performance we published in March 2016 (see pages 88 et seqq. of the 2015 Annual Report). All of the forecasts relating to the development of earnings are upheld. They have been summarised in the table below.

Earnings forecast for 2016	2015 actual ¹ € million	Outlook ² (Mar 2016)	Update (May 2016)
EBITDA	7,017	€5.2 billion to €5.5 billion	–
Operating result	3,837	€2.8 billion to €3.1 billion	–
Conventional Power Generation	596	Significantly below previous year	–
Renewables	488	Significantly below previous year	–
Trading/Gas Midstream	156	Significantly above previous year	–
Grids/Participations/Other	1,955	Significantly below previous year	–
Supply	830	Moderately below previous year	–
Adjusted net income	1,125	€0.5 billion to €0.7 billion	–

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

2 Qualifiers such as 'moderately' and 'significantly' indicate percentage deviations from the previous year's figures.

The only change compared to the March guidance relates to net debt as of 31 December 2016. We previously anticipated a figure in the order of last year's level (€25.1 billion). This forecast was based on various assumptions, including stable interest rates, which would imply stable discount factors being applied to non-current provisions. As set out on page 9, this assumption did not materialise. In view of the recent drop in interest rates and the resulting need to top up provisions for pensions, we now expect net debt to be slightly higher than in 2015.

MAJOR EVENTS

In the period under review

RWE tops up efficiency-enhancement programme

In the middle of February, we announced that we would take further measures to increase RWE's financial and earning power. We raised the target for the ongoing efficiency-enhancement programme by €500 million to €2.5 billion. This is the lasting impact on earnings that we intend to achieve through the programme and should come into full effect starting in 2018. We had previously set ourselves the goal of achieving €2.0 billion by 2017. Initiated in 2012, the programme encompasses a large number of measures designed to improve operational processes and achieve savings in administration and IT. By the end of last year, we had already realised an earnings effect of €1.6 billion through the steps taken since 2012. Our additional measures will focus on conventional power generation. Moreover, we are comprehensively restructuring our UK supply business.

RWE expands gas supply business in Hungary

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

RWE withdraws from Luxembourg utility Enovos

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

After the period under review

New renewables, grid and supply company takes up operation

As scheduled, RWE's new renewables, grid and supply subsidiary began its business activities as of 1 April 2016. It has been temporarily named 'RWE International SE'. Its definitive name will be announced in the summer. We plan to increase the new company's capital by approximately 10% through an IPO by the end of 2016. We intend to use most of the proceeds to finance growth projects. Like RWE AG, the new company is headquartered in Essen. All of the members of the Executive Board of RWE International SE have taken office. Peter Terium (Chief Executive Officer), Bernhard Günther (Chief Financial Officer) and Uwe Tigges (Chief HR Officer and Labour Director) belong to the corporate body, where they hold the same offices as at RWE AG. After the new company's planned IPO, Messrs. Terium and Günther will retire from the Executive Board of RWE AG and only hold office at the Executive Board of RWE International SE. Thereupon, chairmanship of the

Executive Board of RWE AG will be assumed by Rolf Martin Schmitz, who is currently the corporate body's Deputy Chairman. Markus Krebber, the current Chairman of the Board of Directors of RWE Supply & Trading, is to succeed Bernhard Günther as Chief Financial Officer of RWE AG. Uwe Tigges will remain Chief HR Officer and Labour Director of RWE AG until the end of April 2017, while concurrently holding his new offices at RWE International SE. The six-member Executive Board of the new subsidiary also includes Hans Bunting, Hildegard Müller and Martin Herrmann. They hold operational responsibility for renewables (Bunting), grids (Müller) and supply (Herrmann). Hans Bunting is the former Chairman of the Board of Directors of RWE Innogy, Hildegard Müller was the President of the General Executive Board of the German Association of Energy and Water Industries (BDEW), and Martin Herrmann was previously the Chairman of the Board of Directors of RWE East.

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

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

Commission submits proposals for nuclear exit financing

The commission reviewing the financing of the nuclear phase-out (KFK), tasked by the German government, presented its recommendations on 27 April. It suggests that the energy utilities pay funds equalling their provisions for interim and final nuclear waste storage into an external fund. The sum is estimated to total €17.2 billion (as of the end of 2014). In contrast, the recommendation also stipulates that the funds required to dismantle the plants remain with the energy utilities. Furthermore, the provisions accrued for this purpose are to be disclosed on the companies' balance sheets more transparently. The KFK further envisages the energy utilities paying a risk premium of 35% (€6.1 billion) on top of the aforementioned €17.2 billion, in order to indemnify themselves from liability risks associated with potential increases in the cost of interim and final storage. The surcharge would have to be paid by 2022. Therefore, the payments made by RWE, E.ON, Vattenfall, EnBW and Stadtwerke München according to the commissions' plan would total €23.3 billion.

We believe that the distribution of responsibility between companies and the state proposed by the KFK is logical in principle and that the concept is heading in the right direction. RWE AG honours the obligations it has to fulfil in phasing out nuclear energy. We have accrued provisions for this, which are very conservative – even when compared at the international level – and therefore constitute a strong precaution against the risk of cost increases. However, the suggested risk premium on top of this is an irresponsible, undue burden on RWE AG. It is unfortunate that the Commission has failed to take the companies' economic situations into account. What is decisive now is how the legislator implements the proposals.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONDENSED)

Income statement¹

€ million	Jan – Mar 2016	Jan – Mar 2015
Revenue (including natural gas tax/electricity tax)	13,657	14,512
Natural gas tax/electricity tax	–829	–741
Revenue	12,828	13,771
Cost of materials	–8,884	–10,097
Staff costs	–1,262	–1,213
Depreciation, amortisation, and impairment losses	–769	–574
Other operating result	–240	–764
Income from investments accounted for using the equity method	81	93
Other income from investments	22	81
Financial income	304	1,015
Finance costs	–895	–1,244
Income from continuing operations before tax	1,185	1,068
Taxes on income	–161	–246
Income from continuing operations	1,024	822
Income from discontinued operations		1,524
Income	1,024	2,346
of which: non-controlling interests	135	142
of which: RWE AG hybrid capital investors' interest	10	38
of which: net income/income attributable to RWE AG shareholders	879	2,166
Basic and diluted earnings per common and preferred share in €	1.43	3.52
of which: from continuing operations in €	1.43	1.04
of which: from discontinued operations in €		2.48

¹ Prior-year figures adjusted.

Statement of comprehensive income¹

€ million	Jan – Mar 2016	Jan – Mar 2015
Income	1,024	2,346
Actuarial gains and losses of defined benefit pension plans and similar obligations	–574	–891
Income and expenses of investments accounted for using the equity method (pro rata)	–2	1
Income and expenses recognised in equity, not to be reclassified through profit or loss	–576	–890
Currency translation adjustment	14	296
Fair valuation of financial instruments available for sale	10	–73
Fair valuation of financial instruments used for hedging purposes	–270	181
Income and expenses recognised in equity, to be reclassified through profit or loss in the future	–246	404
Other comprehensive income	–822	–486
Total comprehensive income	202	1,860
of which: attributable to RWE AG shareholders	181	1,698
of which: attributable to RWE AG hybrid capital investors	10	38
of which: attributable to non-controlling interests	11	124

¹ Figures stated after taxes.

Balance sheet

Assets € million	31 Mar 2016	31 Dec 2015
Non-current assets		
Intangible assets	12,928	13,215
Property, plant and equipment	28,469	29,357
Investment property	71	72
Investments accounted for using the equity method	2,806	2,952
Other financial assets	886	885
Receivables and other assets	2,272	2,506
Deferred taxes	3,162	2,466
	50,594	51,453
Current assets		
Inventories	1,820	1,959
Trade accounts receivable	6,815	5,601
Receivables and other assets	11,708	10,321
Marketable securities	7,337	7,437
Cash and cash equivalents	4,138	2,522
Assets held for sale		41
	31,818	27,881
	82,412	79,334

Equity and liabilities € million	31 Mar 2016	31 Dec 2015
Equity		
RWE AG shareholders' interest	6,029	5,847
RWE AG hybrid capital investors' interest	896	950
Non-controlling interests	2,038	2,097
	8,963	8,894
Non-current liabilities		
Provisions	25,451	24,623
Financial liabilities	16,234	16,718
Other liabilities	2,428	2,741
Deferred taxes	1,035	1,233
	45,148	45,315
Current liabilities		
Provisions	5,556	5,186
Financial liabilities	6,311	2,362
Trade accounts payable	5,343	6,122
Other liabilities	11,091	11,436
Liabilities held for sale		19
	28,301	25,125
	82,412	79,334

Cash flow statement

€ million	Jan – Mar 2016	Jan – Mar 2015
Income from continuing operations	1,024	822
Depreciation, amortisation, impairment losses/write-backs	770	574
Changes in provisions	413	937
Deferred taxes/non-cash income and expenses/income from disposal of non-current assets and marketable securities	–711	–78
Change in working capital	–3,496	–2,882
Cash flows from operating activities of continuing operations	–2,000	–627
Cash flows from operating activities of discontinued operations		–125
Cash flows from operating activities	–2,000	–752
Capital expenditure on non-current assets/acquisitions	–316	–415
Proceeds from disposal of assets/divestitures	452	4,758
Changes in marketable securities and cash investments	–233	–2,943
Cash flows from investing activities of continuing operations¹	–97	1,400
Cash flows from investing activities of discontinued operations		–111
Cash flows from investing activities¹	–97	1,289
Cash flows from financing activities of continuing operations	3,712	–801
Cash flows from financing activities of discontinued operations		260
Cash flows from financing activities	3,712	–541
Net cash change in cash and cash equivalents	1,615	–4
Effect of changes in foreign exchange rates and other changes in value on cash and cash equivalents	–13	27
Net change in cash and cash equivalents	1,602	23
Cash and cash equivalents at the beginning of the reporting period	2,536	3,257
of which: reported as “Assets held for sale”	–14	–86
Cash and cash equivalents at the beginning of the reporting period as per the consolidated balance sheet	2,522	3,171
Cash and cash equivalents at the end of the reporting period	4,138	3,280

1 After the initial/supplementary funding of pension plans in the amount of €203 million (corresponding prior-year period: €1,258 million).

Statement of changes in equity

€ million	Subscribed capital and additional paid-in capital of RWE AG	Retained earnings and distributable profit	Accumulated other comprehensive income	RWE AG shareholders' interest	RWE AG hybrid capital investors' interest	Non-controlling interests	Total
Balance at 1 Jan 2015	3,959	5,008	-1,579	7,388	2,705	1,679	11,772
Dividends paid					-72	-102	-174
Income		2,166		2,166	38	142	2,346
Other comprehensive income		-816	348	-468		-18	-486
Total comprehensive income		1,350	348	1,698	38	124	1,860
Other changes		97		97		69	166
Balance at 31 Mar 2015	3,959	6,455	-1,231	9,183	2,671	1,770	13,624
Balance at 1 Jan 2016	3,959	3,612	-1,724	5,847	950	2,097	8,894
Dividends paid					-67	-69	-136
Income		879		879	10	135	1,024
Other comprehensive income		-465	-233	-698		-124	-822
Total comprehensive income		414	-233	181	10	11	202
Other changes		1		1	3	-1	3
Balance at 31 Mar 2016	3,959	4,027	-1,957	6,029	896	2,038	8,963

NOTES

Accounting policies

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

The interim consolidated financial statements as of 31 March 2016 were approved for publication on 11 May 2016. They have been prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable in the EU.

In line with IAS 34, the scope of reporting for the presentation of the interim consolidated financial statements for the period ended 31 March 2016 was condensed compared with the scope applied to the consolidated financial statements as

of 31 December 2015. 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 2015. For further information, please see the Group's 2015 Annual Report, which provides the basis for this interim consolidated report.

The discount rate applied to provisions for nuclear waste management and provisions for mining damage is 4.5% (31 December 2015: 4.5%). Provisions for pensions and similar obligations are discounted at an interest rate of 1.9% in Germany and 3.4% abroad (31 December 2015: 2.4% and 3.6%, respectively).

Changes in accounting policies

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

- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations (2014)
- Amendments to IAS 1 – Disclosure Initiative (2014)
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (2014)
- Amendments to IAS 16 and IAS 41 – Bearer Plants (2014)
- Amendments to IAS 27 – Equity Method in Separate Financial Statements (2014)

- Annual Improvements to IFRSs 2012–2014 Cycle (2014)
- Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions (2013)
- Annual Improvements to IFRSs 2010–2012 Cycle (2013)

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

With effect from 1 January 2016, the useful life of opencast mine developments was brought in line with current economic circumstances as part of the annual review. In the first quarter of 2016, this caused depreciation and amortisation to decline by €13 million.

Scope of consolidation

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

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

Number of fully consolidated companies	Germany	Abroad	Total
Balance at 1 Jan 2016	146	177	323
First-time consolidations	4		4
Deconsolidations		–1	–1
Mergers	–6	–1	–7
Balance at 31 Mar 2016	144	175	319

Number of investments and joint ventures accounted for using the equity method	Germany	Abroad	Total
Balance at 1 Jan 2016	70	21	91
Acquisitions			
Disposals		–1	–1
Other changes			
Balance at 31 Mar 2016	70	20	90

Furthermore, five companies are presented as joint operations.

Acquisitions

WestEnergie GmbH

In July 2015, RWE gained control of WestEnergie GmbH, an investment which had previously been accounted for using the equity method, due to the expiry of a renouncement of a voting right. The company primarily operates electricity and gas distribution networks. The accounting treatment, including the result of the first-time consolidation, was finalised with effect from 31 March 2016. The assumed assets and liabilities are presented in the following table:

Balance-sheet items € million	IFRS carrying amounts (fair values) at first-time consolidation
Non-current assets	152
Current assets	24
Non-current liabilities	38
Current liabilities	36
Net assets	102
Non-controlling interests	-1
Cost (not affecting cash)	121
Goodwill	20

The fair value of the old shares amounted to €121 million. The first-time consolidation resulted in income of €34 million, which is recognised as part of the 'other operating income' on the income statement. The fair value of the receivables included in non-current and current assets amounted to €24 million.

The measurement of non-controlling interests was based on the pro-rated net assets of the company at first-time consolidation. The goodwill essentially represents the expected future usage and synergy effects.

Disposals

Lynemouth

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

Enovos

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

Revenue

Revenue generated by energy trading operations is stated as net figures, i.e. only reflecting realised gross margins. To present the development of business more accurately, the statement of net figures customary for the electricity transactions will also

be applied to gas transactions starting in fiscal 2016. Prior-year figures for revenue and the cost of material were adjusted by –€120 million.

Impairments

In the first quarter of 2016, impairments of €204 million were recognised for the gas storage facilities of the Grids/Participations/Other Segment (recoverable amount: €0.1 billion), primarily

due to changes in price expectations. The usage value was determined using a company valuation model based on cash flow budgets and a discount rate of 5.25%.

Dividend distribution

RWE AG's 20 April 2016 Annual General Meeting decided to pay a dividend of €0.13 per individual, dividend-bearing preferred share for fiscal 2015.

The dividend payment totalled €5 million. No dividend was paid for common shares (prior year: €1.00 per common and preferred share).

Earnings per share

		Jan – Mar 2016	Jan – Mar 2015
Net income/income attributable to RWE AG shareholders	€ million	879	2,166
Number of shares outstanding (weighted average)	thousands	614,745	614,745
Basic and diluted earnings per common and preferred share	€	1.43	3.52

Related party disclosures

The RWE Group classifies associated companies and joint ventures as related parties. In the first quarter of 2016, transactions concluded with material related parties generated €952 million in income (first quarter of 2015: €856 million) and €848 million in expenses (first quarter 2015: €776 million). As of 31 March 2016, accounts receivable amounted to €638 million (31 Decem-

ber 2015: €477 million) and accounts payable totalled €192 million (31 December 2015: €151 million). All business transactions are concluded at arm's length conditions and on principle do not differ from those concluded with other companies. Other obligations from executory contracts amounted to €1,211 million (31 December 2015: €1,293 million).

Reporting on financial instruments

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

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

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

the energy sector and economy are made within the scope of a comprehensive process conducted by an independent team with the involvement of both in-house and external experts.

The fair values of groups of financial assets and financial liabilities are measured based on the net risk position for each business partner in accordance with IFRS 13.48.

As a rule, the carrying amounts of financial assets and liabilities subject to IFRS 7 are identical with their fair values. There are deviations only in relation to bonds, commercial paper, bank debt, and other financial liabilities. Their carrying amounts totalled €22,545 million (31 December 2015: €19,079 million) and their fair values totalled €23,719 million (31 December 2015: €20,161 million).

The following overview presents the main classifications of financial instruments measured at fair value in the fair value hierarchy prescribed by IFRS 7. In accordance with IFRS 13, the individual levels of the fair value hierarchy are defined as follows:

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

Fair value hierarchy	Total 31 Mar 2016	Level 1	Level 2	Level 3	Total 31 Dec 2015	Level 1	Level 2	Level 3
€ million								
Other financial assets	886	69	194	623	885	69	208	608
Derivatives (assets)	8,587	1	8,545	41	8,607	1	8,549	57
of which: used for hedging purposes	1,441		1,441		1,360		1,360	
Securities	7,337	6,243	1,094		7,437	6,290	1,147	
Derivatives (liabilities)	7,363		7,356	7	8,015		7,994	21
of which: used for hedging purposes	2,079		2,079		2,356		2,356	

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

Level 3 financial instruments: Development in 2016	Balance at 1 Jan 2016	Changes in the scope of consoli- dation, currency adjustments and other	Changes		Balance at 31 Mar 2016 € million
			Recognised in profit or loss	With a cash effect	
€ million					
Other financial assets	608	9	3	3	623
Derivatives (assets)	57		-9	-7	41
Derivatives (liabilities)	21		-6	-8	7

Level 3 financial instruments: Development in 2015	Balance at 1 Jan 2015	Changes in the scope of consoli- dation, currency adjustments and other	Changes		Balance at 31 Mar 2015 € million
			Recognised in profit or loss	With a cash effect	
€ million					
Other financial assets	555	5	-25	-7	528
Derivatives (assets)	69	1	3	-8	65
Derivatives (liabilities)	4		3		7

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

Level 3 financial instruments: Amounts recognised in profit or loss	Total		Total	
	Jan – Mar 2016	Of which: attributable to financial instruments held at the balance-sheet date	Jan – Mar 2015	Of which: attributable to financial instruments held at the balance-sheet date
€ million				
Revenue	3	3	15	15
Cost of materials	-6	-6	-7	-7
Other operating income/expenses	4	4	3	3
Income from investments	-1	-1	-29	
Income from discontinued operations			-7	-7
			-25	4

Level 3 derivative financial instruments essentially consist of energy purchase agreements, which relate to trading periods for which there are no active markets yet. The valuation of such depends on the development of gas prices in particular.

All other things being equal, rising gas prices cause the fair values to increase and vice-versa. A change in pricing by +/-10% would cause the market value to rise by €5 million or decline by €5 million.

Events after the balance-sheet date

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

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Such risks and uncertainties include, but are not limited to, changes in general economic and social environment, business, political and legal conditions, fluctuating currency exchange rates and interest rates, price and sales risks associated with a market environment in the throes of deregulation and subject to intense competition, changes in the price and availability of raw materials, risks associated with energy trading (e.g. risks of loss in the case of unexpected, extreme market price fluctuations and credit risks resulting in the event that trading partners do not meet their contractual obligations), actions by competitors, application of new or changed accounting standards or other government agency regulations, changes in, or the failure to comply with, laws or regulations, particularly those affecting the environment and water quality (e.g. introduction of a price regulation system for the use of power grid, creating a regulation agency for electricity and gas or introduction of trading in greenhouse gas emissions), changing governmental policies and regulatory actions with respect to the acquisition, disposal, depreciation and amortisation of assets and facilities, operation and construction of plant facilities, production disruption or interruption due to accidents or other unforeseen events, delays in the construction of facilities, the inability to obtain or to obtain on acceptable terms necessary regulatory approvals regarding future transactions, the inability to integrate successfully new companies within the RWE Group to realise synergies from such integration and finally potential liability for remedial actions under existing or future environmental

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FINANCIAL CALENDAR 2016/2017

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

This document was published on 12 May 2016. It is a translation of the German interim report on the first quarter of 2016.
In case of divergence from the German version, the German version shall prevail.

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