ANNUAL REPORT 2010

RWE STRAIGHT TALKING.

The energy to lead

2010 KEY FIGURES AT A GLANCE.

- All earnings targets achieved
- Operating result up 8 %
- Dividend of €3.50 per share proposed

RWE Group		2010	2009	+/- %
External electricity sales volume	billion kWh	311.2	282.8	10.0
External gas sales volume	billion kWh	395.4	332.0	19.1
External revenue	€ million	53,320	47,741	11.7
EBITDA	€ million	10,256	9,165	11.9
Operating result	€ million	7,681	7,090	8.3
Income from continuing operations before tax	€ million	4,978	5,598	–11.1
Net income/RWE AG shareholders' share in income	€ million	3,308	3,571	–7.4
Recurrent net income	€ million	3,752	3,532	6.2
Return on capital employed (ROCE)	%	14.4	16.3	–
Weighted average cost of capital (WACC) before tax	%	9.0	9.0	–
Value added	€ million	2,876	3,177	–9.5
Capital employed	€ million	53,386	43,597	22.5
Cash flows from operating activities	€ million	5,500	5,299	3.8
Capital expenditure	€ million	6,643	15,637	–57.5
Property, plant and equipment and intangible assets	€ million	6,379	5,913	7.9
Financial assets	€ million	264	9,724	–97.3
Free cash flow	€ million	–879	–614	–43.2
Number of shares outstanding (average)	thousands	533,559	533,132	0.1
Earnings per share	€	6.20	6.70	–7.5
Recurrent net income per share	€	7.03	6.63	6.0
Dividend per share	€	3.50[1]	3.50	–
		31 Dec 2010	31 Dec 2009	
Net debt of the RWE Group	€ million	28,964	25,787	12.3
Workforce[2]		70,856	70,726	0.2

1 Dividend proposal for RWE AG's 2010 fiscal year, subject to approval by the 20 April 2011 Annual General Meeting.
2 Converted to full-time positions.

WHAT WE DO.

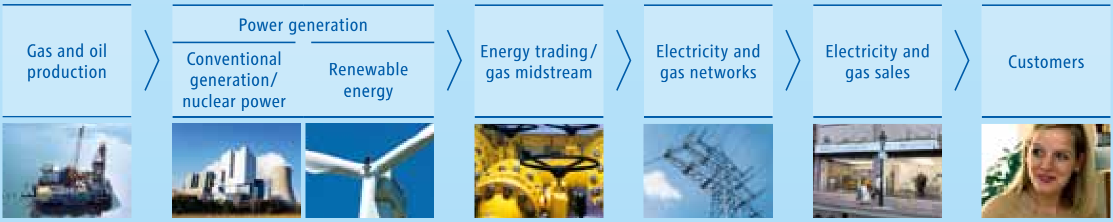
RWE is one of Europe's five leading electricity and gas companies. Through our expertise in oil, gas and lignite production, the construction and operation of conventional and renewables-based power plants, commodities trading as well as electricity and gas transmission and sales, we cover the entire energy value chain. More than 70,000 employees supply about 16 million customers with electricity and nearly 8 million customers with gas via our fully consolidated companies. In fiscal 2010, we recorded more than €53 billion in revenue.

Europe is our market: RWE is the No. 1 power producer in Germany, No. 3 in the Netherlands, and No. 3 in the UK. We continuously expand our position in Central Eastern and South Eastern Europe.

Our power plant portfolio and our investment programme for building new, environmentally friendly and flexible generation capacity are the main basis for growing earnings in the future. Our groupwide new-build power plant programme with a total installed capacity of about 12 gigawatts is on schedule, in the last third of its implementation phase. Besides more efficient and climate friendly fossil fuel-fired power stations, renewable energy plays a key role. Our leading position in European energy trading helps us make optimal use of our power plants on the market. We react to changes in customer needs by offering new products for homes, commerce and industry. In this context, climate protection and energy efficiency are becoming increasingly important.

Our gas and oil production businesses are displaying above-average growth. In light of the long-term global rise in demand for gas, we plan to steadily increase the amount we produce in-house.

ELECTRICITY AND GAS: RWE OFFERS EVERYTHING FROM A SINGLE SOURCE.



THE RWE GROUP

HOW WE HAVE ORGANISED OURSELVES.

RWE AG

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

RWE AG

Amprion	NET4GAS	Internal services
Electricity transmission system operator (unbundled)	Gas transmission system operator (Czech Republic) (unbundled)	

As a major European energy utility, we have responsibilities that go far beyond our company. By investing billions, we are paving the way today for tomorrow's supply of energy. People need energy. And they want this energy to be safe, clean and affordable.

This is our core responsibility – and we need society to support us. Now more than ever before, the future of energy supply is a topic of public discussion. Often, debate is dogmatic, heated and highly emotional. RWE counters this with verifiable facts and rational reasoning. Because only honesty and transparency will take us forward. That is why **straight talking matters.**

GRAFFITI IN DÜSSELDORF, GERMANY. © JAN EUMANN
Energy utilities are frequently accused of charging customers excessive prices.

ENERGY UTILITIES RIP OFF CUSTOMERS

“The fact of the matter is that, in Germany, two thirds of the electricity price is influenced by the government and regulatory authorities.”

Dr. Hanns-Ferdinand Müller, Spokesperson of the Executive Board of RWE Vertrieb AG

- The German electricity market is fiercely competitive
- Government-imposed taxes and levies drive up end-customer prices
- Foresighted electricity purchasing avoids price spikes

END-CUSTOMER ELECTRICITY PRICES ARE MADE UP OF PROCUREMENT AND SALES COSTS, REGULATED NETWORK FEES AS WELL AS TAXES AND LEVIES

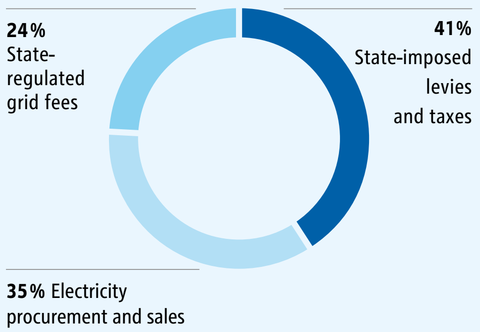
THE GERMAN ELECTRICITY MARKET IS FIERCELY COMPETITIVE

- When we sell the electricity we generate on the wholesale market, we do it at prevailing market prices. It is the free competition on open markets, such as the EEX electricity exchange, that establishes the prices, not RWE.
- Competition in the retail customer sector is also fierce. Some discounters have taken to offering prices that do not even cover their costs. Households can choose between 900 suppliers and compare prices and products on the internet.
- Nowadays, switching utilities is child’s play. The new provider takes care of the formalities. According to the German Energy and Water Association, Germany’s accumulated switch rate rose from 7 percent to nearly 22 percent between 2006 and 2009. An even larger number of customers changed tariffs rather than suppliers.

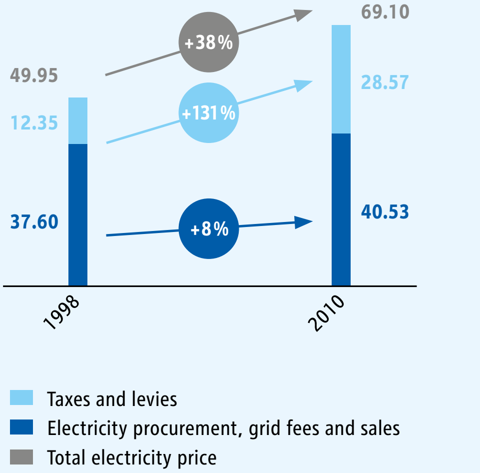
GOVERNMENT-IMPOSED TAXES AND LEVIES DRIVE UP END-CUSTOMER PRICES

- Today, taxes and levies account for more than 40 percent of residential electricity prices. In addition, grid fees are subject to state regulation. These currently make up 24 percent of the electricity bill.
- The cost of generating, transmitting and selling electricity increased by 8 percent between the liberalisation of the electricity market in 1998 and 2010, while taxes and levies rose by 131 percent.
- As regards the share of taxes and levies included in electricity prices, Germany ranks second highest in Europe; only Denmark charges its customers more.
- Consumers subsidise renewable energy via their electricity bills. The expansion of renewables pushes costs up. The levy imposed by the German Renewable Energy Act (REA) now amounts to 3.5 euro cents per kilowatt hour. This is 1.5 euro cents more than in 2010.
- However, RWE Vertrieb’s customers will not feel the full impact of this increase in 2011. Our kilowatt hour only costs 0.8 euro cents more. This is because we realised savings in electricity procurement, which we directly pass through to our customers.
- The REA charges will continue to increase significantly in the next few years, especially due to the unabated expansion of solar power production. The total estimated for 2012 alone is 21 billion euros. This is twice as much as in 2009.

IN GERMANY, 41 PERCENT OF RESIDENTIAL ELECTRICITY BILLS CONSIST OF TAXES AND LEVIES



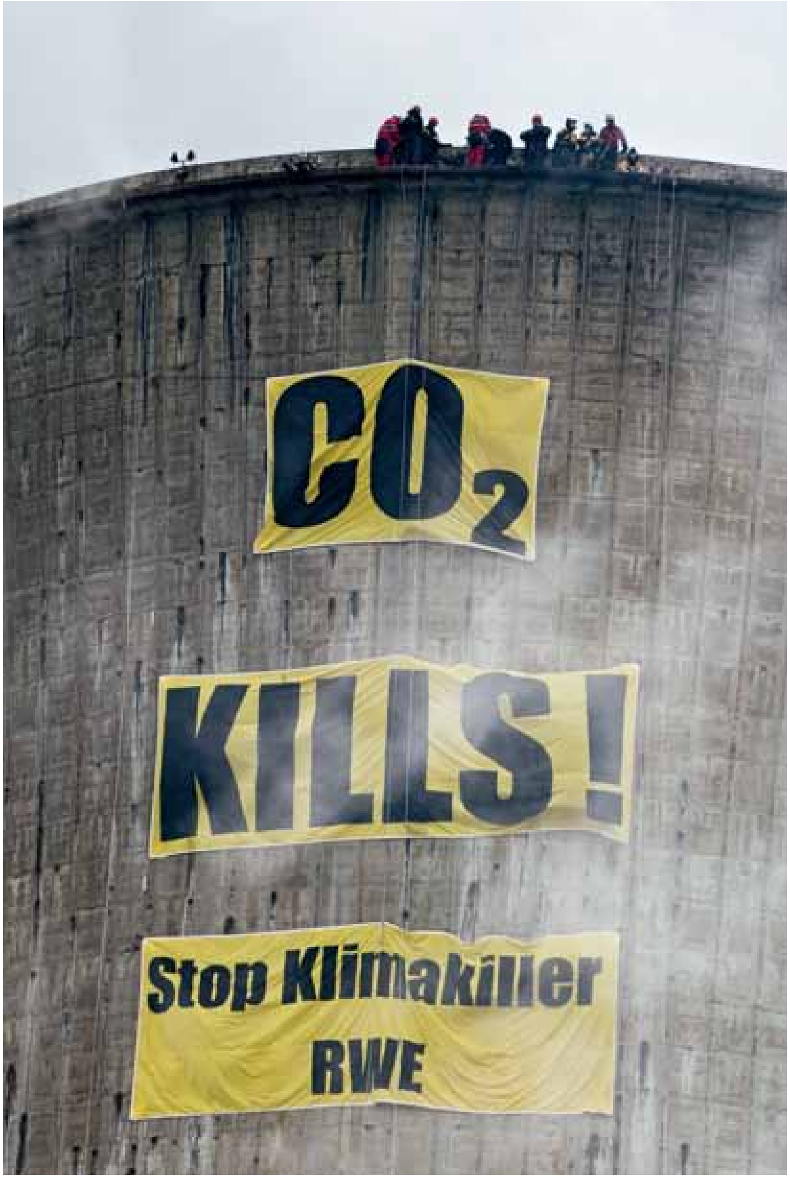
AVERAGE MONTHLY ELECTRICITY BILL IN € FOR A THREE-PERSON HOUSEHOLD IN GERMANY (3,500 KWH P.A.)



Source: German Energy and Water Association, 12/2010.

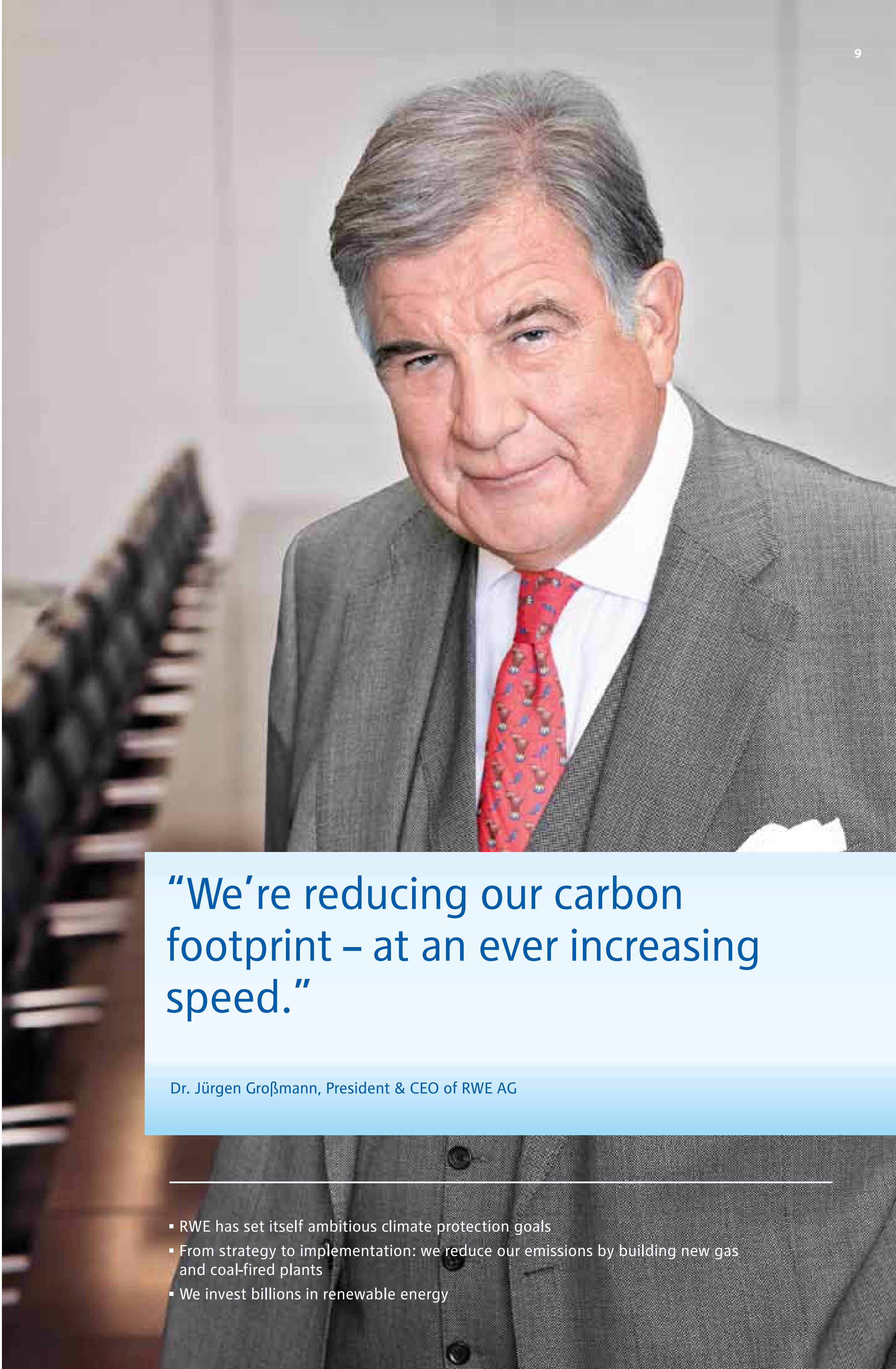
FORESIGHTED ELECTRICITY PURCHASING AVOIDS PRICE SPIKES

- Our sales companies have to buy electricity at prevailing market conditions, just like competitors who do not own power plants. One must seek to mitigate price risks arising from sudden price spikes. We accomplish this by making forward purchases early on.
- Our German customers can also benefit from this hedging strategy, for example by opting for the ‘RWE Strom 36max’ tariff, which guarantees a fixed price for 36 months. For customers opting for this tariff, prices only go up if taxes or levies are raised.



BANNER PROTESTING AGAINST CO_2 EMISSIONS. © BERND ARNOLD
Operating and building lignite and hard coal-fired power plants remains controversial with the general public, despite improved efficiencies and new CO_2-reduction methods.

CO_2 KILLS!
STOP RWE
THEY ARE CLIMATE-KILLERS



“We’re reducing our carbon footprint – at an ever increasing speed.”

Dr. Jürgen Großmann, President & CEO of RWE AG

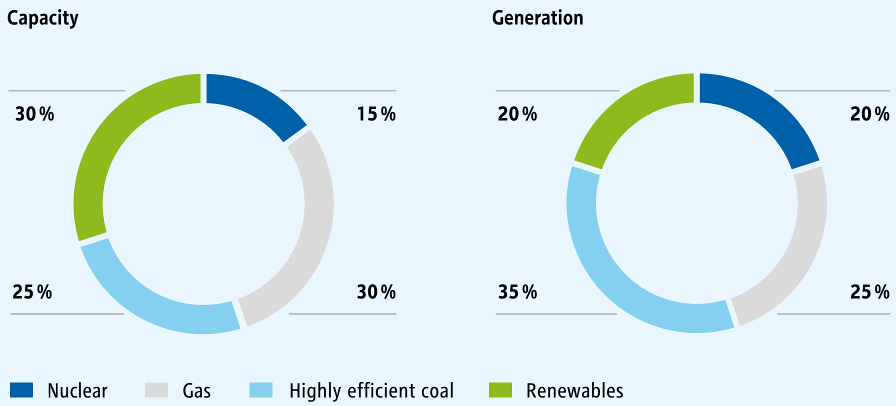
- RWE has set itself ambitious climate protection goals
- From strategy to implementation: we reduce our emissions by building new gas and coal-fired plants
- We invest billions in renewable energy

WE INVEST BILLIONS IN RENEWABLE ENERGY AND CLIMATE-FRIENDLY POWER PLANTS

RWE HAS SET ITSELF AMBITIOUS CLIMATE PROTECTION GOALS

- The changing climate is a global talking point. Which is a good thing – if talk is followed by action. What applies to us all as individuals also applies to RWE on a larger scale.
- Reducing our CO_2 emissions is a cornerstone of our strategy. Every year, we invest billions to make our plants more efficient and thus more climate-friendly.
- Where are we today? In 2010, our plants produced 0.73 metric tons of carbon dioxide per megawatt hour of electricity, 8 percent less than in the year before, but still far too much.
- On average, our competitors produce less CO_2 than us. This clearly provides the direction for us, especially in view of the financial risks associated with high CO_2 emissions.
- We have set ourselves a clear goal: we want to reduce our CO_2 exposure to the average levels of other utilities in our markets by 2020. We expect the emission factor common on the market in 2020 to be around 0.45 metric tons of carbon dioxide per megawatt hour.
- By 2025, 75 percent of our electricity generation capacity should be based on low-emission or CO_2-free technologies, broken down as follows: 30 percent renewables, 30 percent gas-fired power plants, and 15 percent nuclear power.
- We will be reducing emissions elsewhere, too. The Kyoto Protocol provides an opportunity for us to obtain emission certificates for our own plants in exchange for climate protection measures in developing and emerging countries. RWE is one of the global leaders in this field, currently implementing over 120 projects in China, India, Egypt and many other countries.

RWE ELECTRICITY GENERATION MIX BY 2025: 75% OF INSTALLED CAPACITY SHOULD HAVE LITTLE OR NO CO_2

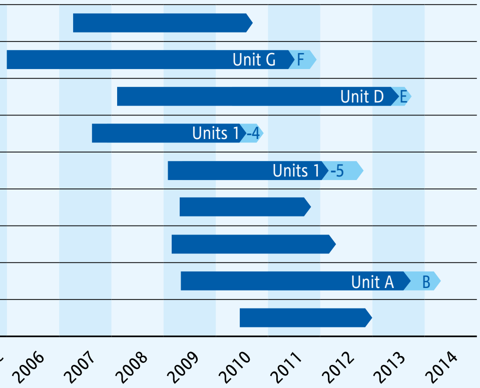


FROM STRATEGY TO IMPLEMENTATION: WE REDUCE OUR EMISSIONS BY BUILDING NEW GAS AND COAL-FIRED PLANTS

- We passed important milestones on the road to climate-friendly energy production in 2010. For instance, we commissioned new gas-fired power stations that are state-of-the-art in terms of efficiency and reduction of emissions.
- By mid 2014, we want to commission an additional 12 gigawatts of generation capacity, with CO_2-free and low-emissions technologies accounting for more than half of this.
- We invest in renewable energy as well as state-of-the-art gas and coal-fired power stations, which will edge outdated high-emission plants out of the market. The table below lists the respective fossil fuel projects.
- Including the gas-fired power stations commissioned in 2010, our new plants may save an estimated 25 million metric tons of CO_2 emissions – each and every year! This is a quarter of the total emissions produced by cars in Germany.

STATUS OF RWE'S POWER PLANT PROJECTS

		Installed capacity in MW	Capital expenditure in billions of €
Lingen	Gas	876	0.5
Neurath	Lignite	2,100	2.6
Hamm	Hard coal	1,528	2.3
Staythorpe	Gas	1,650	0.8
Pembroke	Gas	2,188	1.2
Moerdijk 2	Gas	426	0.4
Claus C	Gas	1,304	1.1
Eemshaven	Hard coal/biomass	1,560	2.7
Denizli	Gas	775	0.5



WE INVEST BILLIONS IN RENEWABLE ENERGY

- An increasing amount of our electricity is to come from renewable sources. We will spend almost four billion euros on this until 2013. This makes us the biggest German investor in renewable energy in Europe.
- Our medium-term goal: by 2014, we expect our subsidiary RWE Innogy, the specialist for renewable energy, to have 4.5 gigawatts of installed capacity in operation or under construction.
- Building new onshore and offshore wind farms is a priority for us. Our first German offshore wind farm north of the Isle of Helgoland will go online in 2013.

BANNER IN A STREET IN BIBLIS. © CATRIN MORITZ
Peaceful use of nuclear power has been publicly discussed for decades. The debate flared up again when the German government decided to extend the lifetime of nuclear power stations.

EXTENSION OF NUCLEAR LIFETIMES = PROLONGED DANGER

“Clean. Safe. Affordable.
Nuclear energy as a complement to renewables is the best solution.”

Prof. Dr. Gerd Jäger, Executive Vice-President of RWE Power AG

- Nuclear energy makes a major contribution to climate protection and security of supply
- The continued operation of German nuclear power plants has a dampening effect on electricity prices
- An increasing number of countries rely on nuclear power

THERE ARE GOOD ARGUMENTS IN FAVOUR OF USING NUCLEAR ENERGY: LOW GENERATION COSTS, SAFE TECHNOLOGY AND HARDLY ANY CO_2 EMISSIONS

NUCLEAR ENERGY MAKES A MAJOR CONTRIBUTION TO CLIMATE PROTECTION AND SECURITY OF SUPPLY

- Germany has set itself ambitious climate-protection goals. By 2020, the country aims to reduce greenhouse gas emissions by 40 percent compared to 1990 levels, and by 80 to 95 percent by 2050.
- Expanding renewable energy is key to this. The goal is to have renewables account for 30 percent of electricity production by 2020, and for as much as 80 percent by 2050.
- None of this is possible without making large investments. Based on estimates by the German environment ministry, the electricity sector alone will need to invest 100 billion euros by 2020.
- One thing is certain: without nuclear power, it will be impossible to achieve Germany's climate-protection targets unless one spends unreasonable sums of money.

THE CONTINUED OPERATION OF GERMAN NUCLEAR POWER PLANTS HAS A DAMPENING EFFECT ON ELECTRICITY PRICES

- German nuclear power plants are world leaders in terms of safety: according to the International Energy Agency (IEA), they meet the highest standards. RWE's existing power stations already fulfill many of the criteria that have to be met by new builds today.
- We have put in considerable effort to reach the highest safety levels and safeguard this position over the long term. In the last ten years, we have invested 1.4 billion euros at the Biblis site alone, where we implemented a number of measures to increase safety.
- Affordable electricity is a key factor in selecting Germany as a location for production facilities and business premises. This contributes to securing jobs.
- Based on a study by the Federation of German Industries (BDI), the continued operation of Germany's nuclear power stations could dampen electricity wholesale prices by more than 20 percent in 2020. This would translate into annual savings of 90 euros for an average household.

MANFRED GÜLLNER, FORSA

> "Eighty-one percent of the German population believe that one cannot fully renounce nuclear power in the energy supply of the future. This quota has risen significantly since 2005 (59 percent)."

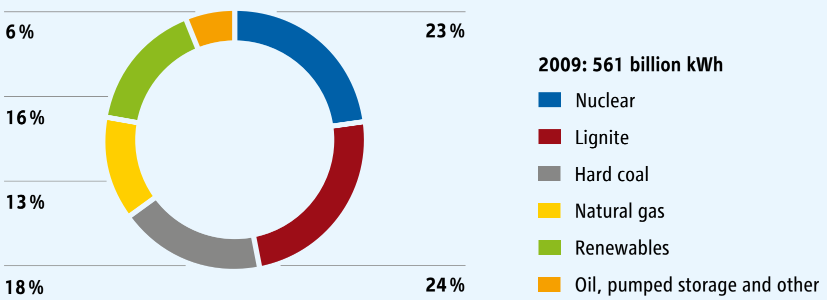
Forsa survey in summer 2010.

AN INCREASING NUMBER OF COUNTRIES RELY ON NUCLEAR POWER

- The future belongs to energy from renewables. But what can be done in times when there is neither wind nor sunshine?
- Nuclear power is available at all times. It is ideally suited for offsetting fluctuating amounts of electricity fed into the grid from renewable sources. German reactors can ramp their output up or down by 9,600 megawatts within 15 minutes.
- The realisation that nuclear energy is making an important contribution to climate protection and security of supply is also being made on an international scale. The USA, Sweden, Switzerland and the Netherlands have extended the lifetimes of their nuclear power stations to 60 years.
- Countries such as Italy and Sweden, which decided to phase out nuclear energy years ago, now actually intend to build new plants.
- Based on data published by business consultancy firm Arthur D. Little, a total of 63 reactors are currently under construction throughout the world, agreements have been signed for another 63, and sites are already available for an additional 121 units.
- A solution for the final storage of radioactive waste must finally be found. In Germany, responsibility for this is borne by the state, whereas the operators of nuclear power plants bear the costs of disposal.

NUCLEAR POWER ACCOUNTS FOR ABOUT A QUARTER OF GERMAN ELECTRICITY

Quota of net electricity production by fuel in Germany in 2009[1]



1 Preliminary.

Source: German Energy and Water Association.

LETTER OF COMPLAINT FROM AN RWE CUSTOMER

The quality of the service offered by energy companies is frequently called into question, with customers expressing their resentment.

[redacted]

Kunden-NR [redacted]

RWE Vertrieb AG
Freistuhl 7
44137 Dortmund

Dortmund, den 21.09.2010

Betreff: So kann man mit Kunden nicht umgehen!

Sehr geehrte Damen und Herren,

am 19. Februar habe ich von RWE meine Jahresabschlussrechnung erhalten. Mit einem falschem Einzugszählerstand. Nach 6 Monaten, 3 Briefen und 5 Telefonaten war RWE endlich in der Lage, mir eine korrekte Rechnung zu stellen. Dafür fallen jetzt astronomische Mahn- und Inkasso-Gebühren an.

Es ist einfach ein Skandal!

Ich frage mich: Was nützt ein Kundenservice, der nicht sofort, sondern nur mit riesigem Verwaltungsaufwand auf die Zählerdaten von RWE Verteilnetz zugreifen kann? Weshalb kann der Kundenservice den Mahn- und Inkassovorgang nicht stoppen, obwohl RWE und nicht ich für die monatelange Bearbeitungszeit verantwortlich ist? Wieso werden die Mahn- und Inkassokosten, die einfach nicht berechtigt sind, zum Schluss nochmals verdoppelt? Wieso ist keiner der Mitarbeiter im Kundendienst in der Lage, eine korrekte Jahresabschlussrechnung für mich zu erstellen?

Ich verlange eine sofortige Klärung dieses Sachverhalts und die Bestätigung, dass mir keine zusätzlichen Kosten entstehen.

Grüße,

[redacted]

A CUSTOMER FROM GERMANY COMPLAINS BITTERLY ABOUT HIS BAD EXPERIENCE WITH RWE'S CUSTOMER SERVICE AFTER AN ERRONEOUS METER READING LED TO UNJUSTIFIED ADMINISTRATIVE AND DEBT COLLECTION FEES.

“Dissatisfied customers – we have them as well. But we’re working on reducing their number.”

Achim Südmeier, Executive Vice-President Sales at RWE Vertrieb AG

- RWE’s customer service is getting better – and faster – all the time
- We offer a wide range of products and local customer service
- Our corporate customers benefit from made-to-measure products
- RWE is a competent partner to those who wish to save energy

OUR SERVICE CONCEPT CONSIDERS CHANGES IN MARKET CONDITIONS AND THE NEEDS OF OUR CUSTOMERS

RWE'S CUSTOMER SERVICE IS GETTING BETTER – AND FASTER – ALL THE TIME

- Those who want to survive in the market in the long run must offer excellent customer service.
- We believe in quality and have invested a lot to this end. In 2010 alone, RWE Vertrieb expanded its customer service team by 100 new employees. Southern Germany's technical inspection authority TÜV Süd repeatedly recognised us for service quality and customer satisfaction.
- Today, customer queries are answered 25 percent faster at RWE Vertrieb than a year ago.
- We take suggestions and criticism seriously. In 2010, we created a customer advisory panel, which takes on board the views of our residential customers in Germany and develops ideas for solutions.
- In the United Kingdom, we invested 200 million pounds in new billing and data-management systems, with a view to serving our customers more quickly and efficiently.
- Our residential customers in the Netherlands can change their prepayments for electricity and gas online according to their needs.

WE OFFER A WIDE RANGE OF PRODUCTS AND LOCAL CUSTOMER SERVICE

- Our residential customers in and outside of Germany can choose from a wide and diversified suite of products. The portfolio ranges from flat rate and green power offerings to online tariffs, e.g. under the eprimo brand.
- RWE Vertrieb has increased its consulting capacity by 10 percent.
- We enlarged our local footprint significantly: RWE now has over 70 energy stores and mobile information desks. This is 30 percent more than two years ago.
- All calls placed to us are free of charge. Over the last few years, we have more than halved telephone waiting times. In 93 percent of all cases, our customers reach a member of staff on their first attempt to contact RWE Vertrieb.

OUR CORPORATE CUSTOMERS BENEFIT FROM MADE-TO-MEASURE PRODUCTS

- We have been offering our corporate customers a catalogue of tailor-made energy services since 2008. We inform them of tariffs and provide advice on ways to realise savings when consuming energy. Our customers can track their electricity consumption over time on an internet platform.
- Furthermore, we offer our corporate customers variable electricity tariffs, some of which are adjusted to developments on the electricity exchange on a weekly basis.
- Key accounts in need of a stable basis of calculation can also find the product they need: long-term electricity contracts, some of which last until 2037.
- We offer our municipal customers special partnership concepts. These include consultancy on optimising the energy efficiency of city halls and other public buildings.

RWE IS A COMPETENT PARTNER TO THOSE WHO WISH TO SAVE ENERGY

- Making more efficient use of energy means reducing costs and being gentle on the environment. We help our customers do this, strengthening our sales position at the same time.
- On our web portal at www.energiewelt.de, we provide advice on the economic use of electricity and gas. From its online launch in October 2009 to the end of 2010, the portal had already attracted 3.5 million visitors. Be it installing insulation, smart meters, smart homes, heat pumps, solar thermal power, combined heat and power generation or energy-efficient machines and devices, there is something for everybody.
- Established in 2009, RWE Effizienz GmbH is our innovation centre for energy saving products with approximately 100 employees. The subsidiary also makes us a pioneer in climate-friendly electric cars. In ‘RWE Autostrom,’ we already have the right product for those who charge their cars instead of filling up.

WWW.ENERGIEWELT.DE – OUR SERVICES:

SAVING ENERGY AT HOME	NEW ENERGY-EFFICIENT BUILDINGS	MODERNISING BUILDINGS
LEARNING ABOUT SOLAR POWER	FINANCING AND SUBSIDIES	CRAFTSMEN AND ENERGY CONSULTANTS

LECTURE HALL AT THE RUHR UNIVERSITY IN BOCHUM, GERMANY. © CATRIN MORITZ
Some of the public vehemently criticise the energy utilities' focus on profits.

“Our investors have entrusted us with their money. It is our task to manage it responsibly.”

Dr. Rolf Pohlig, CFO of RWE AG

- Our investors put their trust in us
- Without profits, we cannot invest in tomorrow’s energy supply
- We take our stakeholders’ expectations seriously
- The value we create benefits employees, shareholders and society

OUR INVESTORS EXPECT A SUCCESSFUL STRATEGY AND AN ATTRACTIVE DIVIDEND. IN TURN, THEY CONTRIBUTE TO FINANCING TOMORROW'S ENERGY SUPPLY

OUR INVESTORS PUT THEIR TRUST IN US

- Energy supply requires a long-term business model. We think and plan in terms of decades, not in terms of years.
- The profits we achieve enable us to earn a reasonable return on the capital that shareholders put at RWE's disposal.
- Our shareholders follow distinct investment strategies. Saving for a pension plays a very important role among private shareholders. Institutional investors, such as pension funds and municipal shareholders, also tend to have long-term horizons and bank on dividend continuity.
- Government measures that burden our earnings effectively hit our shareholders. This applies in particular to the new nuclear fuel tax in Germany. It will have a negative effect of an average of 600 to 700 million euros on our operating result, limiting the funds we can spend on investments and dividends.

WITHOUT PROFITS, WE CANNOT INVEST IN TOMORROW'S ENERGY SUPPLY

- Profits are the prerequisite for safeguarding the future of our company and its jobs. Only with good results and a healthy cash flow can we invest billions of euros in the conversion of our power plant fleet and secure tomorrow's energy supply.
- In the last five years, we spent much more capital on property, plant and equipment than we paid in dividends to shareholders. We intend to continue proceeding in this manner. In so doing, we are creating the basis for future dividends and securing the jobs of our employees. The regions in which we are active also benefit from this, as do our suppliers.
- In 2010 alone, almost half our capital spending on property, plant and equipment was attributable to Germany.

WE TAKE OUR STAKEHOLDERS' EXPECTATIONS SERIOUSLY

- Our goal is to reconcile entrepreneurial action with our stakeholders' expectations. Only by achieving this balance can we ensure the company's long-term success and create value for our shareholders.
- We have divided our corporate responsibility strategy into ten fields of action, which highlight the RWE Group's major challenges from our stakeholders' perspective.
- Since 2010, Executive Board compensation has also been aligned with our success in the various fields of corporate responsibility. This makes RWE one of the first companies to have directly linked management board remuneration to sustainability goals.

Further information: RWE Corporate Responsibility Report
www.rwe.com/responsibility

THE VALUE WE CREATE BENEFITS EMPLOYEES, SHAREHOLDERS AND SOCIETY

- RWE will invest approximately 18 billion euros by 2013.
- Above all, the funds will be dedicated to the construction of new power stations and renewable energy as well as the expansion and modernisation of electricity networks and the exploration of new energy sources.
- This RWE stimulus package can do entirely without state support, safeguards jobs and contributes to creating value. In fiscal 2010, 16 billion euros in value added was created and distributed among employees, shareholders and society.

INVESTMENTS IN THE COMPANY'S EARNING POWER

€ million	2010	2009	2008	2007	2006
Capital expenditure on property, plant and equipment	6,379	5,913	4,454	4,065	4,494
Recurrent net income	3,752	3,532	3,367	2,985	2,466
Dividend payment	1,867[1]	1,867	2,401	1,689	1,968

1 Subject to approval by the 20 April 2011 Annual General Meeting.

ARTICLE IN THE 20 OCTOBER 2010 ISSUE OF THE GERMAN DAILY NEWSPAPER FRANKFURTER RUNDSCHAU
Germany's major power utilities are repeatedly being accused of abusing their market power.

Strom-Oligopol scheffelt Geld

Studie: Milliardenprofit durch Marktmacht

Von Jakob Schlandt

Die deutschen Stromkonzerne erwirtschaften trotz Krise Rekordgewinne, die weit über den in anderen Branchen üblichen Profiten liegen. Dies geht aus einer Studie der Hochschule für Technik und Wirtschaft des Saarlandes hervor, die der FR vorliegt. Die Autoren Uwe Leprich und Andy Junker werteten im Auftrag der Grünen die Geschäftsberichte der drei Konzerne Eon, RWE und EnBW aus und stellten einen enormen Gewinnanstieg fest: Allein 2009 fuhren sie zusammen 23 Milliarden Euro Profit ein. Seit 2002 wurden über 100 Milliarden Euro Gewinn erzielt, in diesem Zeitraum versiebenfachten sich die Erträge.

RWE, das die Gewinne der Stromerzeugung getrennt benennt, erreicht demnach eine Rendite auf das eingesetzte Kapital (ROCE) von 26,6 Prozent, die Autoren vermuten ähnliche Beträge bei Eon und EnBW. In wettbewerbsintensiven Branchen und im Vergleich mit anderen Dax-Unternehmen seien aber nur neun Prozent angemessen. Ihr Schluss: „Der Gewinn allein in diesem Segment ist um 2,3 Milliarden Euro zu hoch. RWE verdient pro abgesetzter Kilowattstunde 1,1 Cent zu viel." Die hohen Renditen der Energieriesen seien insbesondere angesichts ihrer niedrigen Risiken unangemessen.

Grünen-Fraktionschef Jürgen Trittin und Vizechefin Bärbel Höhn erklärten gestern, die „astronomischen Kapitalrenditen" könnten nur mit mangelndem Wettbewerb erklärt werden, „der jetzt mit einer Laufzeitverlängerung der AKWs noch zementiert wird". Mehr Wettbewerb bei der Stromerzeugung, so die beiden Grünen-Politiker, würde de facto zu niedrigeren Preisen führen.

Dieser Ansicht sind auch Verbraucherschützer und Wettbewerbshüter. Justus Haucap, Chef der Monopolkommission, sagte der FR: „Die enormen Gewinne überraschen nicht. Es gibt keinen funktionsfähigen Wettbewerb bei der Energieerzeugung in Deutschland, das wurde durch die Laufzeitverlängerung für die Kernkraft noch einmal verfestigt." Mittelfristig könne ein Ausbau der Grenzkuppelstellen dafür sorgen, dass der Druck auf die Renditen durch Stromimporte zunehme.

Holger Krawinkel, Energieexperte des Bundesverbands der Verbraucherzentralen, sagte: „Der Wettbewerb auf dem deutschen Stromerzeugungsmarkt ist eine Farce." Die Energieriesen verfügten über mehr Marktmacht als vor der Liberalisierung vor gut zehn Jahren. „Das ist vor allem auf Versagen der Politik zurückzuführen, die nicht ausreichend für Wettbewerb gesorgt hat." Nach Einschätzung der Landesbank Baden-Württemberg sind die hohen Gewinne der Jahre 2009 und auch 2010 teils darauf zurückzuführen, dass der Strom zu hohen Preisen bis zu drei Jahre vorher verkauft wurde. Ab 2013 müssten zudem teure Verschmutzungsrechte gekauft werden, das werde die Gewinne weiter drücken. Die Börsenkurse waren zuletzt stark gefallen.

Eine Besonderheit ist den Autoren bei Eon aufgefallen: Der Düsseldorfer Konzern erwirtschafte einen großen Teil seiner Gewinne mit Spekulationsgeschäften im Derivatehandel, deren Volumen nicht mit Absicherungsgeschäften zu erklären sei. Die Bundesregierung müsse mögliche Risiken analysieren und Konsequenzen ziehen, um dem nächsten Casino vorzubeugen. Ein Eon-Sprecher verteidigte das Handelsgeschäft. Es gebe in Europa wesentlich größere Energie-Handelshäuser, das Engagement sei solide und der Vergleich mit Finanzjongleuren „völlig unangebracht".

ELECTRICITY OLIGOPOLY RAKES IN THE MONEY
STUDY: MARKET POWER DELIVERS BILLIONS IN PROFITS
BY JAKOB SCHLANDT

This opinion is shared by consumer advocates and competition watchdogs. In an interview with Frankfurter Rundschau, Justus Haucap, head of the monopoly commission, said, "The enormous profits are not surprising. There is no real competition in the German power generation sector, exacerbated by the extension of nuclear power plant lifetimes."

Says Holger Krawinkel, energy expert with the federal association of consumer advocacy centres: "Competition in the German generation market is a farce." He added that the energy heavyweights have more market power than before deregulation some ten years ago.

“Market power? In Europe, we have electricity exchanges that work – and Germany’s is the most important one.”

Stefan Judisch, Chairman of the Board of Directors of RWE Supply & Trading GmbH

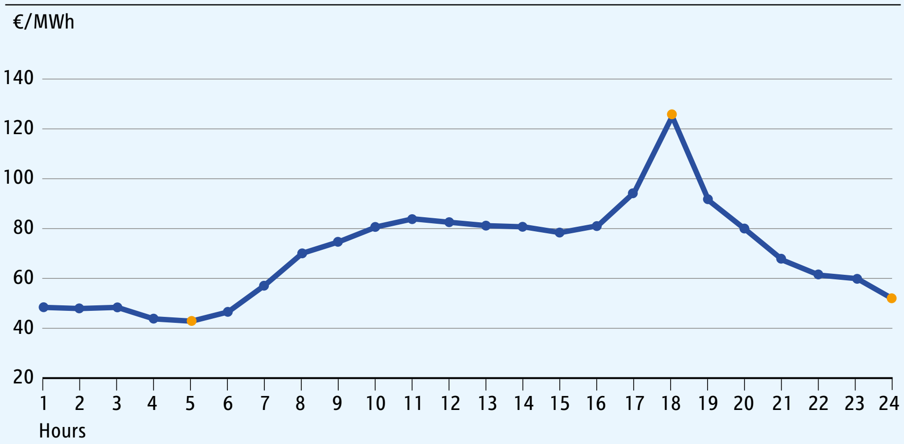
- Electricity prices on wholesale markets are determined by supply and demand in a transparent way
- Marginal costs are decisive for the deployment of power plants
- There is no evidence of manipulation on the German electricity wholesale market

WE FACE COMPETITION WITH CONVICTION, AS IT ACCELERATES OUR GROWTH AND WE EARN THE DIVIDEND FOR OUR SHAREHOLDERS THROUGH MARKET PERFORMANCE

ELECTRICITY PRICES ON WHOLESALE MARKETS ARE DETERMINED BY SUPPLY AND DEMAND IN A TRANSPARENT WAY

- Electricity is a very special product. It is completely homogenous and can be produced in many ways. Because electricity is almost impossible to store, it needs to be produced the moment it is needed, no more and no less than required.
- Demand for electricity fluctuates by the second. It depends on a variety of factors, such as the time of day or year, the weather, or the economic cycle. Industrial consumers' consumption is determined by capacity utilisation, whereas residential consumption is driven to a greater extent by temperature.
- Prices on electricity exchanges can be extremely volatile within a single day. 6 December 2010 was such a day (see diagram below). Due to the weather, wind turbines stood still and solar panels stopped generating electricity, as they were covered in snow. As the day progressed, the price of electricity doubled, then tripled, and finally more than halved.
- Only very few products display such extreme and sudden movements in price.
- Given these huge fluctuations, electricity producers, distributors and large consumers hedge their electricity price risks on forward markets.

HOURLY PRICES FOR ELECTRICTY ON THE GERMAN SPOT MARKET ON 6 DECEMBER 2010



Source: RWE Supply & Trading.

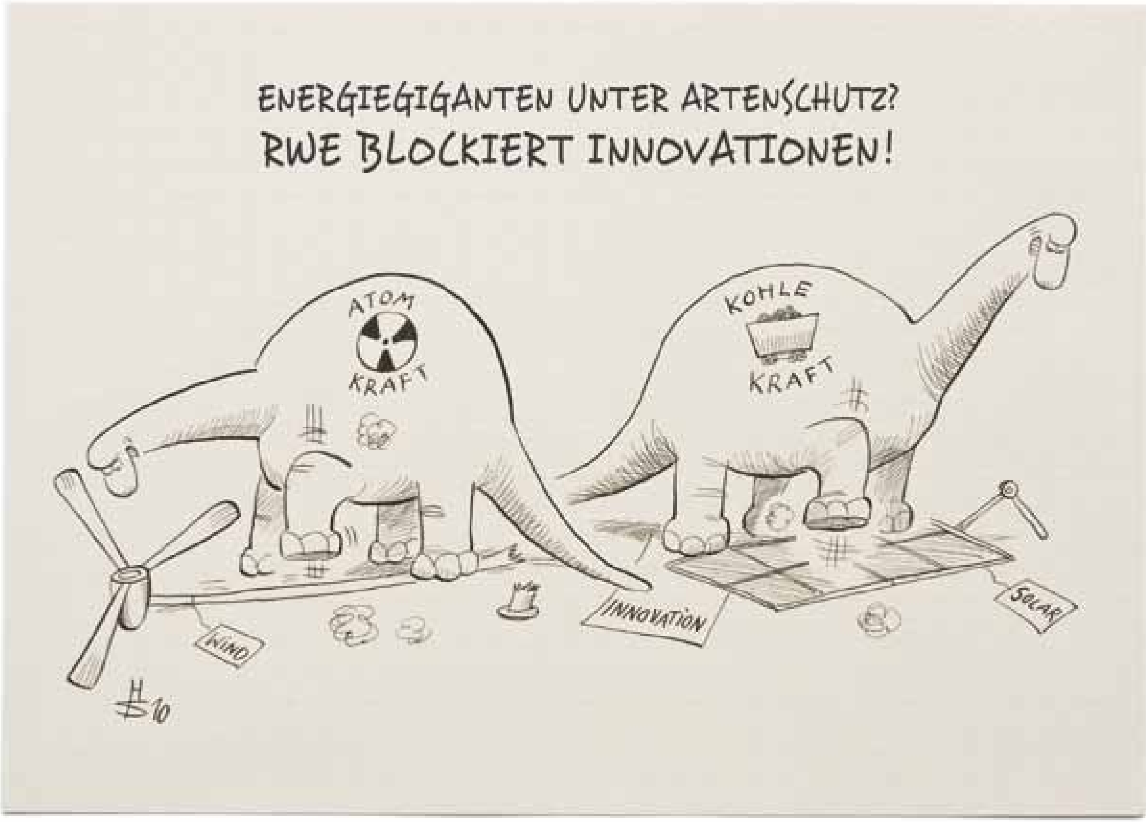
MARGINAL COSTS ARE DECISIVE FOR THE DEPLOYMENT OF POWER PLANTS

- The demand for electricity is met by a multitude of plant operators. Plant deployment depends strictly on economic criteria based on short-term variable costs (marginal costs). These essentially include the costs of fuel, such as coal or gas, and the costs of CO_2 emission rights.
- If there is a short-term rise in demand, additional capacities are deployed according to the respective power station's marginal cost ranking. In other words, the more cost-efficient the plant, the sooner its capacity will be utilised.
- Electricity from renewable sources such as wind or solar energy is given priority in the electricity grid. This is mandated by the legislator. Next in line are run-of-river and nuclear plants, which have low marginal costs, followed by coal and gas-fired plants and finally, in peak times, oil-fired power stations.
- The marginal costs of the last power plant needed to cover demand for electricity at any given time and thus ensure grid stability define the price per megawatt hour on the respective electricity exchange. This price will then also apply to all other power stations. Plants with marginal costs below this price produce electricity – the others do not.
- If the electricity price is higher than the marginal costs, the plant operator achieves a margin, which is required to cover fixed costs, such as staff costs or depreciation. Investments in new power stations can only pay off if the margins achieved over the plant's lifetime exceed the fixed costs.

THERE IS NO EVIDENCE OF MANIPULATION ON THE GERMAN ELECTRICITY WHOLESALE MARKET

- Germany's electricity market is characterised by a large variety of suppliers and intense competition. Among all EU electricity markets, the German market is the one with the lowest market concentration, both in terms of generation and supply, as a study conducted by Capgemini Consultants in November 2010 showed.
- About 5,500 terawatt hours of electricity were electronically traded in Germany in 2010 – more than anywhere else in Europe. This liquidity is proof of the high transparency of the marketplace and the trust placed in it by traders.
- Some 270 companies from 22 countries conduct their trade on the EEX Energy Exchange. Electricity is traded roughly six to seven times, both on the exchange and over the counter, before finally being delivered to the customer. This serves the purposes of economic optimisation and risk transfer among power producers, sales companies, and industrial power consumers.
- German wholesale electricity prices have ranged in the European midfield for years. Neither the European Commission nor the German Federal Cartel Office or the trading monitoring agency established at the EEX have ever found evidence of market manipulation on the German wholesale electricity market.

"DINOSAUR" CARTOON. COMMISSIONED WORK © HEIKO SAKURAI
Critics believe that the major energy utilities are preventing progress in electricity generation.



ENERGY HEAVYWEIGHTS ON THE ENDANGERED SPECIES LIST?
RWE IS BLOCKING INNOVATION!

“Those who accuse us of being sluggish ignore that we actually get things moving.”

Dr. Nina Skorupska, Chief Technical Officer, Essent N.V.

- Our research and development work is dedicated predominantly to climate protection
- RWE is leading the way in the field of electric cars
- We invest in smart grids to secure the electricity supply of the future

TO US, INNOVATION IS THE KEY TO MAKING TOMORROW'S ENERGY SUPPLY SMARTER AND GENTLER ON RESOURCES AND THE ENVIRONMENT

OUR RESEARCH AND DEVELOPMENT WORK IS DEDICATED PREDOMINANTLY TO CLIMATE PROTECTION

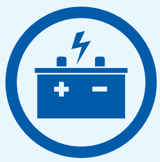
- We intend to make the generation of electricity from fossil fuels more efficient and cleaner. This is what our research and development efforts (R&D) at RWE focus on.
- In our coal innovation centre near Cologne, Germany, we work on technologies aiming to reduce and convert carbon dioxide. We plan to spend a total of over 100 million euros on this.
- We also conduct large-scale projects with partners. One example is the Desertec initiative, which started in 2009 and of which we are a founding member. Its objective is to create the framework conditions for investing in the supply of large amounts of solar and wind power to Europe, the Middle East and North Africa.
- Via our Dutch subsidiary Essent, we are already a leader in the co-firing of biomass in coal-fired power plants.

SELECT INNOVATION PROJECTS

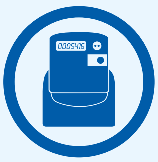
CO_2 separation in coal-fired power plants

Electric cars

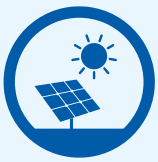
Algae farming with carbon dioxide



Electricity storage using compressed air



Smart metering for fully transparent electricity consumption



Desertec Saharan electricity for Europe

ECOdrei project for energy-efficient living

CO_2 usage for chemical precursors

Further information: www.rwe.com/innovations

RWE IS LEADING THE WAY IN THE FIELD OF ELECTRIC CARS

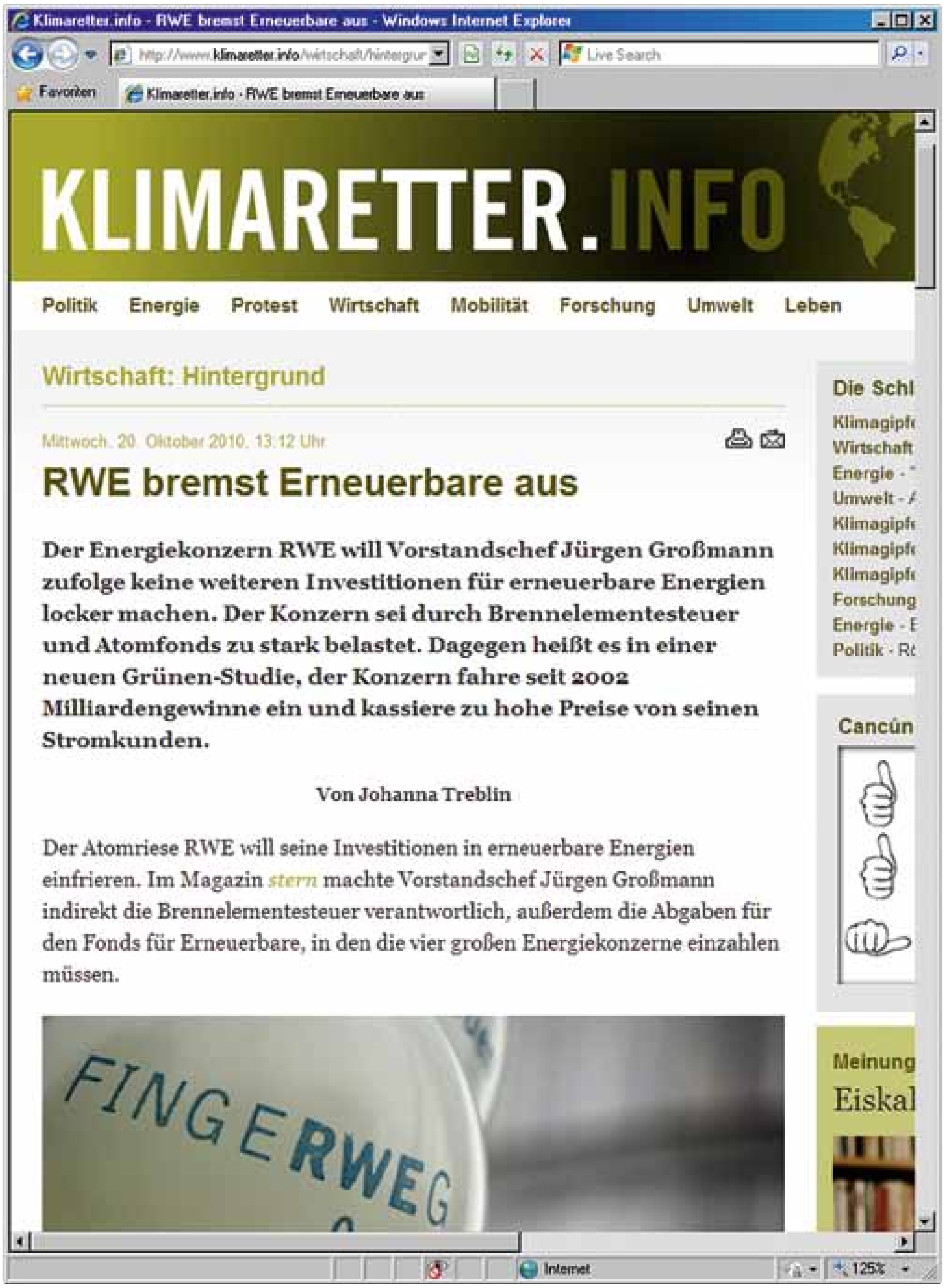
- RWE is taking CO_2-free electricity to the streets. We are implementing our largest pilot project in the Rhine-Ruhr area, our core region. The objective is to have a charging infrastructure throughout Dortmund, Essen and Mülheim, so that electric cars can 'fill up' with our electricity. We have launched another pilot project in the Dutch province of Noord-Brabant.
- RWE offers electricity for cars which fully stems from renewable sources and is thus free of carbon dioxide.
- We have already set up over 500 charging stations in Germany, and their number is steadily rising. Twenty municipal utilities have already signed agreements with us, according to which we will provide them with charging stations and electric cars.
- We started offering mass-produced electric cars in October 2010. Buyers can order the Mitsubishi i-MiEV and structurally identical models offered by Citroën and Peugeot as part of the 'e-Drive' package, which includes charging units for home use, in addition to green electricity.

Further information: www.rwe-mobility.com

WE INVEST IN SMART GRIDS TO SECURE THE ELECTRICITY SUPPLY OF THE FUTURE

- The energy landscape is changing rapidly. Besides large-scale power plants, innumerable decentralised solar facilities, wind turbines and mini biomass power stations also generate electricity.
- In the energy grid, the amounts of electricity fed in and consumed must be in balance at all times, in order to keep the voltage on the system stable. Ensuring this is a demanding task. Therefore, in addition to flexible power stations, we need new, smart grids, with which fluctuating energy flows can be better managed.
- RWE has taken on a leading role in the 'Networks for the Electricity Supply of the Future' project promoted by the German economics and technology ministry. Together with partners, we are developing concepts to adapt our networks to the supply tasks of the future.
- Flexibility is a key competence in tomorrow's energy world. Our customers also need to act flexibly. Since January 2011, RWE has been offering time-dependent tariffs, enabling customers to realise savings by managing consumption according to the time of day.

Further information: www.rwe.com/innovations



Klimaretter.info - RWE bremst Erneuerbare aus - Windows Internet Explorer

KLIMARETTER.INFO

Politik Energie Protest Wirtschaft Mobilität Forschung Umwelt Leben

Wirtschaft: Hintergrund

Mittwoch, 20. Oktober 2010, 13:12 Uhr

RWE bremst Erneuerbare aus

Der Energiekonzern RWE will Vorstandschef Jürgen Großmann zufolge keine weiteren Investitionen für erneuerbare Energien locker machen. Der Konzern sei durch Brennelementesteuer und Atomfonds zu stark belastet. Dagegen heißt es in einer neuen Grünen-Studie, der Konzern fahre seit 2002 Milliardengewinne ein und kassiere zu hohe Preise von seinen Stromkunden.

Von Johanna Treblin

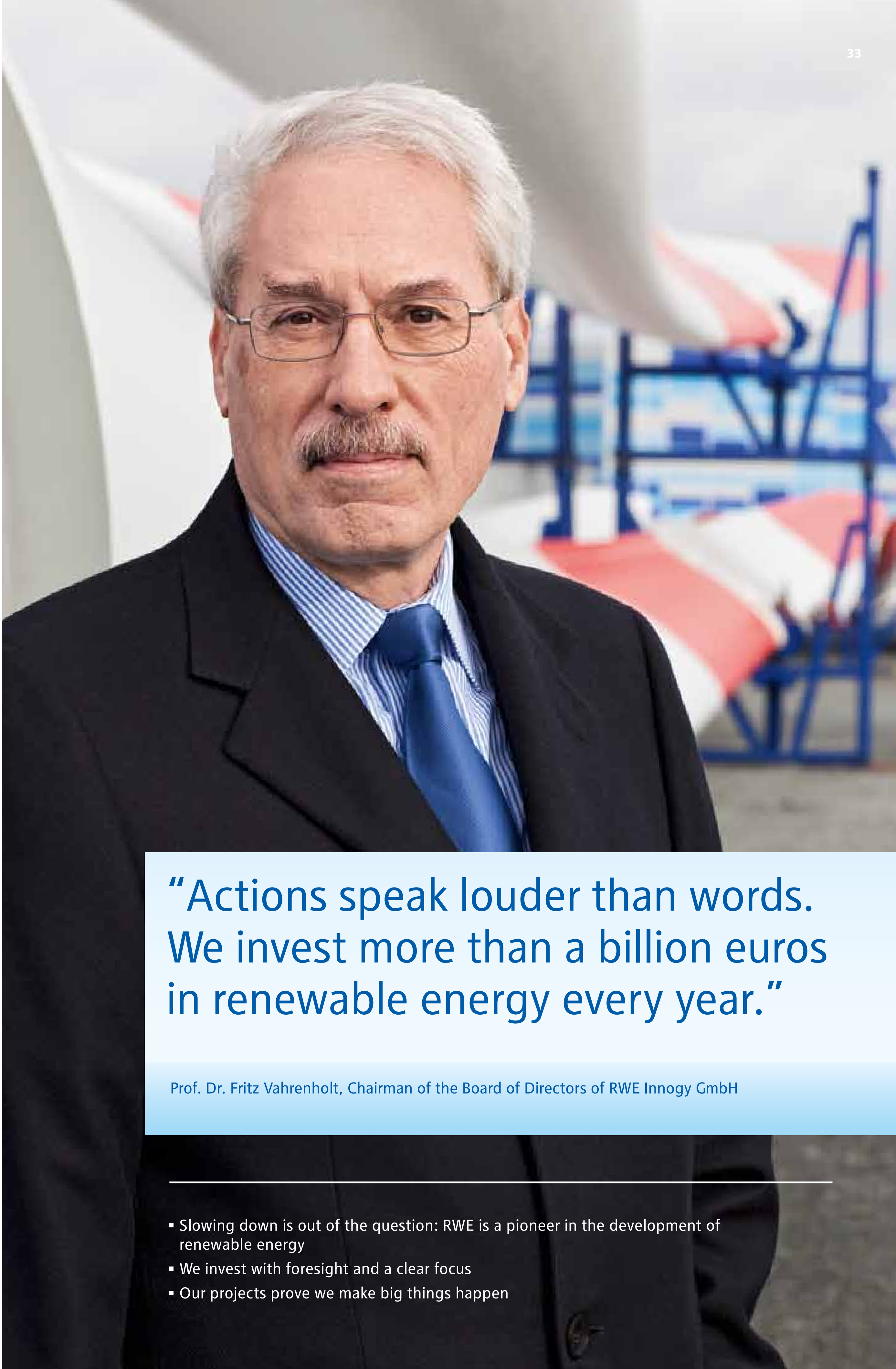
Der Atomriese RWE will seine Investitionen in erneuerbare Energien einfrieren. Im Magazin *stern* machte Vorstandschef Jürgen Großmann indirekt die Brennelementesteuer verantwortlich, außerdem die Abgaben für den Fonds für Erneuerbare, in den die vier großen Energiekonzerne einzahlen müssen.

HOMEPAGE OF THE GERMAN CLIMATE-PROTECTION ACTIVIST GROUP KLIMARETTER.INFO
RWE FORCES RENEWABLES DEVELOPMENT TO SLOW

According to RWE CEO Jürgen Großmann, the energy group does not want to make any additional investment in renewables. As justification, he explained that the group was too negatively affected by the nuclear fuel tax and the nuclear fund. In contrast, according to a new study conducted by the Green Party, the group has been raking in billions in profits since 2002 and charging its customers excessive prices.

By Johanna Treblin

Nuclear energy giant RWE intends to freeze investment in renewables. In an interview with Stern, the company's CEO Jürgen Großmann indirectly held the nuclear fuel tax and the contributions to the fund for renewables responsible, into which Germany's big four energy groups have to pay.



“Actions speak louder than words. We invest more than a billion euros in renewable energy every year.”

Prof. Dr. Fritz Vahrenholt, Chairman of the Board of Directors of RWE Innogy GmbH

- Slowing down is out of the question: RWE is a pioneer in the development of renewable energy
- We invest with foresight and a clear focus
- Our projects prove we make big things happen

RENEWABLE ENERGY IS ONE OF THE MOST IMPORTANT GROWTH AREAS FOR RWE; MARKET LEADERSHIP IS WHAT WE AIM FOR

SLOWING DOWN IS OUT OF THE QUESTION: RWE IS A PIONEER IN THE DEVELOPMENT OF RENEWABLE ENERGY

- In recent years, RWE has become a key player in the field of renewable energy. RWE Innogy, the company we founded in 2008 and which already employs over 1,200 people, leads our efforts in this area.
- RWE Innogy is the biggest German investor in renewable energy in Europe. Since 2008, the company has more than doubled its generation capacity: by the end of 2010, 3.4 gigawatts of capacity were in operation or under construction. Another 18.2 gigawatts are currently being developed.
- RWE Innogy's activities focus on RWE's core markets in Germany, the UK, the Netherlands and Poland. Furthermore, we are also active in Spain, France and Italy.

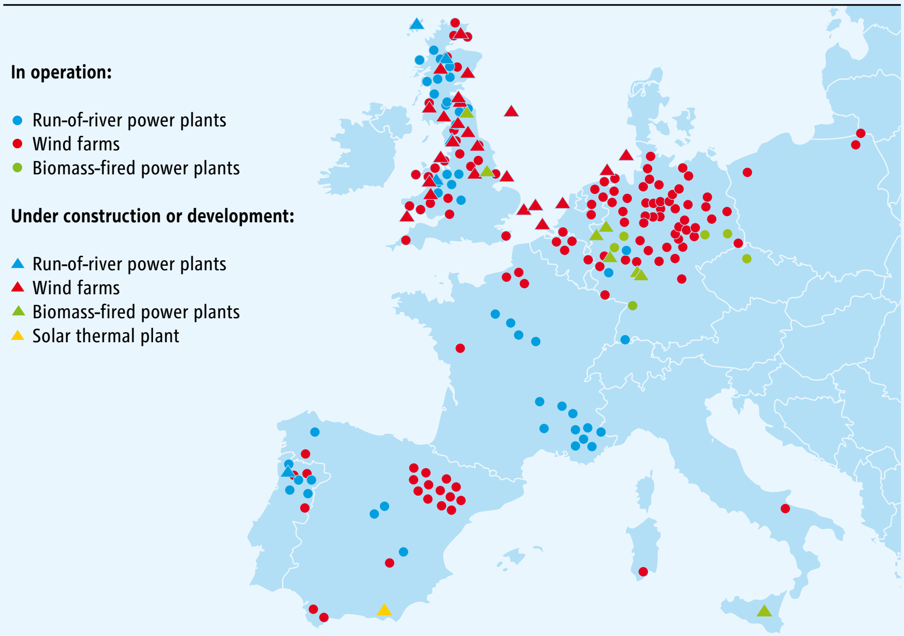
WE INVEST WITH FORESIGHT AND A CLEAR FOCUS

- RWE has set itself an ambitious goal: by 2025, we want 30 percent of our electricity generation capacity to be based on renewables.
- RWE invests in almost every kind of renewable energy source: onshore and offshore wind, run-of-river, biomass and solar thermal energy. We build our plants on the most suitable sites for each source in Europe.
- Photovoltaic generation, for instance, does not feature much in our plans because it incurs such high emissions avoidance costs – up to 400 euros per metric ton of CO_2 saved. By comparison, for onshore wind farms, they are in the order of 80 euros.

OUR PROJECTS PROVE WE MAKE BIG THINGS HAPPEN

- Last year, we took some major steps forward in expanding our renewable energy portfolio.
- We were given the green light for the development of two British offshore wind farm projects, Atlantic Array and Dogger Bank, early in 2010. Atlantic Array will have an installed capacity of up to 1.5 gigawatts, and Dogger Bank – in which RWE Innogy holds a 25 percent stake – will have about 9 gigawatts.
- In March, we started the construction of a large wood pelletising facility in Georgia, USA. With an annual production of 750,000 metric tons, the plant will be one of the largest and most modern of its kind in the world.
- RWE Innogy also founded a joint venture for the construction and operation of the Gwynt y Môr wind farm off the Welsh coast in 2010. We hold 60 percent, the Munich municipal utility has a 30 percent interest, and Siemens holds 10 percent. Over two billion euros are being invested in Gwynt y Môr.
- We also began construction works on our first German offshore wind farm, called 'Nordsee Ost'. The plant will be located about 35 kilometres north of the Isle of Helgoland and completion is planned for 2013. We are spending around a billion euros on this.
- Furthermore, in 2010, we commissioned new onshore wind farms in Italy and Poland. The Andasol solar thermal project in Spain, in which we have a stake, has nearly been completed.
- Our projects speak for themselves. Some of them are so large it takes a big company like RWE to make them happen.

OUR RENEWABLE ENERGY PROJECTS



Would you like to learn more about
RWE and the energy industry?

If so, visit our website:
www.rwe.com

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Fold-out contents in back cover

LETTER FROM THE CEO

Dear Investors,

'Straight talking' is the theme of this year's Annual Report. Are power companies ripping off customers? Are they inflexible and do they hinder progress? Do they not care about environmental and climate protection? Hardly a day goes by without newspapers or the television levelling accusations at energy companies. We at RWE are also familiar with such allegations from face-to-face talks with customers, politicians and association representatives. At the beginning of this report, we address the most common misconceptions about utilities like RWE and counter them with facts. They speak in our favour – at least we think so. But, please read on and judge for yourself.

Straight talking is something you can also expect of us when we report to you on the company's situation. The fact of the matter is that the regulatory framework conditions of the energy industry have deteriorated significantly. So much so, that the path we embarked upon to cut costs and improve efficiencies will not suffice. There is no use denying it. The sea is getting rougher for RWE. This has not had an influence on the financial year that just ended. In fact, quite the opposite is true – and that is good news: 2010 was the most successful fiscal year in the history of RWE. At €7.7 billion, the operating result was higher than ever. Compared to 2009, it improved by 8 %. We increased recurrent net income by 6 % to €3.8 billion. Therefore, we slightly exceeded our own expectations.

Once again, the main success factor was our German electricity generation business. We posted further gains in this area, despite prices on the electricity market that were far below the levels witnessed before the onset of the economic crisis. Credit for this goes to our hedging strategy. We sell nearly all of our electricity forward, up to three years prior to delivery. Therefore, we had sold parts of our 2010 generation before 2009, at market prices that were still high. Another important driver of our earnings growth was the fact that we included Essent, the Dutch energy utility we acquired in 2009, in our figures on a full-year basis for the first time. Developments at Essent were encouraging. In the meantime, the company's integration into our Group has been completed.

RWE ranks among Europe's five largest energy companies. We solidified this position through the acquisition of Essent. But size is not an end to itself. We leverage our strength to create lasting value. In particular, we achieve this via our power plant modernisation and replacement programme. We had set ourselves the goal of commissioning new gas and coal-fired power stations with a total installed capacity of 12 gigawatts by the end of 2013. In the financial year that just came to a close, we managed to complete the first two large-scale facilities: our combined-cycle gas turbine power plants in Lingen and at Staythorpe. Their efficiency of nearly 60% makes them technologically world class. Accordingly, their fuel consumption and carbon emissions are low. We also maintained our course for growth with respect to renewable energy, and are conducting a large number of projects in this field. It would go beyond the scope of this letter to mention them all. However, one highlight is that we started constructing our first German offshore wind farm in 2010.

Nevertheless, we are not only investing in electricity generation. A substantial sum has also been set aside to maintain and modernise network infrastructure, to build new gas pipelines and storage facilities, as well as to expand our gas and oil production. We also made good progress in this area in 2010.

As you can tell, the financial year that just ended was very successful. And of course we want you, our shareholders, to benefit from this. The Executive and Supervisory Boards of RWE AG will propose to the Annual General Meeting in April that a dividend of €3.50 per share be paid. Based on the price of our common share at the end of 2010, this represents a dividend yield of 7%. This places us in the top group of the DAX.

Let us move from the past to the future. We cannot uphold our medium-term goals, which we informed you about in February 2010. Unfortunately, the reasons for this lie outside our sphere of influence. We had aimed to increase our operating result and recurrent net income by an average of 5% per year from 2008 to 2012. In addition, we wanted to close 2013 with these two financials and EBITDA higher than 2009 levels. Today, we realise that the economic and political framework conditions will not allow for this. You can rest assured that my fellow board members and I are just as disappointed about this as you are.

What is the background of this unforeseeable development? What consequences will it have?

In October, the German Lower House decided to introduce a tax on nuclear fuel. The levy is limited to six years. It will curtail our operating result by an average of €600 million to €700 million per year from 2011 to 2016. We had already informed you about this. The nuclear fuel tax is proof of the fact that one can no longer speak of reliable political framework conditions in the energy industry. We believe the levy is questionable from a legal point of view and are considering filing a lawsuit against it. However, there was some good news in 2010, namely the extension of the lifetimes of German nuclear power plants. This is an issue to which I personally was especially committed, along with others. However, there is a trade-off for us as operators, in particular in the form of substantial contributions to a state subsidy fund for renewable energy. On top of that, we have to spend money on retrofitting our nuclear facilities. To sum up, we will be faced with significant burdens in the years ahead, whereas the financial advantages of the lifetime extension will come to bear much later on.

The economic framework conditions are also less favourable than anticipated. Let us start by taking a look at wholesale electricity prices. They have been stagnating at a low level since 2009, although energy fuels such as coal and oil have again risen in price. At the same time, demand for electricity has recovered. In Germany, it could return to the level seen before the economic crisis as early as 2011. Why is this not mirrored by prices on the electricity market? To answer this question, we must first take a look at the development of electricity generation capacity. It recently posted a significant rise, and will continue its upward trend over the medium term. Coal and gas-fired power stations with a combined installed capacity of more than 12 gigawatts are currently under construction in Germany.

In addition, the renewable generation base is expanding at record speed. This applies especially to solar panels. By the end of 2009, they accounted for a capacity of just under 10 gigawatts in Germany. A year later, this figure rose to an incredible 17 gigawatts, and it is still trending upwards. Photovoltaic plants, which are highly subsidised, mostly generate electricity during peak-load periods, namely during the day, when industrial, commercial and trade energy consumption is high. Their expansion is therefore especially detrimental to gas and hard coal-fired power stations, which are typically used during peak-load periods. Therefore, many market participants already anticipate overcapacities and a substantial need to shut down power plants. This might explain why there is still no upward trend on the electricity forward market.

However, it would be naive to simply add up the gigawatt figures. It is true that much more electricity is produced from renewables when the wind blows and the sun shines. However, weather conditions of this type are not the rule in Germany, especially not in the winter. In the event of a lack of wind or solar energy during peak periods, coal and gas-fired power plants as well as nuclear reactors must take over. This is when one can observe extreme price movements, often from one hour to the next. Therefore, we cannot completely renounce fossil fuel-fired power stations, especially when it comes to flexible plants, the output of which can be rapidly ramped down and back up again. Neither industrial nor residential customers can do without this security of supply. It is precisely this security and flexibility that distinguishes those of our plants that have been recently built or are under construction. We need to have a well balanced portfolio, both as a company as well as for the economy as a whole. Therefore, I have no doubt that our power plant investment programme will pay off.

The conditions underlying not only the electricity sector but also the gas business have become more difficult. Europe was recently ‘flooded’ with gas, with the increase in production of shale gas in the USA being a contributing factor. The United States is evolving from gas importer to gas exporter. The result is that Europe now has more imported gas at its disposal. On top of this, liquid trading markets are gaining significance in Europe. This calls into question a mechanism that has provided for stable framework conditions for years: the coupling of gas to oil prices. When gas utilities like RWE concluded long-term supply contracts with producers like Gazprom or Statoil, they often included a provision that linked the gas price to that of oil. However, in the meantime, gas has become increasingly traded on liquid spot markets on which oil does not have a direct effect on prices. Since 2009, quotations on these markets have been far below the oil-indexed prices. We can no longer cover our purchasing costs in some cases, primarily when doing business with our key accounts. This is reflected in significant burdens on the earnings of RWE Supply & Trading’s gas midstream business.

What have we done in response? Our long-term agreements with gas suppliers include clauses that allow for scheduled and unscheduled contract renegotiations for our procurement prices. We have made consistent and early use of them. Our goal is to adapt the supply conditions in order for them to allow us to continue reselling the gas profitably. Arbitration procedures are usually initiated in the event that such talks fail. In some cases, this has already happened. Many of the results of the renegotiations will not be available until 2012 or 2013. They will be decisive for the development of earnings in our gas midstream business. We are convinced of having strong arguments.

This rounds up my presentation of our motives for lowering our expectations. Nevertheless, I see no reason to be pessimistic. A company's success proves itself especially in hard times. We are not looking back. We are rolling up our sleeves and have already initiated a whole host of measures which we will implement step by step. We will present these measures to you in detail later in this report.

Our new earnings outlook for the coming years takes into account all the burdens that I have just described. Our forecast for 2011 envisages earnings before interest, taxes, depreciation and amortisation – EBITDA for short – declining by some 15%. The operating result, which includes depreciation and amortisation, will decrease by about 20%. This slightly steeper drop is due to the fact that our substantial capital expenditure causes depreciation to grow. We are in the middle of the biggest growth campaign ever undertaken in RWE's history and will commission further power plants in 2011 and thereafter.

Recurrent net income, to which your dividend is orientated, is expected to fall by roughly 30%. Our outlook is also cautious over the medium term. Our EBITDA and operating result will be in the order of €8 billion and €5 billion in 2013, when we stop receiving free allocated emission allowances. We expect recurrent net income to total about €2 billion. We uphold our payout ratio of 50% to 60%. Therefore, you, our shareholders, will continue to benefit from at least half of our recurrent net income. The RWE share will thus retain its attractive dividend, despite numerous burdens.

Our strategic alignment also remains. We resolutely continue to modernise our power stations. Climate protection and resource conservation are still at the top of our agenda in this context, so expanding our renewable generation capacity also remains a pillar of our strategy. Another growth area is the oil and gas production of our subsidiary RWE Dea. At the same time, we intend to broaden our footprint and extend our international reach. In order to accomplish this, we need a strong balance sheet. A yardstick of our financial robustness is the ratio of net debt to EBITDA, also known as the leverage factor. We are orientating ourselves towards an upper limit of 3.0. In the financial year that just ended, it was 2.8. In view of the anticipated decline in earnings in the current year, however, we will exceed this mark at first. In order to return our leverage factor below our upper limit over the medium term, we are considering selling investments and parts of companies. We intend to realise proceeds of up to €8 billion as a result. We have generally taken account of these divestments in our earnings forecast. Our €28 billion capital expenditure programme, which we had intended to implement from 2010 to 2013, will be reduced by approximately €3 billion. As a result, some €18 billion remain for 2011 and the two following years. None of the major power plant or network expansion projects are affected by the cuts. Conversely, projects that are less urgent will be postponed. Our package of measures is being supplemented by the expansion of our efficiency-enhancement and cost-cutting programme. We want to save an additional €200 million on a sustainable basis until 2012.

As you can see, we are equipping ourselves for tougher times. These require exceptional performance, not least from our employees. We largely have them to thank for the fact that today, we can look back on the strongest financial year in RWE's history. My fellow board members and I would like to express our sincere gratitude to them for this accomplishment. By uniting our forces, we will also master the challenges that lie ahead of us. Whenever one stands on top of a mountain, the only way to go is down. One must therefore reach new heights. Our sights are firmly set on this goal.

My dear investors, I ask you to accompany us on this journey. We are all working hard to ensure that RWE remains an attractive investment for you, day after day.

Sincerely yours,

Dr. Jürgen Großmann
President and CEO of RWE AG

Essen, 11 February 2011

PS: Anyone who writes letters likes receiving mail, too. Do you have any suggestions or points of view, perhaps with respect to our motto 'Straight talking?' Or would you like some more information? If so, then send an e-mail to straighttalking@rwe.com. Both RWE and I personally look forward to hearing from you.

THE RWE EXECUTIVE BOARD

Dr. Leonhard Birnbaum
Chief Commercial Officer

Dr. Jürgen Großmann
President and CEO

Alwin Fitting
Labour Director

Dr. Rolf Pohlig
Chief Financial Officer

Dr. Rolf Martin Schmitz
Chief Operating Officer

2010 IN BRIEF.

JANUARY

RWE Innogy places winning bid for further offshore wind projects in the UK

Within the scope of a tender process, the UK government grants us permission to develop the Atlantic Array and Dogger Bank projects. We will initially develop the Atlantic Array project alone, which will have 1.5 gigawatts in generation capacity. At Dogger Bank, we have a 25% stake in a consortium aiming for 9 gigawatts in capacity.

APRIL

State-of-the-art gas power plant goes online in Lingen

We commission the power station in the presence of Germany's current Federal President, Christian Wulff. The plant has an installed capacity of 876 megawatts and its efficiency factor of nearly 60% ranks it as world class. We spent some €500 million in capital on the station.

JUNE

RWE Innogy establishes joint venture for the construction and operation of the Gwynt y Môr offshore wind farm

Our partners in the joint venture are Stadtwerke München and Siemens, which hold interests of 30% and 10%, respectively. The Gwynt y Môr wind farm will have 160 turbines and a total installed capacity of 576 megawatts and will be erected off the coast of North Wales. It is scheduled for completion in 2014. More than €2 billion will be invested in the facility.

MARCH

RWE starts construction of a pellet factory in the USA

The wood pelletising plant is being built in the US state of Georgia. The factory will have an annual production of 750,000 metric tons, making it the biggest and most modern of its type in the world. We intend to use the pellets in pure biomass power plants as well as for co-firing with hard coal. The facility is due to begin production in 2011.

APRIL

RWE decides to build a gas-fired power plant in Turkey

The 775 megawatt facility is being erected in Denizli in the western part of the country. It is owned by a joint venture between RWE (70%) and the Turkish energy company Turcas (30%). We estimate the capital expenditure at €500 million. The power station is scheduled to start commercial operation in 2013.

JULY

Green light for the single-largest investment in RWE Dea's history

We sign an agreement with the Egyptian Oil Minister and partner companies for the development of gas fields in two Mediterranean concession areas. RWE Dea will set aside US$3.6 billion for this over the next two decades. The company has a stake of about 40% in the project. Production is scheduled to commence by the end of 2014.

SEPTEMBER

RWE issues its first hybrid bond

The volume of €1.75 billion makes our issuance the largest one of a security of this type ever placed by an industrial enterprise in Europe. It draws keen interest from investors. Hybrid bonds are a mix of equity and debt financing. In the event of insolvency, they are only settled after all the other debt instruments.

SEPTEMBER

Reorganisation of activities in Germany and Eastern Europe

RWE decides to pool its German sales and distribution network operations under RWE Rheinland Westfalen Netz AG with effect from 1 January 2011. The latter company now operates as RWE Deutschland AG. A decision is also made to establish RWE East, s.r.o., headquartered in Prague, Czech Republic, to oversee our companies in Central Eastern Europe and Turkey from 2011 onwards.

OCTOBER

German Lower House introduces nuclear fuel tax and lifetime extensions for nuclear power plants

The new levy will remain in force through to the end of 2016. It will channel €2.3 billion in annual revenues to the German state. We reserve the right to take legal action against the tax. The government decides to amend the German Nuclear Act, which means that German nuclear power stations will be allowed to run for an average of twelve years longer. In exchange, their operators will make payments into a fund that will be used to expand renewable energy, among other things.

NOVEMBER

UK gas-fired power plant commissioned

At the end of November, all four units of the highly efficient plant at Staythorpe (Nottinghamshire) were online simultaneously for the first time. They have a combined installed capacity of 1,650 megawatts. This is enough to supply nearly two million homes with electricity. The capital expenditure totalled about €800 million.

DECEMBER

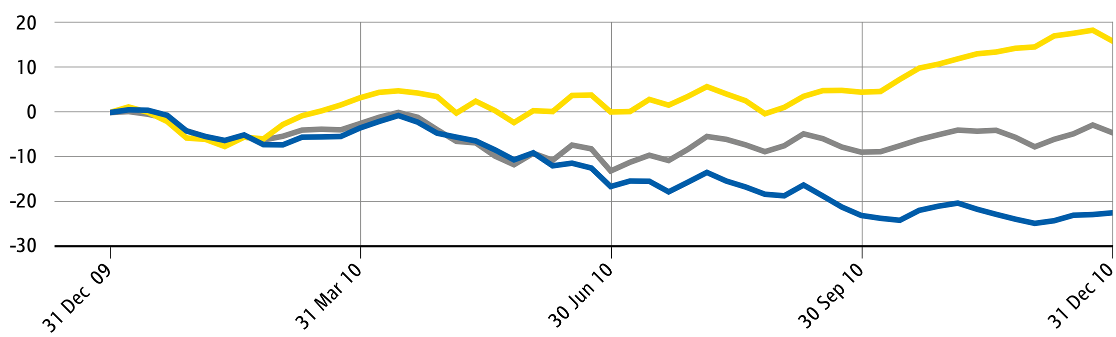
Contract to sell Thyssengas signed

The buyers of the company in which our German long-distance transmission network is subsumed are infrastructure funds managed by the Australian financial service provider Macquarie. Every year, Thyssengas transmits almost 10 billion cubic metres of natural gas through pipes with an overall length of 4,100 kilometres. We had made a commitment to the EU Commission to sell the company.

RWE ON THE CAPITAL MARKET

Shareholders of German companies could generally be satisfied with the stock performance in 2010. Posting a gain of 16%, the DAX 30 was the second-best performing index in Europe. Holders of RWE stocks had less reason to be pleased. Our common shares closed the year with a loss of 23%. In particular, Germany's new nuclear fuel tax and low electricity and gas wholesale prices dampened the development of RWE's share price, as these factors caused our medium-term earnings prospects to worsen.

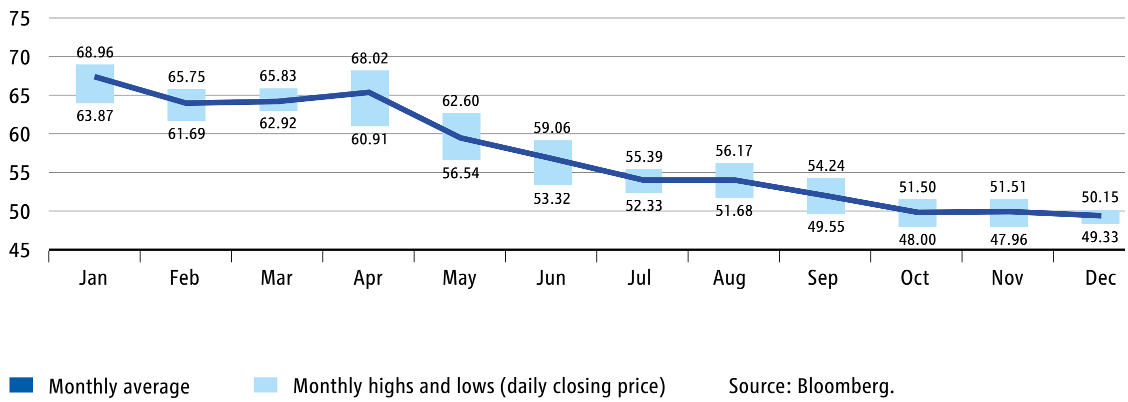
Performance of RWE common shares compared with the DAX 30 and the Dow Jones STOXX Utilities indices
% (average weekly figures)



RWE common share DAX 30 Dow Jones STOXX Utilities Source: Bloomberg.

RWE shares much weaker than the DAX. The German stock market experienced a good 2010. Germany's lead index, the DAX, rose from 5,957 to 6,914 points, posting a gain of 16%. This is an outstanding figure when compared internationally. For instance, the DAX clearly distanced the Dow Jones EURO STOXX 50. In 2010, the Eurozone's market barometer slipped by 3%. In fact, the DAX also had a poor start to the year, mainly due to the Greek financial crisis. The country's impending insolvency and the high budgetary deficits of other Eurozone member states spurred doubt about the currency union's stability. The situation calmed, thanks to an EU rescue package. As the year progressed, the robust economy increasingly determined developments on the stock market. Investor sentiment brightened considerably, above all in Germany, where the economy displayed especially dynamic development.

Monthly highs and lows of the RWE common share in 2010
€



Source: Bloomberg.

The 2010 stock performance was a less pleasing one for RWE shareholders. Our common and preferred shares ended 2010 at €49.89 and €47.99, respectively. The total return for the year as a whole (return on the share price plus the dividend) was –23% and –18%. The development of our share price reflects the deterioration of our earnings prospects. This is due to the unfavourable development of electricity and gas wholesale prices as well as the nuclear fuel tax in Germany levied from 2011 onwards. The new levy was a major reason why RWE shares clearly lagged behind the European utility sector index, the Dow Jones STOXX Utilities (–5%). After the government's plans in early June to introduce a nuclear fuel tax became known, the sector index and the RWE share started to move in opposite directions. In the nearly seven months remaining in the year, the Dow Jones STOXX Utilities recorded a gain of 7%, while our common shares recorded a drop of 14%.

Total return of RWE shares and important indices up to the end of 2010 % p.a.	1 year	5 years	10 years
RWE common share	–22.5	0.4	4.5
RWE preferred share	–18.3	3.1	8.1
DAX 30	16.1	5.0	0.7
Dow Jones EURO STOXX 50	–2.8	–1.9	–2.7
Dow Jones STOXX 50	3.1	–1.9	–2.8
Dow Jones STOXX 600	11.6	0.5	–0.1
Dow Jones STOXX Utilities	–4.5	2.0	4.0
REXP[1]	4.0	4.3	5.1

1 Index for the performance of government securities on the German bond market.

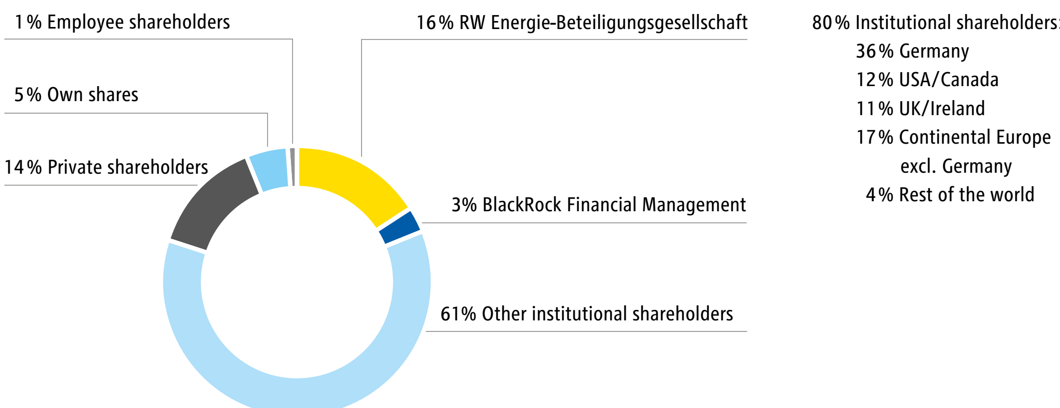
RWE shares better than DAX in long-term comparison. Despite their weak performance in 2010, RWE shares delivered a robust long-term return. Those who paid €10,000 to buy common shares in our company ten years ago and reinvested their dividends saw their investments rise to €15,538 by 31 December 2010. A cash investment in our preferred shares over the same period would have increased the value of the depositary account to €21,861. This corresponds to an annual average return of 4.5% and 8.1%, respectively. RWE shares are therefore among Germany's most successful stocks in the last decade, a period which was overshadowed by two stock market crises. By comparison, the DAX rose by an average of just 0.7% per year during the same period. This would have increased an initial investment of €10,000 to €10,747.

€3.50 dividend per share proposed for 2010. The Supervisory and Executive Boards of RWE AG will propose a dividend of €3.50 per share for fiscal 2010 to the Annual General Meeting on 20 April 2011. Relative to recurrent net income, this results in a payout ratio of 50%. Based on the year-end closing share prices of our common and preferred shares, the dividend yields stood at 7.0% and 7.3%, respectively. This gives us a leading position in the DAX.

RWE share indicators[1]		2010	2009	2008	2007	2006
Earnings per share	€	6.20	6.70	4.75	4.74	6.84
Recurrent net income per share	€	7.03	6.63	6.25	5.29	4.38
Cash flows from operating activities per share	€	10.31	9.94	16.44	10.82	12.06
Dividend per share	€	3.50[2]	3.50	4.50	3.15	3.50
Dividend payment	€ million	1,867[2]	1,867	2,401	1,689	1,968
Payout ratio[3]	%	50	53	71	57	80
Dividend yield on common shares[4]	%	7.0	5.2	7.1	3.3	4.2
Dividend yield on preferred shares[4]	%	7.3	5.6	8.4	3.8	4.9
Common share price						
End of year	€	49.89	67.96	63.70	96.00	83.50
High	€	68.96	68.58	100.64	97.90	89.85
Low	€	47.96	46.52	52.53	74.72	61.56
Preferred share price						
End of year	€	47.99	62.29	53.61	83.07	72.00
High	€	62.52	62.65	84.39	86.00	73.91
Low	€	44.51	41.75	37.46	66.33	54.18
Number of shares outstanding (average)	thousands	533,559	533,132	538,364	562,373	562,374
Market capitalisation at the end of the year	€ billion	28.0	38.0	35.4	53.5	46.5

1 Based on the annual average number of shares outstanding.
2 Dividend proposal for RWE AG's 2010 fiscal year, subject to the approval of the 20 April 2011 Annual General Meeting.
3 The payout ratio is obtained by dividing the corresponding dividend payment in millions of euros by recurrent net income in millions of euros.
4 The dividend yield is obtained by dividing the corresponding dividend per share by the corresponding year-end quotation.

Shareholder structure of RWE AG[1]



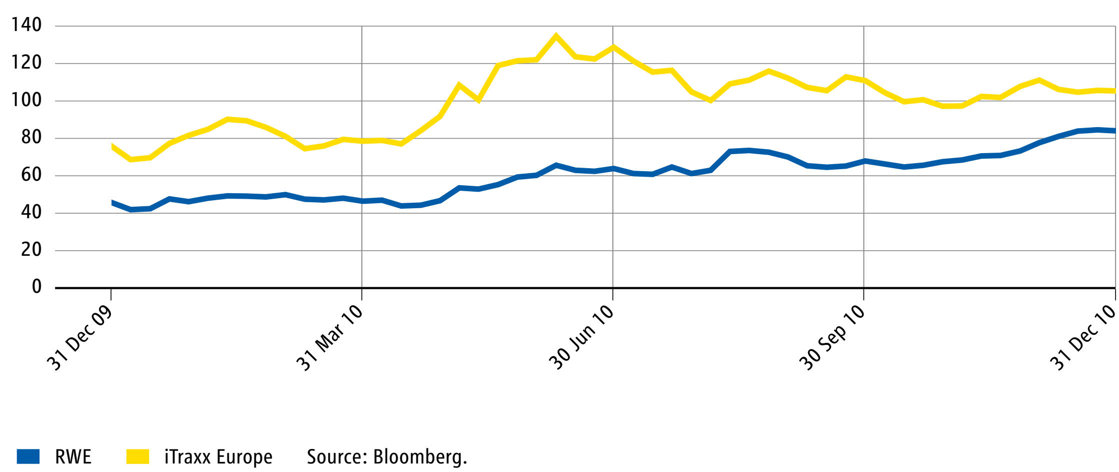
1 Percentages reflect shares in the subscribed capital.
Sources: Notifications of shareholdings in accordance with the German Securities Trading Act (WpHG) and shareholder identification, as of the end of 2010.

Wide international shareholder base. At the end of 2010, 80 % of RWE's 562.4 million shares were owned by institutional investors, while 15 % were held by private investors (including employee shareholders) and 5 % by RWE AG. There were thus no changes compared to the previous year. Institutional investors in Germany hold 36 % of the capital stock (end of 2009: 36 %), with those in North America, the United Kingdom and Ireland accounting for a combined 23 % (29 %) and those in Continental Europe, excluding Germany, owning 17 % (13 %). RW Energie-Beteiligungsgesellschaft, in which primarily municipal shares are pooled, is our single largest shareholder, holding 16 %. US-based asset management company BlackRock Financial Management accounts for about 3 %, which is the largest RWE position outside Germany. Some 1 % of the shares are under RWE employee ownership. In the year under review, 26,279 staff members, or 59 % of those entitled to subscribe, participated in our employee share scheme, subscribing a total of 558,000 shares. By offering this programme, we enable our personnel at German sites to buy RWE shares at favourable conditions. We spent €5.8 million on this in 2010. The free float of RWE common shares considered by Deutsche Börse in terms of index weighting was 80 % at the end of the year.

Ticker symbols	Common shares	Preferred shares
Reuters	RWEG.DE (Xetra)	RWEGpr.DE (Xetra)
	RWEG.F (Frankfurt)	RWEGpr.F (Frankfurt)
Bloomberg	RWE GY (Xetra)	RWE3 GY (Xetra)
	RWE GR (Frankfurt)	RWE3 GR (Frankfurt)
German Securities Identification Number	703 712	703 714
ISIN	DE0007037129	DE0007037145
USA CUSIP No. (ADR)	74975E303	–

RWE is traded on stock markets in Germany and the USA. In Germany, RWE shares are traded on the Frankfurt am Main and Düsseldorf Stock Exchanges as well as via the electronic platform Xetra. They can also be obtained over the counter in Berlin, Bremen, Hamburg, Hanover, Munich and Stuttgart. Outside Germany, RWE stock is traded over the counter in the United States via American Depositary Receipts (ADRs), and not our shares directly, in what is known as a Level 1 ADR Programme. ADRs are share certificates issued by US depositary banks, representing a certain number of a foreign company's deposited shares. Until the end of 2010, our shares were also listed on the SIX Swiss Exchange in Zurich. We decided to delist them, due to very low turnover.

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



Source: Bloomberg.

RWE maintains good creditworthiness on the capital market. The corporate bond market was marked by mutually opposing trends in 2010. On the one hand, interbank interest rates in the Eurozone were unusually low. On the other hand, the Greek crisis forced bond issuers to pay higher risk premiums on these rates. Hedging credit risk via credit default swaps (CDSs) also became more expensive. The iTraxx Europe index, which is made up of the CDS prices of 125 major European companies, advanced from 75 basis points to more than 130 basis points in the first half of the year, before coming back down somewhat. It was marginally above the 100-point mark at the end of the year. Five-year CDSs for RWE rose from 45 to over 80 basis points over the course of the year. However, they remained low compared to those of other industrial enterprises, proof of RWE's good creditworthiness.

1.0 REVIEW OF OPERATIONS

WHAT YOU CAN MEASURE OUR SUCCESS BY.

EBITDA

✓	**Forecast for 2010:**	Increase of 5% to 10%
	2010 actual:	Increase of 12% to €10.3 billion
	Forecast for 2011:	Decrease of about 15%

OPERATING RESULT

✓	**Forecast for 2010:**	Increase of about 5%
	2010 actual:	Increase of 8% to €7.7 billion
	Forecast for 2011:	Decrease of about 20%

RECURRENT NET INCOME

✓	**Forecast for 2010:**	Increase of about 5%
	2010 actual:	Increase of 6% to €3.8 billion
	Forecast for 2011:	Decrease of about 30%

DIVIDEND

✓	**Forecast for 2010:**	Payout ratio of 50% to 60% of recurrent net income
	2010 actual:	Payout ratio of 50% (proposed dividend: €3.50 per share)
	Forecast for 2011:	Payout ratio of 50% to 60% of recurrent net income

EFFICIENCY ENHANCEMENT

✓	**Forecast for 2010:**	€700 million compared to 2006
	2010 actual:	€700 million compared to 2006
	Forecast for 2011:	€900 million compared to 2006

1.1 STRATEGY AND STRUCTURE

RWE ranks among Europe's five leading electricity and gas companies. We want to strengthen this position. However, the market environment is likely to remain difficult. Competition is becoming fiercer, and the demands placed by customers on our service levels and product offerings are rising. Furthermore, regulatory intervention is changing established business models. At the same time, we are witnessing low prices on the electricity and gas wholesale markets. We are tackling these challenges by developing innovative products and services and continuing to invest in environmentally friendly energy supplies for the future.

Major challenges for power utilities. Energy supply requires a long-term business model. Investments in power plants, networks as well as oil and gas production are usually planned for decades in advance – not just for years. Therefore, our strategy builds on fundamental trends. However, Europe's energy markets are undergoing change, which requires utilities to adapt their business models. This change is characterised by:

- the European Union's ambitious goals to reduce greenhouse gas emissions, which cause CO_2-intensive generation technologies to be increasingly replaced by methods that are more gentle on the climate;
- a persistently substantial need for investment in energy infrastructure, especially to convert the generation portfolio to accommodate more renewables and the ensuing need to modernise and expand network infrastructure;
- the increasing need for flexible power plant deployment, triggered by the expansion of renewable generation and its strongly fluctuating electricity feed-ins;
- the convergence of regional markets resulting from increasing international trading and the expansion of cross-border transmission capacity;
- the mounting political influence exerted on the supply structure and price formation on energy markets and the general public's ever more frequent resistance to infrastructure projects such as the construction of power plants, networks and CO_2 storage facilities; and
- unexpected structural rifts in the markets, e.g. the decoupling witnessed since 2009 of wholesale gas prices from those established in oil-indexed gas purchasing agreements.

Covering all stages of the value chain creates stability. This challenging environment provides new opportunities for powerful and broadly positioned market players. We recognised the aforementioned challenges early on. The cornerstone of our current and future success is our strong, integrated business model, which adds substantial value. We cover all of the major stages of the energy value chain. In the field of electricity, we are not simply a generator, but a trader, network operator and sales company as well. We are also active at all value-creation stages in the gas sector, from the well to the end customer. Thanks to this structure, we can flexibly offset market fluctuations in individual areas.

Climate protection is the centrepiece of our strategy. We can only be successful in the long run if we manage to provide affordable, safe and environmentally friendly energy. Lowering carbon dioxide emissions is among our prime strategic targets. It provides the direction for the modernisation and expansion of our generation portfolio. Furthermore, by spending heavily on networks and pipelines, we are making a contribution to ensuring the reliable supply of electricity and gas. Another pillar of our strategy is the expansion of our gas and oil production. In addition, we want to give our activities a stronger regional diversification. The following guidelines will determine our action in the next few years:

- **Improving our CO_2 emissions balance:** Our current new-build power plant programme, which is in the last third of its implementation phase, will make a substantial contribution to reducing our carbon footprint. However, this will not be the end of the transformation of our power plant portfolio. In the long run, we are considering supplementing our generation base with additional state-of-the-art combined-cycle gas turbine power stations, as their ability to rapidly vary their load factor ideally complements renewable energy. The decision to extend the lifetimes of German nuclear power plants helps us cut down on CO_2. Our medium-term reduction target orientates itself towards the average carbon emissions per megawatt hour (MWh) of generated electricity. Our goal is to use physical and financial measures to lower our CO_2 intensity to the average level of the competition in our markets no later than 2020. Our assumption is that the customary emission factor in these markets will be roughly 0.45 metric tons of CO_2 per MWh in 2020. By comparison, RWE emitted 0.73 metric tons per MWh in the financial year that just ended (2009: 0.80 metric tons per MWh).

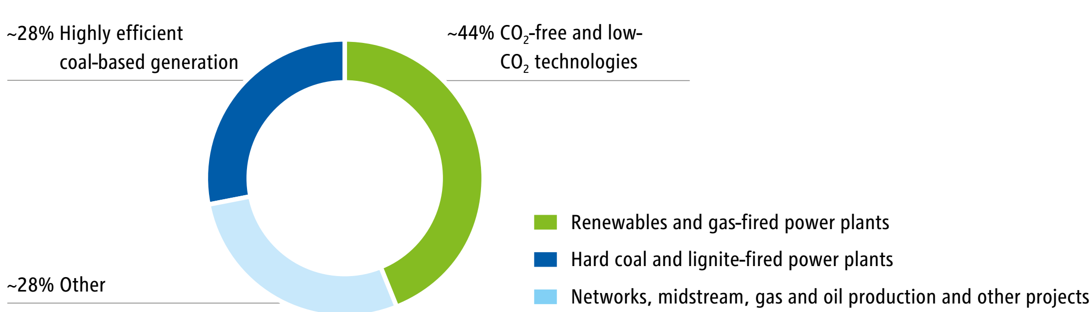
- **Value-added growth by expanding our renewable energy business:** RWE Innogy wants to enlarge its renewable electricity generation base substantially. The aim is to have 4.5 gigawatts (GW) under construction or in operation by 2014. Due to reductions in capital expenditure and project delays, we will not be able to achieve this goal as early as 2012, which was our original plan. The majority of the funds are earmarked for onshore and offshore wind projects. We are also investing in the production of electricity and heat from biomass and are investigating the construction of new hydroelectric power plants. In addition, we are active in the field of solar thermal power, albeit only on a small scale.

- **Strengthening of our upstream position:** We want our annual gas and oil production to reach about 70 million barrels of oil equivalent by 2016. As a result, we would produce more than twice as much gas and oil as in the financial year just ended. We had originally sought to achieve this target as early as 2015, but we are not progressing as quickly as anticipated at the outset, mainly due to reductions in capital expenditure and delays in approval procedures.

- **Stronger international diversification:** In view of mounting location-related risks, it is becoming increasingly important to give our company a large regional footprint. Over two thirds of our growth investments are already being made abroad. In 2010, the share of the operating result achieved by our activities outside Germany amounted to about a quarter. We aim to increase it significantly over the medium term.

From strategy to implementation: the largest investment programme in RWE's history. A main building block of our strategy is capital expenditure on power plants and networks. In the financial year that just ended, we commissioned two state-of-the-art gas-fired power stations, an 876 MW facility in Lingen (Germany) and a 1,650 MW plant at Staythorpe (UK). By the middle of 2014, we want to have commissioned about 12 GW in new capacity, with more than half of this being based on CO_2-free and low-CO_2 technologies. We largely finance our capital expenditure with the earnings of our generation and network activities. However, from 2011 onwards, we expect to experience substantial earnings shortfalls due to the introduction of the nuclear fuel tax in Germany. Persistently low prices of electricity and gas on the wholesale markets will also curtail our earnings. This forces us to cut spending. We originally envisaged investing a total of €28 billion in property, plant and equipment from 2010 to 2013. Now we plan to achieve a target of about €25 billion for that period, which equates to approximately €18 billion from 2011 to 2013. Nevertheless, our capital expenditure programme is still by far the biggest in RWE's history.

Some €12 billion of the €18 billion in capital expenditure on property, plant and equipment between 2011 and 2013 is earmarked for growth and replacement investments, of which:



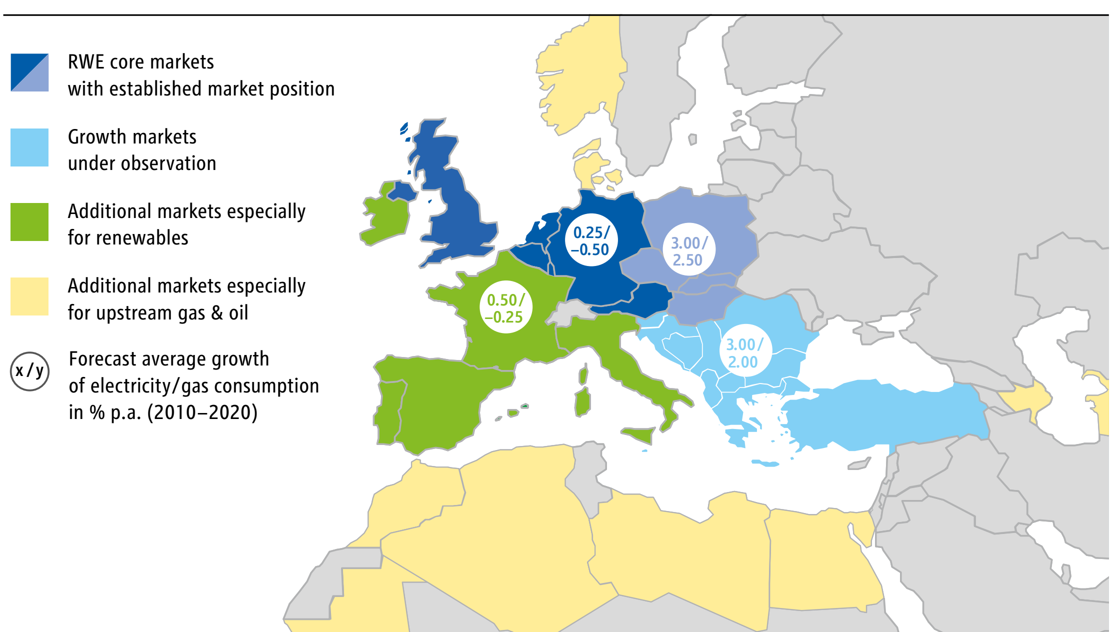
In addition to power plants and networks, our investment activity also centres on the expansion of our gas and oil production. More than €3 billion has been set aside for this for the period from 2011 to 2013. Our investment in the gas business is also earmarked for the construction of new storage and transmission pipelines. One example of this is the Nabucco pipeline, which will give European customers access to new gas sources in the Caspian region and the Middle East via a new route. We are also on course for expansion in activities relating to the transport of liquefied natural gas (LNG).

Above and beyond this, energy efficiency is becoming more important for us. Thanks to the innovative products and services of RWE Effizienz GmbH for households, corporate customers and municipal facilities, we are setting standards in this field.

Organic growth takes centre stage for us. However, this does not mean that we rule out minor acquisitions which complement our portfolio. We believe that Central Eastern and South Eastern Europe, including Turkey, provide particular opportunities.

We measure all investment projects by whether they help us achieve the aforementioned goals. The key financial yardstick is the internal rate of return (IRR), which must at least match the cost of capital, plus a return premium. The latter reflects the risk profile of the division and country in question. We increased this premium significantly in 2010. As a result, some projects no longer achieve the required return and will therefore be discontinued. Besides saving funds, this frees up room for more attractive projects.

Europe remains our market. The regional focus of our activities is and will remain Europe. Among our core markets are Germany, the United Kingdom, the Benelux countries as well as Central Eastern and South Eastern Europe. These markets are relatively stable, despite the heightened political risks. In particular, the Central Eastern European countries and Turkey distinguish themselves through good growth prospects. Due to the need of these countries to bridge the gap to the rest of Europe, their energy consumption will rise more than the European average. At the same time, there will be a substantial need for investment due to the outdated energy infrastructure. The markets of North Western Europe continue to be attractive for us, although they still harbour weak growth potential in terms of electricity and gas consumption. Energy utilities can set themselves apart in these markets by offering intelligent solutions for increased climate protection and energy efficiency as well as through tailor-made products and services. We intend to establish the prerequisites for this on the strength of our record investment programme, thus further improving our market share in the face of increasingly fierce competition.



As illustrated by the chart on page 55, our activities go beyond our core regions, particularly in our upstream business. We produce gas and oil not only in Europe, but also in North Africa. In addition, we launched an upstream project in the Caspian region and are looking into projects in other areas around the world. We have also widened our regional focus in the expansion of renewable energy. In this respect, our growth strategy includes countries such as France, Spain and Italy. It is natural for certain activities to take place outside our core markets, for instance climate protection measures within the scope of the Kyoto Clean Development Mechanism and Joint Implementation schemes. The same applies to our LNG business. In addition, energy trading is becoming increasingly global. This is a growing field of activity for us in Asia and North America.

In our core markets, we command a leading position in terms of sales volume with at least one of our main products, namely electricity and gas. This is also what we strive for when entering new markets.

Market positions of the RWE Group in terms of sales	**Electricity**	**Gas**
Germany	No. 1	No. 3
United Kingdom	No. 4	No. 4
Netherlands	No. 2	No. 1
Central Eastern and South Eastern Europe	No. 2 in Hungary No. 3 in Slovakia Presence in the Czech Republic No. 6 in Poland Presence in Turkey	Leading position in Hungary No. 2 in Slovakia No. 1 in the Czech Republic – –
Total Europe	**No. 3**	**No. 6**

Efficient structure and business management. Our organisation is the platform with which we achieve our goals, so it must adapt itself to new market conditions and strategic guidelines. We constantly work on making our Group's structure more efficient. We also set the stage in some important respects in 2010. For example, we pooled the German sales and distribution network businesses in the new RWE Deutschland AG (formerly RWE Rheinland Westfalen Netz AG). Our activities in Central Eastern Europe and Turkey were also reorganised. Our operations in that region now report to the newly established RWE East, s.r.o., headquartered in Prague (Czech Republic). The aforementioned reorganisation measures entered into force on 1 January 2011. More detailed information can be found on page 69 of this report.

Value-oriented growth: our internal control instrument. RWE's central control instrument is value added. This is how we embed our goal of adding value over the long term in the Group's and the divisions' management processes. Value added is the return on capital employed, minus the cost of capital. In addition to other individually agreed targets, this added value is also the yardstick for the performance-linked compensation of our executives and salaried staff. Details on RWE's value management are described on pages 90 et seq. and 231 et seq.

1.2 ECONOMIC ENVIRONMENT

The business cycle picked up again following 2009, the year of the crisis. Germany's economy expanded by 3.6%, posting especially strong growth. Signs of recovery can also be seen on the energy markets. During periods of the year, electricity and gas consumption displayed more dynamic development than predicted. Energy fuels such as oil and hard coal became much more expensive. Conversely, wholesale electricity prices have so far failed to reflect this upturn.

World economy gets back on track for growth. Based on data currently available and in-house estimates, last year's global economic output was 4% higher than in 2009. The upswing was led by the emerging economies of China and India, with both countries posting growth of approximately 10%. In contrast, the gain recorded by the Eurozone was relatively modest at 1.7%. In this region, the revitalisation came primarily from exports, whereas the financial crisis faced by some member states and declining investments in construction slowed growth. Driven by industrial production, capacity utilisation has also risen. However, it still remains much lower than before the recession.

In Germany, 2010 real gross domestic product (GDP) was an estimated 3.6% up year on year. Our main market is thus among the most dynamic economies in the Eurozone. The basis for this was exports, traditionally the engine of Germany's economy, which nearly matched the pre-crisis level. A contribution to growth was also made by expenditure on equipment and consumer spending.

Growth rates experienced in the Netherlands and Belgium were much lower. According to our estimates, they amounted to 1.7% and 2%, respectively. Again, exports were instrumental in achieving the upturn.

In contrast, the UK economy is much more dependent on domestic consumption, which is significantly affected by developments on the real-estate market. The UK property market experienced a crisis in 2008 and 2009, which considerably eroded the assets of many households. In the interim, property prices have recovered. This and higher discretionary income were the determinants of a significant revitalisation in consumer spending, which was still on the decline in 2009. GDP rose by an estimated 1.4% in 2010.

In our Central Eastern European markets, Slovakia and Poland posted the strongest growth, each expanding by 3.7%. Slovakia, which joined the European Monetary Union in 2009, benefited from the euro's intermittent weakness and the ensuing drop in export prices. Poland is one of the EU countries that were least affected by the recession. Thanks to robust domestic demand, the country's GDP even advanced in 2009, the year of the crisis. In 2010, the Czech Republic posted 2.3% growth. In Hungary, measures taken to consolidate the state finances slowed economic activity. This is one of the reasons GDP was only up an estimated 1.1%.

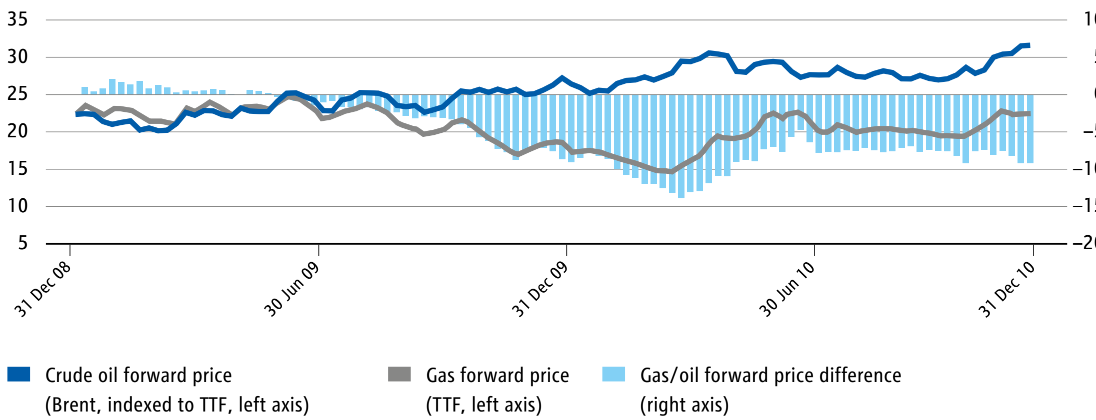
Low temperature, low wind levels. Whereas the economic trend is primarily reflected in demand for energy among industrial enterprises, residential energy consumption is significantly influenced by weather conditions. In our European core markets, 2010 temperatures were much lower than a year earlier. In Germany, they hit their lowest level since 1996. The month of December was exceptionally cold. Besides energy usage, electricity supply is also subject to weather-related influences, especially with respect to wind turbines and solar panels. In Germany, the United Kingdom and the Netherlands, wind levels were the weakest since 2003. Consequently, use of wind power capacity was low. In Spain, however, wind levels were higher than the long-term average.

Cold weather and strong industrial activity stimulate energy consumption. The economic recovery and cold weather revitalised demand for energy in our core markets. Electricity usage increased significantly in some cases, but was unable to reach the level witnessed before the recession. In Germany, based on available data, nearly 4% more electricity was used than in 2009. Production growth in energy-intensive industries played a major part in this. Demand for electricity is also likely to have risen in the Netherlands, if only to a marginal extent. Based on current information, the United Kingdom recorded a gain of 1.7%. The growth rates we estimated for our Central Eastern European markets are relatively high. Slovakia leads the way with 5%, followed by the Czech Republic and Poland, each with 4%, and Hungary with 2.7%. Developments in gas consumption were even more dynamic. Gas usage probably increased by 5% in Germany, 7% in the Czech Republic, 8% in Hungary, and 9% in the United Kingdom. According to initial estimates, the Netherlands recorded 15% growth.

Price recovery on crude oil markets. Despite the improved macroeconomic prospects, prices on fuel markets are still far below the level just before the financial and economic crises. However, they have recovered somewhat compared to 2009. This holds true especially for crude oil quotations. A barrel of Brent crude traded at an average of US$79, which was much more expensive than the previous year (US$62). Asia's fast-growing economies made a substantial contribution to this due to their strong demand. The price trend also reflected the general expectation of a cyclically-induced rise in crude oil consumption.

End-customer gas prices down year on year. As a large share 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, short-term trades of freely available quantities also increasingly 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 of these contracts have been revised. Certain contingents are no longer indexed to oil and are instead priced on the basis of wholesale spot prices. This was one of the reasons why prices for gas imports to Germany declined slightly, despite higher oil quotations.

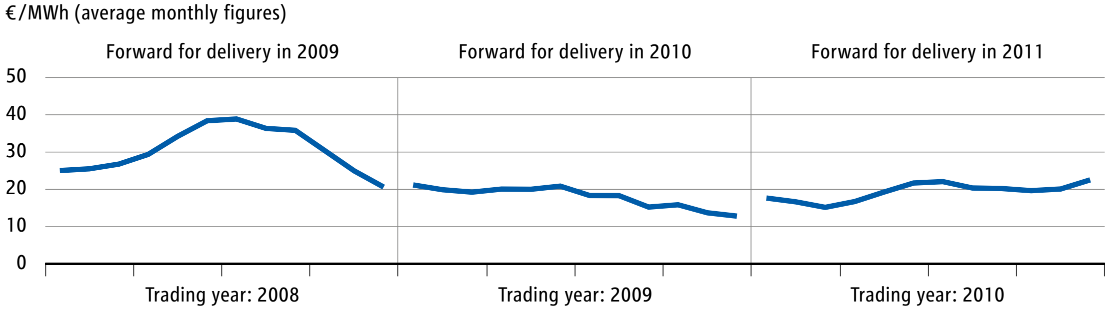
Crude oil (Brent) and gas (TTF wholesale market) forward prices for 2011
€/MWh (average weekly figures)



Source: RWE Supply & Trading.

Prices also fell in the German end-customer business, by 9% for households and by 7% for industrial enterprises. Gas also became much cheaper outside Germany. In the Czech Republic, the aforementioned customer groups paid 5% and 4% less, respectively. The drops amounted to 7% and 4% in the United Kingdom and 9% and 6% in the Netherlands. Hungary witnessed opposite developments. Gas bills for households in that country were marginally higher, and those for industrial operations were up as much as 20%. The situation in gas forward trading was as follows: supply contracts for the coming calendar year (2011 forward) were settled for an average of €19 per MWh on the TTF wholesale market. This is €1 more than what had to be paid for the 2010 forward in 2009.

One-year forward prices on the TTF gas wholesale market
€/MWh (average monthly figures)

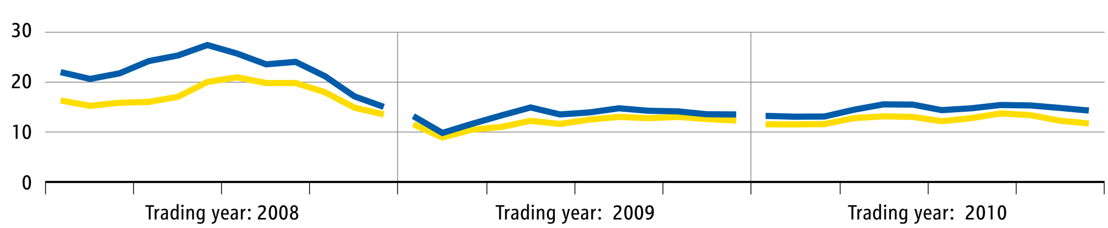


Source: RWE Supply & Trading.

Hard coal prices markedly higher than in 2009. In 2010, prices of thermal coal on international markets returned to levels far above those witnessed during the recession. Similar to crude oil, stimulus was particularly provided by Asia's high demand. A metric ton cost an average of US$93 (including freight and insurance) in Rotterdam spot trading, 31% up on 2009 and as much as 38% up in euro terms. Sea freight rates are a major component of hard coal quotations. The standard route from South Africa to Rotterdam cost an average of US$12.50 per metric ton, which was slightly less than the year-earlier level (US$13.50). Demand for sea cargo has increased considerably as of late, but shipping capacity has also risen. The price of hard coal produced in Germany is determined by the German Federal Office of Economics and Export Control (BAFA). The Office orientates itself towards quotations for imported hard coal. Therefore, the BAFA price follows developments on international markets, albeit with a certain time lag. No average figure was available for 2010 when this report went to print, but experts estimate it to be €85 per metric ton of hard coal unit. This would be €6 more than in the preceding year.

Price stability in CO_2 emissions trading. The reinvigorated industrial business cycle only made a small impression on European trading of CO_2 emission allowances (referred to as EU Allowances – EUAs). EUAs for 2010 were quoted at an average of €14.50 per metric ton of CO_2 in the year under review, which was slightly more than the price paid for 2009 certificates a year earlier (€13.40). European companies may 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. CERs have been quoted at €1 to €3 below the price of EUAs for quite some time. Last year, certificates for 2010 traded at an average of €12.40. The comparable figure for 2009 was €11.80.

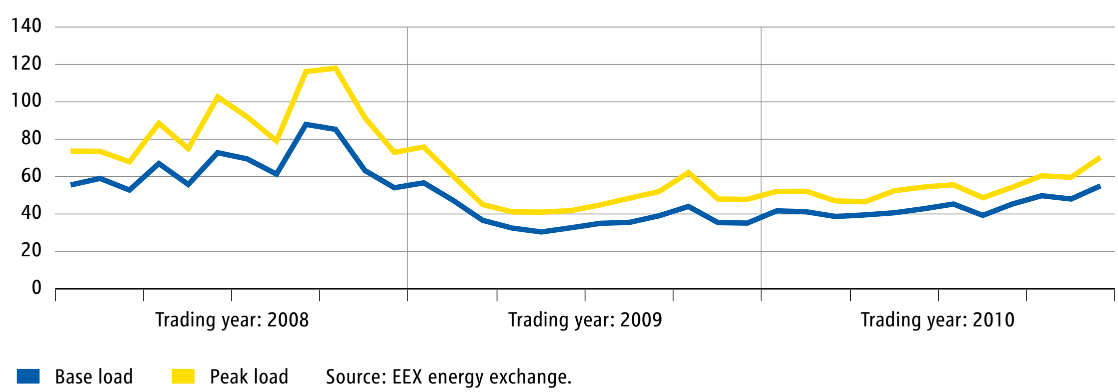
CO_2 certificate prices in the European emissions trading system
€/metric ton of CO_2 (average monthly figures)



EU Allowance (EUA) for the corresponding trading year
Certified Emission Reduction (CER) for the corresponding trading year
Source: RWE Supply & Trading.

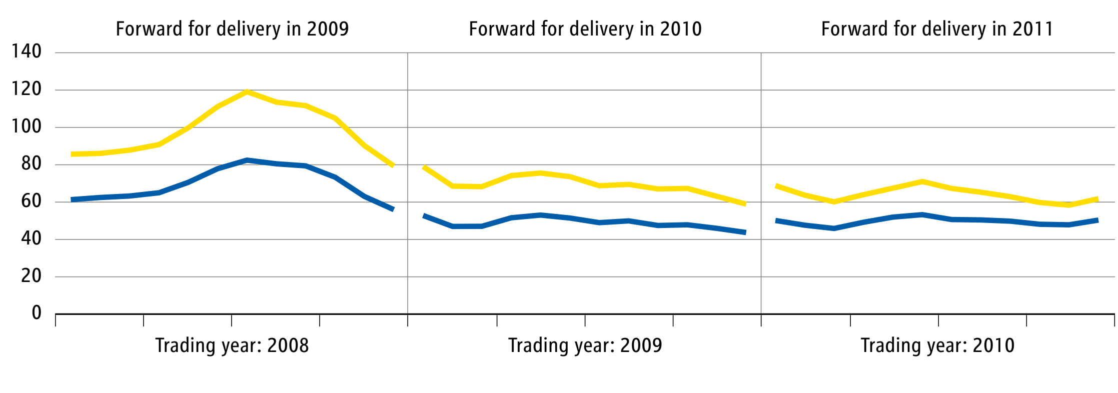
Still no upturn in electricity prices. The rise in fuel prices was barely reflected in the price of electricity. Only at the end of 2010 did quotations pick up slightly. In German spot trading on the European Energy Exchange (EEX), base-load power sold for an average of €44 per MWh, while peak-load electricity was settled for €55 per MWh. In 2009, these figures amounted to €39 per MWh and €51 per MWh, respectively. In German forward trading, contracts for the following calendar year (2011 forward) averaged €50 for base-load power, which was slightly more expensive than the 2010 forward a year earlier (€49). Peak-load power actually became cheaper, dropping in price from €70 per MWh to €65 per MWh. The fact that electricity forward prices are persistently low despite higher fuel costs is partly due to the unexpected significant expansion of renewables with photovoltaics leading the way. Based on information from the German environment ministry, total installed solar capacity rose by over 7 GW to approximately 17 GW. Solar panels largely feed electricity into the system during peak periods. This decreased the deployment potential primarily of hard coal and gas-fired power stations. Moreover, the rise in solar power feed-ins contributed to reducing the gap between peak-load and base-load quotations.

Wholesale electricity spot prices in Germany
€/MWh (average monthly figures)



Source: EEX energy exchange.

One-year forward wholesale electricity prices in Germany
€/MWh (average monthly figures)



Source: RWE Supply & Trading.

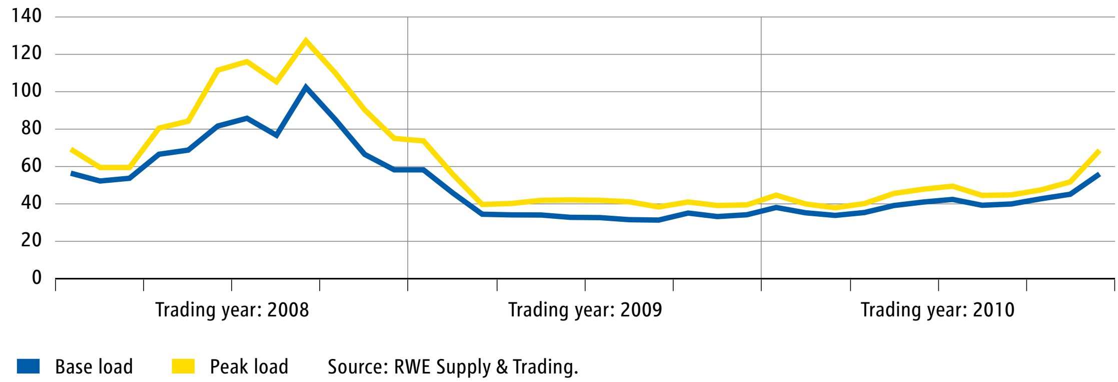
We sell forward nearly all of the output of our power plants in order to reduce volume and price risks. Therefore, current electricity prices only had a minor impact on our income in the period under review. What is much more decisive is the price at which we concluded contracts for delivery in 2010 in preceding years. Since some of the sales were concluded during the energy market boom, the prices fetched were far above present levels. Our 2010 German generation sold for an average of €67 per MWh. The corresponding figure for our 2009 production was €70 per MWh.

When concluding electricity forward sales, we usually procure fuel or secure the price of fuel and CO_2 emission allowances required for the generation at the same time as signing the supply agreement. First and foremost, this applies to our hard coal and gas-fired power plants. The earnings of these power stations are predominantly influenced by so-called 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. Since we purchased hard coal and CO_2 certificates on the forward market for 2010 at prices that were lower than for 2009, the spreads we realised actually improved somewhat. Conversely, the cost of fuel used by our lignite-fired and nuclear power plants is much more stable. Therefore, spreads usually trend in the same direction as electricity prices.

Changes in wholesale power prices generally affect the German end-customer business with a time lag, because sales companies buy electricity mostly in advance. Their procurement costs for 2010 were therefore still influenced by wholesale prices in preceding years. Levies included in power bills in accordance with the German Renewable Energy Act (REA) rose significantly, as increasing amounts of electricity are being fed into the grid due to the progressive expansion of wind, biomass and — above all — solar generation capacity. Electricity tariffs charged to households and small commercial enterprises were an average of about 3 % higher than in 2009. Prices paid by industrial companies were up about 1 %. The marked rise in REA levies will make electricity more expensive in 2011 as well. For example, RWE Vertrieb, our largest German sales company, raised its basic tariff by 3.6 % as of 1 January 2011, meaning it is passing through only part of the additional burden from the REA.

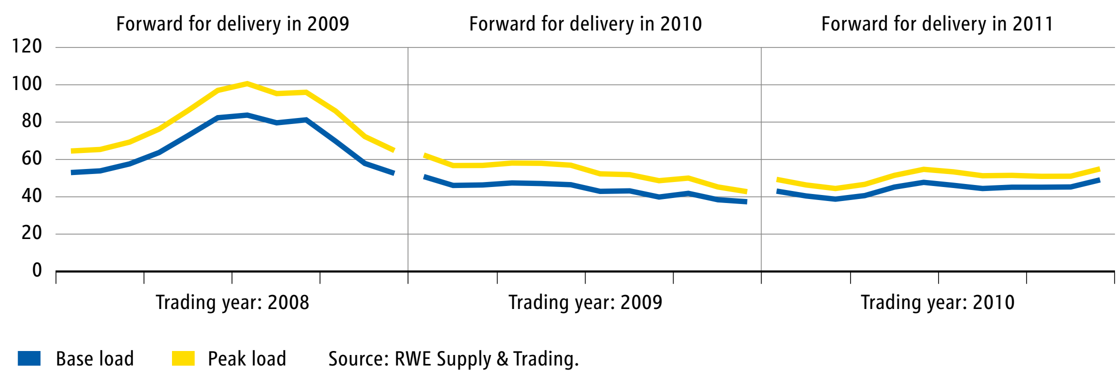
In the UK, our second-largest electricity market, developments were as follows: contracts in spot trading cost an average of £41 per MWh (€48) for base-load power, £4 above the level in 2009. They increased in price from £45 per MWh to £47 per MWh (€55) for peak-load electricity. The 2011 forward was settled for £45 per MWh (€52) of base-load power, which was marginally more than was paid for the 2010 forward in the year-earlier period. In contrast, drawing the same comparison, peak-load power dropped in price from £53 per MWh to £51 per MWh (€59).

Wholesale electricity spot prices in the United Kingdom
£/MWh (average monthly figures)



Source: RWE Supply & Trading.

One-year forward wholesale electricity prices in the United Kingdom
£/MWh (average monthly figures)



Source: RWE Supply & Trading.

RWE sells forward most of its UK electricity production, similar to the policy it pursues in Germany. As our UK generation portfolio largely consists of hard coal and gas-fired power plants, the earnings trend was significantly influenced by realised clean dark spreads and clean spark spreads. The former were much smaller, and the latter slightly bigger than in 2009. The spreads on short-term spot market transactions achievable by operators of hard coal and gas-fired power plants remain small. These power plants, which are largely mid-merit and peak-load facilities, are especially hard hit by the fact that demand for electricity remains low due to the economic situation.

All major UK energy suppliers lowered their electricity tariffs for customers in the last two years, some of them repeatedly. Prices were on average 3 % lower year on year for households and small commercial enterprises and down more than 12 % for industrial and corporate customers. However, electricity became more expensive at the end of 2010. Slightly higher quotations on the wholesale market caused several major utilities to raise their tariffs in the fourth quarter. As of 4 January 2011, RWE npower increased prices for residential customers by 5.1%.

Wholesale electricity prices in the Netherlands displayed a development similar to that in Germany. End-customer electricity bills shrank by 7% for households and nearly 5% for industrial enterprises.

Price adjustments in our Central Eastern European end-customer markets varied greatly. Residential electricity bills were 4% and 2% up in Poland and Hungary, whereas they were marginally down in Slovakia. On average, industrial customers had to pay less than in 2009: 5% in Poland, 9% in Slovakia, and 20% in Hungary.

1.3 POLITICAL ENVIRONMENT

The year under review was marked by decisions made in the field of energy policy, which will have major ramifications. In the autumn, the German government established the cornerstones of the country's energy policy through to 2050. Top priority has been given to the expansion of renewables. The autumn also saw the extension of nuclear power plant lifetimes. However, there is a substantial trade-off for utilities, in particular due to the introduction of a nuclear fuel tax. The framework of energy policy in the United Kingdom is also undergoing change. The UK government plans to take measures designed to accelerate the expansion of nuclear and renewable generation capacity.

Government adopts energy concept for Germany. At the end of September, the German government adopted a comprehensive energy concept in which it established the guidelines for an overall strategy for an environmentally friendly, reliable and affordable supply of energy through to 2050. The government's aim is to have the future energy mix largely consist of renewables. In 2010, the share of gross electricity consumption accounted for by renewable energy was 17%. According to the concept, it should amount to 80% by 2050. The government believes the use of offshore wind turbines harbours substantial potential and wants to establish a €5 billion credit programme for the first ten offshore wind farms. Nuclear energy has been classified by the government as a bridge technology, so the concept envisages extending the lifetimes of German nuclear power plants, which has now been given a legal basis. Moreover, the government wants to pave the way for carbon capture and underground storage demonstration projects. Such projects lack a legal framework in Germany, because a corresponding EU directive is still to be translated into national law. The government attaches high priority to the expansion of electricity networks and the development of electricity storage technologies. The primary energy consumption of existing buildings is envisaged to be reduced by 80% by 2050 through refurbishment to maximise energy efficiency. To achieve this goal, the government will build on incentives provided by state subsidies. Road traffic is also being addressed by the energy concept. The aim is to have one million electric cars in Germany by 2020 and six million by 2030. The government expects that German greenhouse gas emissions can be lowered by between 80% and 95% by 2050 compared to 1990 levels as a result of these and further measures.

German Lower House decides to introduce nuclear fuel tax and extend nuclear power plant lifetimes. On 28 October 2010, the German Lower House passed the German Nuclear Fuel Tax Act, which envisages the introduction of a tax for nuclear power plant operators. The tax amounts to €145 per gram of fissionable material. It will be levied from 2011 through to 2016 and will be used to help restructure the state budget. The government expects €2.3 billion in annual revenues from this. The tax does not have a notable impact on the formation of prices on the wholesale market, and so cannot be passed through to electricity customers. It will probably curtail RWE's operating result by an average of €600 million to €700 million per annum. The Nuclear Fuel Tax Act entered into force with effect from 1 January 2011. We reserve the right to take legal action against the new tax, as we believe it is questionable in terms of constitutional and European law.

Also on 28 October 2010, the German Lower House passed the 11th amendment to the German Nuclear Energy Act, which envisages additional generation output for nuclear power plants, resulting in lifetime extensions. Facilities commissioned after 1980 can continue to operate for a maximum of 14 years longer than previously envisaged. RWE's Gundremmingen B/C and Emsland units fall into this category. The additional production volume for older plants, including our Biblis A/B units, corresponds to a lifetime extension of about eight years. On the same day, additional safety standards were established for nuclear power plants in the 12th amendment to the German Nuclear Energy Act. This will give rise to investments, the sum of which is still uncertain. Both amendments became effective in December. The government expects that the laws will not require Upper House approval. However, the opposition and certain German states are of a different opinion and have announced that they will file constitutional suits.

In light of the lifetime extensions, operators of nuclear power plants will make payments into a fund that is yet to be created. It will be used to promote measures taken to implement the government's energy concept. A corresponding agreement with the government was signed on 10 January 2011. It envisages that, from 2017 onwards, nuclear power plant operators pay a levy for all the electricity they generate during the lifetime extensions. It has been set at €9 per MWh, but is subject to adjustment in line with the development of consumer prices and wholesale electricity quotations. The levy will decline if the nuclear fuel tax is increased or its assessment period is extended beyond 2016. The same will apply if the allocated production volumes from the lifetime extensions are changed to the nuclear power plant operators' disadvantage, or if plant retrofits or safety features required by the government or agreed with the authorities result in expenses exceeding €500 million per unit. From 2011 to 2016, nuclear power plant operators will make lump-sum advance payments on the levy, totalling €1.4 billion for the period as a whole. The prepayments do not bear interest and will be offset against the levy for 2017 to 2022 in equal instalments.

Promotion of solar energy under scrutiny. The promotion of solar power has led to an unexpected acceleration of the construction of photovoltaic plants. Based on statements made by the German environment ministry, the installed capacity rose by more than 70% to some 17 GW in 2010. According to estimates by the German Energy and Water Association, solar panels account for more than half of the subsidies paid within the scope of the German Renewable Energy Act (REA) in 2011, although they only produce a fifth of the REA electricity. The substantial growth in installed capacity has led to an increase in the REA levy charged to electricity consumers via their power bills from 2.05 euro cents (2010) to 3.53 euro cents (2011) per kilowatt hour. This created huge controversy. The government cut the subsidy rates for solar power by roughly 13% as of 1 January 2011 and is preparing to implement another reduction with effect from 1 July 2011. Furthermore, it will amend the REA fundamentally as of 1 January 2012.

Special tax for energy companies in Hungary. In October 2010, the Hungarian parliament decided to introduce a special tax for companies in the energy, telecommunications and retail sectors, which will remain in effect until 2012. It is estimated to total €600 million per annum. The tax is intended to reduce the state deficit. The first payment was due in 2010, based on 2009 revenues. Power utilities have to pay 1.05 % of their net revenues. The law stipulates that the tax applies not just to external revenue, but also to all intragroup revenue. In the year under review, the negative impact on the earnings of our Hungarian subsidiaries totalled €25 million. The tax is legally debatable and is being reviewed by the EU Commission.

United Kingdom: government plans legislative package for increased climate protection. The UK's general elections in May 2010 resulted in a conservative/liberal democrat coalition. The two governing parties intend to launch a series of legislative initiatives designed to improve the regulatory framework conditions for climate-friendly electricity generation. The plan includes taxing fossil fuels depending on their carbon intensity. This would give the generation of electricity from gas, nuclear fuel and renewables another cost advantage over hard coal, going above and beyond emissions trading. In addition, a new tariff scheme for electricity from nuclear reactors and renewables is to provide greater planning certainty for investors. Two new models are being evaluated: a fixed surcharge on the wholesale price on the one hand and a guaranteed sales price on the other. Furthermore, new power stations would only be approved if their carbon emissions do not exceed a cap that is yet to be determined. The government wants to make the upper limit so low that only those power plants that can at least partially capture and store carbon dioxide emissions can be built. In addition, the government is weighing up the introduction of a capacity market. This would mean that power plant operators would be compensated for keeping flexible back-up capacity in reserve, even when it is not generating electricity. There is a mounting need for such back-up capacity, as the expansion of renewables is causing the amount of intermittent generation on the system to increase. In December 2010, the UK government published a position paper for reforming the electricity market. The general public, associations and companies have until March 2011 to comment on the reform proposals. On conclusion of the consultation, the government intends to prepare a bill. The reforms are to take effect no later than 2014.

1.4 MAJOR EVENTS

Fiscal 2010 was not only dominated by major political decisions. We also made significant progress in modernising our generation portfolio: over the course of the year, we commissioned two cutting-edge gas-fired power stations. We also passed some important milestones in the expansion of our renewable generation base. And, in the upstream business, we paved the way for the biggest investment in RWE Dea's history.

German Lower House decides to introduce nuclear fuel tax and extend nuclear power plant lifetimes. On 28 October 2010 the German Lower House passed the German Nuclear Fuel Tax Act. The Act envisages the introduction of a tax for nuclear power plant operators. Also on 28 October, the members of the Lower House passed the 11th amendment to the German Nuclear Energy Act. It enables the lifetimes of nuclear power stations to be prolonged by an average of twelve years. The acts entered into force on 1 January 2011 and 14 December 2010, respectively. In light of the lifetime extensions, operators of nuclear power plants will make payments into a newly created fund, which will be used to promote measures taken to implement the government's energy concept. The details have been set out in an agreement between the utilities and the Federal Republic of Germany, which was signed on 10 January 2011. We have reported on the subject in detail on pages 66 et seq.

RWE purchases electricity contingent from the Stade nuclear power plant. In the run-up to the 11th amendment to the Nuclear Energy Act, we had already established the possibility of slightly extending the operation of the Biblis A nuclear power station. In May, RWE Power acquired the generation allotment of the decommissioned Stade nuclear power plant from E.ON Kernkraft GmbH. The facility was online from 1972 to 2003. The transferred allotment of 4.8 billion kilowatt hours allows us to run the 1,167 megawatt Biblis A unit at full load for about six months longer.

Pooling of activities in Germany and Eastern Europe. We have progressed in creating a more efficient Group structure since 2007. In September, the Executive Board adopted a number of reorganisation measures, which took effect on 1 January 2011. The German sales and distribution network businesses were incorporated into RWE Rheinland Westfalen Netz AG. Operating under the new name RWE Deutschland AG since the beginning of 2011, this is the company to which RWE Vertrieb (including eprimo, RWE Energiedienstleistungen and RWE Aqua), the regional companies, RWE Effizienz, and the investments previously held by RWE Rheinland Westfalen Netz have been assigned. We also realigned our Eastern European activities. From now on local operations will be overseen by the new company RWE East, s.r.o., headquartered in Prague, Czech Republic. This does not apply to the Czech long-distance gas pipeline business, which is directly assigned to the area of responsibility of the President and CEO of RWE AG to comply with regulatory requirements.

Holding company Executive Board reduced to five mandates. Dr. Ulrich Jobs, the RWE AG Executive Board member who was in charge of the operational management of our international business, retired by mutual agreement with effect from 30 September 2010. This reduced the size of the holding company's Executive Board, which went hand in hand with a redefinition of the Board's areas of responsibility. Dr. Leonhard Birnbaum is now in charge of managing all of the Group's commodity positions as Chief Commercial Officer. As a result, RWE Supply & Trading has been assigned to him, along with the following internationally active companies: RWE Innogy, RWE Dea and RWE Technology. As Chief Operating Officer, Dr. Rolf Martin Schmitz now oversees the nationally orientated companies, i.e. RWE Deutschland and RWE Power, along with RWE's activities in the Netherlands and Belgium, the United Kingdom, and Central Eastern and South Eastern Europe.

RWE divests German long-distance gas network. In December, we signed an agreement to sell Thyssengas GmbH. The buyers of the company, in which our German gas network is subsumed, are infrastructure funds managed by Australian financial services provider Macquarie. In the meantime, all of the required approvals have been obtained. 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.

New gas-fired power plants commence production in Germany and the UK. We completed construction on the combined-cycle gas turbine (CCGT) power stations in Lingen and at Staythorpe in fiscal 2010. Both facilities are online. The dual-unit Lingen plant has an installed capacity of 876 MW and was commissioned on 14 April in the presence of Germany's current Federal President, Christian Wulff. We spent €0.5 billion in capital on the state-of-the-art power station, which has an efficiency of nearly 60 %. The four units at Staythorpe (Nottinghamshire) have an aggregate installed capacity of 1,650 MW and commenced production between August and November. They have an efficiency of 58 %, also ranking them at the highest level. The capex budget for this facility amounted to €0.8 billion.

RWE decides to build a gas-fired power plant in Turkey. In April 2010, we decided to invest in a combined-cycle gas turbine (CCGT) power plant in Denizli (west Turkey). Construction work began shortly afterwards. The power station will have an installed capacity of 775 MW and is scheduled to go online in 2013. It will be owned and operated by a joint venture between RWE (70 %) and the Turkish energy company Turcas (30 %). The investment budget is expected to total around €0.5 billion.

Expansion of the upstream position in Egypt. RWE Dea has paved the way for the single-largest investment in its history. In the next two decades, our upstream subsidiary will spend US$3.6 billion developing gas fields in Egypt's North Alexandria and West Mediterranean Deep Water concessions. In July, we signed the respective agreements with the Egyptian oil minister, the Egyptian state-owned company EGPC and BP. The contracts had been pre-approved by the Egyptian parliament. Production is scheduled to begin by the end of 2014. The field development budget totals about US$9 billion, of which roughly 40% is allocable to us and some 60% to our partner BP, who will assume the operating lead. The natural gas reserves from the concessions to which we will have access amount to more than 50 billion cubic metres. The North Alexandria and West Mediterranean Deep Water concessions are located in the western Nile delta, roughly 40 kilometres off the Egyptian coast. The water in the area in which field development is beginning is between 300 and 800 metres deep. Following a start-up phase, RWE Dea's share of annual production is envisaged to total over 3 billion cubic metres of gas. Against this backdrop, we are monitoring Egypt's current political situation very closely.

Major progress in the expansion of renewable generation capacity. RWE Innogy stayed on course for growth in the field of renewable energy in the year under review. By the end of the year, the company had a renewable generation portfolio of 2.3 gigawatts (GW), and the Group's total was 2.9 GW. Another 1.1 GW is under construction. In addition, we are developing projects with a combined installed capacity of 18.2 GW, with wind farms as the focal point. Furthermore, we are investing in electricity and heat generation from biomass and – on a smaller scale – in solar thermal power.

Above all, we passed significant milestones in the expansion of offshore wind power generation:

- Within the scope of a tender process, in January 2010, the UK government granted us permission to develop the Atlantic Array and Dogger Bank offshore wind projects. We will initially develop the Atlantic Array project alone, which will have up to 1.5 GW in generation capacity. For Dogger Bank, however, we placed the winning bid as part of a consortium called 'Forewind', in which RWE Innogy holds a 25% stake. Wind turbines with a total installed capacity of 9 GW are to be built in this area.

- In 2010, RWE Innogy fired the starting shot for the construction of our first German offshore wind farm. Measures to prepare for construction are underway, and the first foundations are scheduled to be erected by the end of 2011. The wind farm, called 'Nordsee Ost', is located some 35 kilometres north of the Isle of Helgoland and is intended to have over 48 turbines with a combined installed capacity of 295 MW. We plan to complete the project in 2013. Associated capital spending is estimated at €1 billion.

- In November 2010, RWE Innogy and the partner companies of the C-Power consortium took the decision to expand the Belgian Thornton Bank offshore wind farm. A total of 30 MW in capacity has been installed so far. Another 295 MW will be added by 2013. All of the required approvals have been obtained. Related capital expenditure totals €1.3 billion. RWE Innogy holds a 26.7 % stake in the project.

RWE Innogy also made progress in onshore wind power generation. We commissioned two new wind farms in Italy: San Basilio (25 MW) and Ururi (26 MW). We developed and built both of these projects with our Italian partner Fri-El Green Power. Two new RWE Innogy wind farms went online in Poland as well: one in Piecki (32 MW) and the other in Tychowo (35 MW). Furthermore, installations in France and Scotland also began production.

RWE Innogy also successfully continued to expand in the field of electricity and heat generation from biomass. In March 2010, the company started to build a large-scale wood pelletising plant in the US state of Georgia. The factory will have an annual production of 750,000 metric tons and will be one of the biggest and most modern of its type in the world. The pellets will be used in pure biomass power plants as well as for the co-firing of coal and biomass. The factory is due to begin operation in 2011, with a total investment of €120 million.

New partnerships for the expansion of renewable energy. In the financial year that just ended, RWE Innogy entered into two partnerships which are conducting renewable energy projects. In April 2010, the Green GECCO joint venture was established with 26 municipal and regional utilities, with RWE Innogy owning a 51 % stake. By 2020, the new company intends to have invested about €1 billion in the generation of electricity and heat from renewables, both within and outside Germany. Another partnership followed in June 2010: RWE Innogy set up a joint venture with the Munich municipal utility (Stadtwerke München) and Siemens to build and operate the Gwynt y Môr offshore wind farm in the UK. We own 60 % of the project, with Stadtwerke München and Siemens holding stakes of 30 % and 10 %, respectively. The investment in Gwynt y Môr exceeds €2 billion, including the grid connection to the coast. The wind farm will have 160 turbines, an installed capacity of 576 MW and will be erected off the coast of North Wales. Siemens will supply, install and maintain the turbines and has also been commissioned to handle the grid connection.

RWE issues hybrid bond with record volume. In September 2010, we issued a hybrid bond with a volume of €1.75 billion. This was the largest issuance of a security of this type ever placed by an industrial enterprise in Europe. It drew keen interest from investors. Further information on the hybrid bond can be found on pages 102 and 195.

Major events after the period under review:

Exit from the Romanian nuclear energy project. In January 2011, RWE, GDF Suez (France) and Iberdrola (Spain) announced their exit from the ongoing Cernadova nuclear power plant project in Romania. Two new 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 European utilities hold interests. RWE had a stake 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 primarily caused by the after-effects of the financial crisis.

RWE divests minority interest in coal-fired power plant in Rostock. In February 2011, we sold our 24.6% interest in a hard coal-fired power station in Rostock, Germany, to RheinEnergie AG. In addition, RheinEnergie is also acquiring Vattenfall's 25% stake. The remaining 50.4% is still owned by EnBW. The power station has an electricity generation capacity of 553 MW and supplies district heat to the grid of the Rostock municipal utility (Stadtwerke Rostock).

1.5 NOTES ON REPORTING

Commentary on the segment structure. This report is based on the segment structure we introduced in the 2009 financial statements. The RWE Group is divided into seven divisions based on national and functional criteria. We have made some adjustments with respect to the assignment of activities among the divisions, compared to 2009. These predominantly relate to parts of the business of the Dutch energy utility Essent, which was acquired at the end of September 2009. The following is an overview of the divisions.

- Germany: This division consists of the 'Power Generation' and 'Sales and Distribution Networks' Business Areas. The first one includes RWE Power's activities and the second one encompasses RWE Rheinland Westfalen Netz AG, which has been renamed RWE Deutschland AG, including its investments; RWE Vertrieb (including eprimo, RWE Energiedienstleistungen and RWE Aqua); RWE Effizienz and the German regional utilities. The latter operate their own electricity generation facilities to a small extent, as well as managing the network and end-customer operations. The 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. We assigned Essent's German gas storage activities to the Sales and Distribution Networks Business Area with effect from 1 April 2010.

- Netherlands/Belgium: This is the division under which we report on Essent, which was consolidated for the first time as of 30 September 2009. However, in addition to the aforementioned reassignment, we made the following adjustments: in 2010, we started disclosing Essent's wind power generation under the Renewables Segment and the trading business (including key account activities) under the Trading/Gas Midstream Segment. To ensure transparency, we state the results from these two Essent activities as a separate item. Our former Dutch energy sales activities (RWE Energy Nederland) were transferred to Essent with effect from 1 October 2009. It has been assigned to the 'Other, consolidation' line for the first nine months of 2009. Furthermore, the power plant project in Eemshaven initiated by RWE Power was transferred to Essent in the third quarter of 2010. We are building a hard coal-fired twin unit with a net installed capacity of 1,560 MW at the site in the province of Groningen.

- United Kingdom: RWE npower is presented in this item. It encompasses 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 covers our companies in Poland, Hungary, the Czech Republic and Slovakia. We recently began stating our Turkish operations as part of this division as well. We therefore amended the division's name (formerly Central and Eastern Europe). In Poland, we focus on electricity supply and the power distribution network. In Hungary, we also have a lignite-based electricity generation business, which is managed by our subsidiary Mátra. Via minority interests, we are also active in the gas sector and water supply business in Hungary. Our

Czech activities concentrate on the supply, distribution, supraregional transmission, transit and storage of gas. In Slovakia, we are active in the power network and electricity end-customer businesses through our minority interest in VSE and in the gas supply sector via RWE Gas Slovensko. In Turkey, we are going to build a gas-fired power station with a partner, which is scheduled to begin commercial operation in 2013.

- Renewables: This division comprises all of the activities of RWE Innogy, which specialises in electricity and heat generation from renewables. As mentioned earlier, we started reporting Essent's wind power generation under this division in 2010.

- 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 division encompasses energy trading, gas midstream activities, and sales to our major German industrial and corporate customers. Since 1 January 2010, Essent's energy trading and key account operations have also been subsumed under this division.

The 'Other, consolidation' item covers 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, which was established with effect from 1 January 2010. It also includes Thyssengas, the assets and liabilities of which are classified as 'held for sale' on the balance sheet.

1.6 BUSINESS PERFORMANCE

RWE stayed on course for success in 2010. The operating result was the highest in the company's history. Rising by 8% compared to 2009, it exceeded our expectations. Recurrent net income, which was up 6%, also surpassed our forecast. Once again, our German electricity generation was the driver of our success. In addition, we benefited from the inclusion of the Dutch utility Essent, which we acquired in 2009, in our figures on a full-year basis for the first time.

Electricity production by division	Germany		Netherlands/ Belgium		United Kingdom		Central Eastern and South Eastern Europe		Renewables		RWE Group	
Billion kWh	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
In-house generation	165.1[1]	146.0[1]	14.3	4.5	34.3	26.7	5.7	5.7	5.9	4.3	225.3	187.2
Lignite	65.4	65.3	–	–	–	–	5.6	5.6	–	–	71.0	70.9
Hard coal	39.0	31.8	5.7	1.6	10.4	10.7	–	–	0.1	–	55.2	44.1
Nuclear	45.2	33.9	–	–	–	–	–	–	–	–	45.2	33.9
Gas	11.9	11.5	6.8	2.1	23.8	15.8	0.1	0.1	0.2	0.2	42.8	29.7
Renewable energy	1.5	1.6	1.8	0.8	–	–	–	–	5.6	4.1	8.9	6.5
Pumped storage, oil, other	2.1	1.9	–	–	0.1	0.2	–	–	–	–	2.2	2.1
Electricity purchased from third parties	27.2	33.9	8.6[2]	1.5	18.0[2]	25.9[2]	20.5[2]	20.3[2]	0.1	0.1	104.4[3]	112.8[3]
Total	**192.3**	**179.9**	**22.9**	**6.0**	**52.3**	**52.6**	**26.2**	**26.0**	**6.0**	**4.4**	**329.7**	**300.0**

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 fiscal 2010, it amounted to 25.6 billion kWh, of which 23.4 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 up 20%. In the financial year that just came to a close, the RWE Group produced 225.3 billion kilowatt hours (kWh) of electricity, 20% more than in 2009. In-house generation and power purchases combined for 329.7 billion kWh. This was 10% more than in fiscal 2009. In the year 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 165.1 billion kWh of electricity. Relative to the Group, this corresponds to a share of 73%. In addition to RWE Power's German 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 2009, generation by the Germany Division was up 13%, mostly due to the increased availability of the Biblis nuclear power plant. In addition, our contractually secured hard coal-fired power stations were also used much more than in 2009, as a result of the improved market conditions for these facilities. The commissioning of our new 876 MW combined-cycle gas turbine power plant in Lingen also had a positive impact.

- Netherlands/Belgium: Essent's electricity production totalled 14.3 billion kWh. As the Dutch energy utility was consolidated on a twelve-month basis for the first time, the preceding year's figure (4.5 billion kWh) was significantly surpassed. We started consolidating Essent as of 30 September 2009. Therefore, we only disclosed generation for the fourth quarter of 2009.

- United Kingdom: The amount of electricity generated by RWE npower rose by 28% to 34.3 billion kWh. Following maintenance work performed in the preceding year, our gas-fired power plant at Didcot ran much more in 2010. Furthermore, the new 1,650 MW combined-cycle gas turbine power station at Staythorpe went online in the second half of the year. Conversely, capacity utilisation at our hard coal-fired power plants experienced a marginal market-induced decrease compared to 2009.

- Central Eastern and South Eastern Europe: At 5.7 billion kWh, production by this division was unchanged. It primarily stems from the Hungarian lignite-based power producer Mátra.

- Renewables: The division generated 5.9 billion kWh of electricity, nearly all of which came from renewable sources. Compared to 2009, this represents an increase of 37%, which is primarily due to the fact that we started stating production from Essent's wind turbines in this division in 2010. The inclusion of Danta de Energías in our figures on a full-year basis for the first time also had a positive effect. In May 2009, we had increased our stake in the Spanish wind farm operator from 49.33% to 98.65%. Organic growth also contributed to the rise in generation. For instance, the Rhyl Flats offshore wind farm in the UK, which has an aggregate installed capacity of 90 MW, went online in December 2009.

In addition to our in-house generation, we procure electricity from external suppliers. These purchases totalled 104.4 billion kWh (2009: 112.8 billion kWh). This included electricity fed into RWE's network by third parties, in accordance with the German Renewable Energy Act (REA).

Among Europe's leading electricity generators, with over 52 gigawatts in power plant capacity.
At the end of the 2010 financial year, the RWE Group had an installed capacity of 52.2 GW. We rank fifth among Europe's energy utilities. These figures include the contractually secured capacities mentioned earlier that are not owned by RWE. Our electricity generation capacity increased by 2.6 GW compared to 2009. Contributing to this, among other things, was the commissioning of our new gas-fired power stations in Lingen and at Staythorpe. Hard coal accounts for the biggest share of our installed capacity at 29% (preceding year: 31%), followed by gas at 22% (18%), lignite at 21% (22%), and nuclear power at 12% (13%). Renewables have a share of 6% (5%). The Germany Division accounts for 65% of our power plant capacity, with the United Kingdom and Netherlands/Belgium Divisions making up 23% and 6%, respectively.

Power plant capacity by division as of 31 Dec 2010, in MW	Germany[1]	Netherlands/ Belgium	United Kingdom	Central Eastern and South Eastern Europe	Renewables	RWE Group
Primary energy source						
Hard coal	9,673	885	4,575	–	10[2]	15,143
Gas	5,086	1,927	4,525	147	44[2]	11,729
Lignite	10,172	–	–	763	19[2]	10,954
Nuclear	6,295	–	–	–	–	6,295
Renewable energy	313	331	–	1	2,302	2,947
Pumped storage, oil, other	2,489	–	2,657	–	–	5,146
Total	**34,028**	**3,143**	**11,757**	**911**	**2,375**	**52,214**

1 Including capacities of power stations not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. As of 31 December 2010, these capacities amounted to 8,672 MW, of which 6,507 MW were based on hard coal.
2 Mostly plants belonging to RWE Innogy Cogen.

Specific CO_2 emissions down 8%. In fiscal 2010, our electricity generation operations emitted 164.9 million metric tons of carbon dioxide. RWE-owned power plants accounted for 142.7 million metric tons, and the remaining 22.2 million metric tons came from contractually secured capacity. Our emissions were 15.8 million metric tons, or 11%, higher year on year. This is a consequence of the marked rise in electricity generation by hard coal and gas-fired power plants, to which the inclusion of Essent on a twelve-month basis for the first time contributed. By contrast, our specific emission factor, reflecting the carbon dioxide emissions per megawatt hour of electricity produced, improved. It dropped by 8%, from 0.796 metric tons per MWh to 0.732 metric tons, because the share of CO_2-free or low-CO_2 generation in our total production increased. The improved utilisation of the capacity of the Biblis nuclear power station was one of the factors.

In the year under review, we were allocated free state emission allowances (known as EU allowances, or EUAs) corresponding to 115.1 million metric tons in CO_2 emissions. We received emissions allowances for 84.9 million metric tons in Germany, 16.2 million metric tons in the UK, and 8.5 million metric tons in the Netherlands. In total, the allocation was far from being enough to cover our emissions. Therefore, we had to purchase certificates. At the Group level, the shortage amounted to 49.8 million metric tons.

Emissions balance by country	Germany[1]		Netherlands/ Belgium[2]		United Kingdom		Central Eastern and South Eastern Europe		RWE Group	
Million metric tons of CO_2	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
CO_2 emissions	130.6	123.3	8.3	2.7	18.9	16.6	7.1	6.5	164.9	149.1
Free allocation of CO_2 certificates	84.9	83.1	8.5	2.4	16.2	14.9	5.5	4.8	115.1	105.2
Shortage of CO_2 certificates	45.7	40.2	–0.2	0.3	2.7	1.7	1.6	1.7	49.8	43.9

1 Includes power stations not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. In the year under review, they produced 22.2 million metric tons of CO_2 and were allocated certificates for 19.7 million metric tons.
2 In fiscal 2009, Essent was only included on a three-month basis.

In the emission trading period from 2008 to 2012 and thereafter, we are allowed to cover a maximum of 100 million metric tons of our CO_2 emissions by submitting certificates obtained through emission reductions within the scope of Kyoto Clean Development Mechanism and Joint Implementation projects. This is advantageous because the cost of these certificates is usually below the market price of EUAs. By the end of the 2010 financial year, we had contractually secured certificates for 68.6 million metric tons of carbon dioxide. However, it cannot be ruled out that some projects may not be implemented or that their emission savings may lag behind expectations. Taking such risks into account, we estimate that we will receive emissions certificates covering 41.4 million metric tons. By the end of 2010, we had already received certificates for 14.5 million metric tons, of which we have already used an equivalent of 4.6 million metric tons.

Marked growth of gas and oil reserves. RWE Dea, our upstream company, aims to expand its gas and oil production to roughly 70 million barrels of oil equivalent (OE) by 2016. The main growth projects we are implementing are in North Africa, the UK North Sea, and off the coast of Norway. As of 31 December 2010, our oil and gas reserves totalled 137 million cubic metres of OE, some 70% up on the previous year's level (81 million cubic metres of OE). The main reason is that we concluded contracts for the development of major gas reserves in two Egyptian concessions (see page 71). Reserves is the term used for hydrocarbons stored under the ground, the existence of which has been proven, and the production of which is economically feasible and legally secured. These are different to resources, which are hydrocarbons that fail to meet all the aforementioned criteria, or which have not yet been clearly identified geologically. By the end of 2010, RWE Dea had 91 million cubic metres of OE in proven resources (preceding year: 143 million cubic metres of OE).

Slight decline in gas and oil production. In the financial year that just ended, RWE Dea produced 2,786 million cubic metres of gas and 2,266 thousand cubic metres of oil. Converting the gas to oil equivalent and adding it to crude oil production results in a total production of 4,963 thousand cubic metres, or 31.2 million barrels of OE. This was 4% less than in 2009. Gas production was down 5%. The depletion of existing reserves resulted in a natural decrease in production, which primarily related to our German and UK concession areas. Conversely, additional wells at the site in Völkersen, Germany, had a positive impact. Furthermore, we began production in a newly developed gas field in the Norwegian North Sea. Oil volumes were 3% lower than the year-earlier figure. The progressive exhaustion of reserves was felt here as well, especially in our German Mittelplate oil field. Our concessions in the Gulf of Suez (Egypt) were also affected. A positive effect came from the commencement of production in a Danish oil field. Furthermore, we took measures to improve production yield in Germany and Egypt.

Electricity sales markedly higher due to full-year inclusion of Essent. In fiscal 2010, we supplied 311.2 billion kWh of electricity to external customers. Electricity sales are typically lower than generation levels, mainly due to transmission losses and in-house use by lignite production operations and pumped storage power stations. Electricity sales were 10% up on 2009, in part because Essent was included on a twelve-month basis for the first time. Furthermore, we benefited from the cyclically-induced rise in demand, especially in Germany.

External electricity sales volume	Private and commercial customers		Industrial and corporate customers		Distributors		Electricity trading		Total	
Billion kWh	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Germany	26.0	26.1	29.1	27.3	58.0	54.6	–	–	113.1	108.0
Netherlands/Belgium	11.9	3.5	10.1	2.0	–	–	–	1.3	22.0	6.8
United Kingdom	19.1	20.1	30.8	29.8	–	–	–	–	49.9	49.9
Central Eastern and South Eastern Europe	7.9	8.7	10.2	9.0	6.5	7.1	–	–	24.6	24.8
Trading/Gas Midstream	–	–	30.5	26.8	–	–	32.8	32.6	63.3	59.4
RWE Group[1]	**65.3**	**59.3**	**110.8**	**95.7**	**102.3**	**93.9**	**32.8**	**33.9**	**311.2**	**282.8**

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

- Germany: The division sold 113.1 billion kWh of electricity, 5% more than in the preceding year. In particular, we sold more to distributors. Sales to industrial and corporate customers were also up, due to the economic recovery. Customer losses in the residential and small commercial enterprise business led to marginal drops in volume. By the end of 2010, the Germany Division's fully consolidated companies were supplying a total of 6,712,000 customers with electricity, 151,000 fewer than a year earlier. The decline related to RWE Vertrieb and the regional business, whereas our discounter eprimo grew its share of the market. At year-end, the company was serving 736,000 electricity customers, which was 110,000 more than in the prior year.

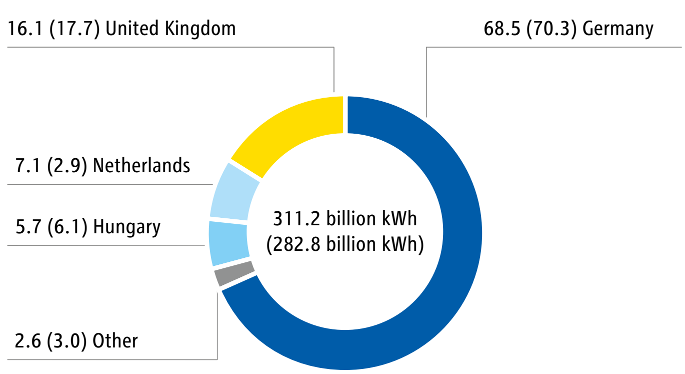
- Netherlands/Belgium: Essent sold 22.0 billion kWh of electricity. The prior year's comparable figure, which only reflected the fourth quarter, was 6.8 billion kWh. As of 31 December 2010, Essent was supplying 2,329,000 customers with electricity. We had 2,169,000 electricity customers in the Netherlands and 160,000 in Belgium. This compares to 2,144,000 and 172,000 in the preceding year.

- United Kingdom: Electricity sales by RWE npower amounted to 49.9 billion kWh, equalling the year-earlier level. While our share of the industrial and corporate customer market improved slightly, it deteriorated in the residential and small commercial enterprise sector. As of 31 December 2010, RWE npower served 4,003,000 electricity customers, 144,000 fewer than a year before. Our share of the UK residential market was 14 %.

- Central Eastern and South Eastern Europe: We sold 24.6 billion kWh of electricity in this division. The slight decline compared to 2009 is due to the fact that, in 2010, we started netting out certain sales volumes against wholesale purchases. The cyclically-driven rise in demand had a positive impact. Moreover, our electricity customer bases in Hungary and Poland posted a marginal increase to 2,236,000 and 910,000, respectively. We started marketing electricity in the Czech Republic at the beginning of 2010. By year-end, we were serving 13,000 customers in that country.

- Trading / Gas Midstream: External electricity sales achieved by this division totalled 63.3 billion kWh, 7 % up on the prior year. The main reason is that we have been stating Essent's key account business under Trading / Gas Midstream since 2010.

Electricity sales volume of the RWE Group by country in 2010 (2009)
%



External gas sales volume	Private and commercial customers		Industrial and corporate customers		Distributors		Total	
Billion kWh	2010	2009	2010	2009	2010	2009	2010	2009
Germany[1]	29.0	27.6	23.7	19.9	44.9	47.4	97.6	94.9
Netherlands/Belgium	63.8	17.9	49.0	16.2	–	2.0	112.8	36.1
United Kingdom	48.8	45.1	4.5	6.8	–	–	53.3	51.9
Central Eastern and South Eastern Europe	35.6	33.1	29.4	27.5	8.5	15.3	73.5	75.9
Upstream Gas & Oil	–	–	2.1	2.8	16.5	16.2	18.6	19.0
Trading/Gas Midstream	–	–	26.4	18.9	12.6	14.2	39.0	33.1
RWE Group[2]	**177.2**	**130.5**	**135.1**	**106.4**	**83.1**	**95.1**	**395.4**	**332.0**

1 Prior-year figures adjusted due to customer reassignment.
2 Including sales volumes achieved by RWE Energy Nederland in the first three quarters of 2009.

Big gain in gas sales volume thanks to Essent. External gas sales amounted to 395.4 billion kWh, up 19% on the year-earlier level. Excluding the effect of Essent's consolidation on a twelve-month basis for the first time, they would have risen by 2%. We benefited from the increase in residential demand for heating purposes, whereas customer losses in the Czech Republic had a counteracting effect.

- Germany: The division sold 97.6 billion kWh of gas. Compared to 2009, this represents a gain of 3%. Our deliveries to industrial and corporate customers, households and small commercial operations all rose. The economic recovery and colder weather benefited us in this respect. Furthermore, we won customers in these segments. Conversely, we suffered declines in volume in business with distributors, some of which switched providers or started purchasing increasing amounts of gas from competitors. At the balance sheet date, our fully consolidated German sales companies were supplying gas to 1,106,000 customers. This is 34,000 more than in the preceding year.

- Netherlands/Belgium: Essent contributed 112.8 billion kWh to the RWE Group's gas sales volume, which was much more than in 2009 due to the aforementioned consolidation effect. The company had 2,015,000 gas customers on 31 December 2010, split between 1,959,000 in the Netherlands and 56,000 in Belgium. The comparable figures for 2009 were 1,920,000 and 59,000, respectively.

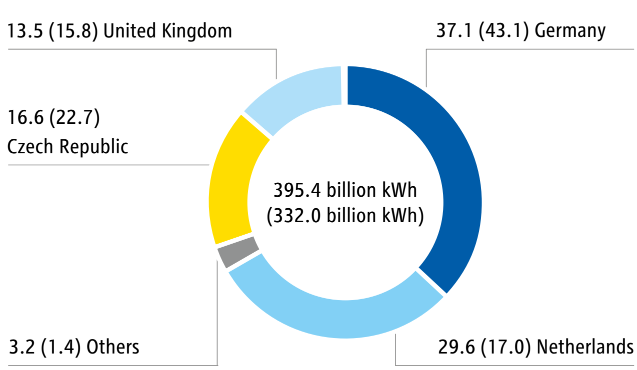
- United Kingdom: RWE npower's gas sales amounted to 53.3 billion kWh, 3% higher than the year-earlier figure. This was due to the colder weather, however, we also suffered competition-induced customer losses. This applies to business with industrial enterprises as well as to households and small commercial operations. By the end of the year, RWE npower was serving 2,571,000 gas customers, 70,000 fewer than in 2009. Customers who obtain both electricity and gas from us declined by 69,000 to 2,279,000.

- Central Eastern and South Eastern Europe: Gas sales decreased by 3% to 73.5 billion kWh in this division, despite the colder weather. In the Czech Republic, our main market, some of the distributors we supply switched providers or started diversifying their gas procurement. We felt the impact of the mounting competitive pressure in that country in other customer groups as well. The number of gas customers we serve in the Czech Republic declined by 89,000 to 2,192,000. In contrast, we observed a positive trend in Slovakia, where RWE Gas Slovensko, the sales subsidiary we founded in July 2008, is stepping up gas sales to corporate customers. In the year being reported, the company achieved sales of 7.8 billion kWh, which was 5.6 billion kWh more than in 2009.

- Upstream Gas & Oil: RWE Dea delivered 18.6 billion kWh of gas to external customers, falling below the prior-year figure by 2%. This mirrored the decline in gas production.

- Trading/Gas Midstream: The division sold 39.0 billion kWh of gas outside the Group. RWE Supply & Trading focuses on procuring gas for RWE companies and therefore predominantly generates internal sales. The company's external gas sales consist of surplus purchases. We also generate external sales within the scope of the key account business with industrial enterprises. As mentioned earlier, we also started stating the key account business of Essent's trading companies under Trading/Gas Midstream in 2010. The reassignment was a major reason why external sales in the financial year being reviewed were up 18%.

Gas sales volume of the RWE Group by country in 2010 (2009)
%



External revenue € million	2010	2009	+/– %
Germany	19,528	19,386	0.7
Power Generation	1,072	1,056	1.5
Sales and Distribution Networks	18,456	18,330	0.7
Netherlands/Belgium	6,510	1,799	–
United Kingdom	7,759	7,843	–1.1
Central Eastern and South Eastern Europe	5,297	5,254	0.8
Renewables	366	245	49.4
Upstream Gas & Oil	1,353	1,208	12.0
Trading/Gas Midstream	7,517	6,937	8.4
Other, consolidation	4,990	5,069	–1.6
RWE Group	**53,320**	**47,741**	**11.7**
of which:			
Electricity revenue	34,803	31,225	11.5
Direct electricity tax	1,323	1,041	27.1
Gas revenue	14,491	12,443	16.5
Oil revenue	1,049	1,024	2.4

External revenue 12% up year on year. In 2010, the RWE Group generated €53,320 million in external revenue, surpassing the year-earlier figure by 12%. This was mainly due to Essent's twelve-month consolidation for the first time, whereas lower gas sales prices had a counteracting effect. Foreign exchange effects had a positive impact on the development of revenue, as our main foreign currencies appreciated over the euro. The British pound cost an average of €1.17, compared to €1.12 in the previous year. The US dollar rose in price from €0.72 to €0.76, the Czech crown from €0.038 to €0.040, the Hungarian forint from €0.0035 to €0.0036, and the Polish zloty from €0.23 to €0.25. Disregarding material consolidation and currency effects, revenue was unchanged.

- Germany: External revenue achieved by this division totalled €19,528 million, which was marginally up on 2009. Electricity revenue rose by 4% to €14,124 million, above all due to the sales increases mentioned earlier. Moreover, there was a rise in third-party electricity transit through our networks. In the gas business, revenues declined by 6% to €3,826 million. This development results from price adjustments. Our German regional utilities lowered their tariffs in 2009/2010 – in some cases several times – in order to pass the advantages of the decreasing procurement costs through to their customers.

- Netherlands/Belgium: The division posted a consolidation-driven gain in revenue to €6,510 million. The electricity and gas businesses accounted for €2,195 million and €4,108 million, respectively.

- United Kingdom: At €7,759 million, revenue generated by RWE npower fell just short of the prior year's figure. Excluding currency effects, it dropped by 5%. Electricity revenue declined by 2% and by 6% net of the currency impact. Price reductions made in the preceding year played a role. RWE npower lowered residential tariffs by an average of 8% on 31 March 2009. Gas revenue recorded a slight increase to €2,016 million. In sterling terms, however, it decreased by 3%. Again, price effects were the determining factor. RWE npower lowered residential gas tariffs by an average of 7% with effect from 26 March 2010.

- Central Eastern and South Eastern Europe: The division realised €5,297 million in revenue, slightly more than in 2009. Excluding foreign exchange effects, revenue would have dropped by 3%. Electricity revenue rose by 2% to €2,492 million, whereas net of currency movements, it declined by 2%. Price reductions in the industrial and corporate customer account business played a role. At €2,706 million, gas revenue was on a par year on year. Excluding the foreign exchange impact, it decreased by 4%, largely due to the aforementioned volume drops in the Czech Republic.

- Renewables: External revenue generated by this division jumped 49% to €366 million, in part because it has included Essent's wind power revenue (€76 million) since 2010. The commissioning of new generation capacity and the inclusion of the Spanish wind farm operator Danta de Energías on a twelve-month basis for the first time also contributed to this growth.

- Upstream Gas & Oil: RWE Dea improved external revenue by 12% to €1,353 million, despite a slight drop in production volume. The company realised much higher dollar prices for its crude oil production than in 2009. The appreciation of US currency over the euro also had a positive impact, whereas lower realised gas prices had a counteracting effect.

- Trading/Gas Midstream: External revenue generated by the division advanced by 8% to €7,517 million. The main reason is that revenue from Essent's trading business was included for the first time (€1,505 million).

Reconciliation of income from operating activities to EBITDA € million	2010	2009	+/– %
Income from operating activities[1]	6,507	7,326	–11.2
+ Operating income from investments	345	321	7.5
+ Non-operating income from investments	62	–59	–
– Non-operating result	767	–498	–
Operating result	7,681	7,090	8.3
+ Operating depreciation and amortisation	2,575	2,075	24.1
EBITDA	**10,256**	**9,165**	**11.9**

1 See the income statement on page 162.

EBITDA € million	2010	2009	+/– %
Germany	6,728	5,811	15.8
Power Generation	4,510	3,889	16.0
Sales and Distribution Networks	2,218	1,922	15.4
Netherlands/Belgium	660	277	–
United Kingdom	504	445	13.3
Central Eastern and South Eastern Europe	1,440	1,285	12.1
Renewables	211	126	67.5
of which: Essent wind activities	69	–	–
Upstream Gas & Oil	619	437	41.6
Trading/Gas Midstream	–7	986	–100.7
of which: Essent trading activities	108	–	–
Other, consolidation	101	–202	–
RWE Group	**10,256**	**9,165**	**11.9**

Operating result € million	2010	2009	+/– %
Germany	5,575	4,780	16.6
Power Generation	4,000	3,428	16.7
Sales and Distribution Networks	1,575	1,352	16.5
Netherlands/Belgium	391	180	117.2
United Kingdom	272	247	10.1
Central Eastern and South Eastern Europe	1,173	1,055	11.2
Renewables	72	56	28.6
of which: Essent wind activities	23	–	–
Upstream Gas & Oil	305	203	50.2
Trading/Gas Midstream	–21	985	–102.1
of which: Essent trading activities	96	–	–
Other, consolidation	–86	–416	79.3
RWE Group	**7,681**	**7,090**	**8.3**

Operating result increased by 8%. The RWE Group's earnings improved further in 2010. EBITDA rose by 12% to €10,256 million, with the operating result growing by 8% to €7,681 million. With the exception of Trading/Gas Midstream, all divisions posted significant gains. We therefore exceeded our forecast of February 2010. We had expected EBITDA to increase by between 5% and 10% and the operating result to rise by approximately 5%. In particular, our Czech gas business exceeded expectations. Furthermore, the release of provisions caused the 'Other, consolidation' item to record a bigger improvement than anticipated. Conversely, earnings generated by RWE Supply & Trading were even weaker than expected. Disregarding material consolidation and currency effects, the RWE Group's EBITDA and operating result rose by 5% and 3%, respectively.

- Germany: The division posted an operating result of €5,575 million, up 17% on the previous year. The following development was observed in the Power Generation and Sales and Distribution Networks Business Areas:

  Power Generation: Here, we recorded a gain of 17% to €4,000 million. A major contributor was our higher generation output, which partially stemmed from the Biblis nuclear power plant's improved availability. Furthermore, we benefited from price-induced relief with respect to our hard coal purchases (€679 million). As mentioned earlier, we had already sold our electricity for 2010 early on the forward market, purchasing the fuel required to produce it at the same time. We also bought emission allowances early on, realising price advantages over the prior year. The expense associated with the shortage of emission allowances therefore decreased by €269 million to €689 million. However, there was also a decrease in the prices we realised for our electricity generation, which averaged €67 per MWh (prior year: €70 per MWh). On balance, changes in nuclear provisions led to burdens. Furthermore, the positive exceptional effects of the release of provisions in the preceding year did not recur. They related to nuclear waste disposal and the recultivation of opencast lignite mining sites.

Sales and Distribution Networks: This business area increased its operating result by 16% to €1,575 million, partly on the strength of cost-cutting measures. In the network business, higher electricity and gas throughput caused earnings to rise. On top of that, the cost of compensation for grid losses dropped, because the power used to do so became cheaper. Conversely, the following issue had a negative effect: 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. In the sales business, we took advantage of the positive effect the weather had on gas sales volumes, while electricity margins shrank.

- Netherlands/Belgium: In this division, we recorded an operating result of €391 million, which was much higher than the year-earlier figure (€180 million) due to the consolidation effect. Gas activities achieved a particularly strong operating result. The unusually cold winter weather was a contributing factor. However, earnings performance suffered, partially because the power plant project in Eemshaven (Netherlands) initiated by RWE Power was transferred to Essent, which refunded RWE Power for all of the project costs incurred since 2009. We are building a hard coal twin unit with a net installed capacity of 1,560 MW at the site in the Province of Groningen.

- United Kingdom: RWE npower’s operating result improved by 10% to €272 million. Net of foreign exchange effects, the increase amounted to 6%, which was mainly attributable to the supply business. We benefited from efficiency-enhancement measures and the weather-driven rise in demand for gas, but also suffered from an increase in bad debt. Electricity and gas procurement prices rose in the second half of the year, but RWE npower did not increase its residential tariffs until January 2011. RWE npower’s generation business closed the period being reviewed significantly down year on year. The deterioration in conditions on the market for our hard coal-fired power stations led to earnings shortfalls, which could not be fully offset by the increased generation of our gas-fired power plants and cost reductions.

- Central Eastern and South Eastern Europe: The operating result we achieved in this division grew by 11% to €1,173 million. In the forecast we issued in February 2010, we had expected to fall short of the prior year's result. The fact that we actually managed to exceed it substantially is in part due to the impact of foreign exchange rates. Moreover, contrary to expectations, earnings in the Czech gas business improved. This was due to the increase in network and sales margins, whereas shortfalls in sales to distributors had a counteracting effect. The earnings contribution made by our Polish electricity activities also grew. We benefited from one-off effects as well as from cost reductions. In Hungary, we capitalised on volume and price-induced earnings improvements in the electricity business, but experienced earnings shortfalls at the electricity generator Mátra. Additional burdens arose from the retrospective introduction of a special tax for energy utilities (€25 million), on which we reported on page 68.

- Renewables: Here, the operating result improved by €16 million to €72 million. Of this sum, €23 million came from Essent's wind power activities, which we stated as part of the Renewables Division in 2010. However, the result clearly lagged behind expectations because wind levels in North Western Europe were unusually low. A positive effect was felt from the commissioning of the Rhyl Flats wind farm off the coast of Wales at the end of 2009 and the inclusion of Danta de Energías in our figures for a full year for the first time. Conversely, anticipated burdens arose in connection with RWE Innogy's growth strategy as its ongoing and planned capital expenditure projects go hand in hand with high run-up costs.

- Upstream Gas & Oil: RWE Dea increased its operating result by 50% to €305 million due to currency movements and higher oil prices. In addition, production levies and exploration costs declined. The fact that production volumes and gas prices were lower and write-downs were higher year on year had a counteracting effect.

- Trading/Gas Midstream: The division closed the year under review with an operating loss of €21 million. The result was thus much lower than the unusually high figure posted in the previous year (€985 million). In energy trading, we were successful, but failed to match the very good performance recorded in 2009. There was an even steeper drop in earnings in the gas midstream business, which had benefited from positive one-off effects a year earlier. In contrast, there were heavy burdens in the year under review. This is because, in most cases, gas purchases for Germany and the Czech Republic are based on long-term contracts linked to the price of oil, while our customers increasingly look to quotations on the liquid TTF and NBP trading hubs (see page 59). These have been much lower than the oil-indexed purchasing prices since as early as the middle of 2009. As we largely settle internal gas deliveries under wholesale conditions, the price differences have an impact on the operating result of RWE Supply & Trading, which is responsible for gas procurement. A positive effect on the Trading/Gas Midstream Division was felt from the first-time inclusion of Essent's trading activities, which posted an operating result of €96 million in 2010.

Key figures for value management	Operating result	Capital employed	ROCE	Capital costs before taxes	Absolute value added	Weighted average cost of capital (WACC) before tax	Absolute value added
	2010	2010[1]	2010	2010	2010	2009	2009
	€ million	€ million	%	%	€ million	%	€ million
Germany	5,575	29,575	18.9	9.5	2,765[2]	9.5	2,164[2]
Power Generation	4,000	13,803	29.0	10.0	2,620	10.0	2,146
Sales and Distribution Networks	1,575	15,772	10.0	8.75	195	9.0	27
Netherlands/Belgium	391	4,564	8.6	9.5	–42	9.0	56
United Kingdom	272	5,147	5.3	9.5	–217	10.0	–254
Central Eastern and South Eastern Europe	1,173	5,596	21.0	8.5	697	9.0	578
Renewables	72	3,797	1.9	9.5	–289	9.5	–165
Upstream Gas & Oil	305	2,509	12.2	12.5	–8	13.0	–72
Trading/Gas Midstream	–21	3,222	–0.6	9.5	–327	10.0	821
Other, consolidation	–86	–1,024	–	–	297	–	49
RWE Group	**7,681**	**53,386**	**14.4**	**9.0**	**2,876**	**9.0**	**3,177**

1 Averaged for the year.
2 Due to the differences in the costs of capital, this figure is not the sum of value added by Power Generation and Sales and Distribution Networks.

RWE achieves a return on capital employed of 14.4%. One of the main goals of our business activity is to increase the company's value. In order to accomplish this, we must earn a return on our capital employed (ROCE) that exceeds the cost of capital. In fiscal 2010, our ROCE was 14.4%, clearly surpassing the Group's cost of capital, which was 9.0% before tax. ROCE minus the cost of capital, multiplied by capital employed, equals absolute value added. It is an important criterion for assessing investments and determining our executives' performance-linked payments. In the financial year that just ended, value added amounted to €2,876 million. This was 9% less than in 2009, despite the improvement in the operating result. The reason for this is the increase in capital employed. Our intensified investment activity played a role on the one hand, as new plants already affect ROCE during the construction phase, although they do not contribute to earnings yet. On the other hand, we had only recognised a quarter of Essent's capital employed in the previous year, because the company was not included in the consolidated financial statements until the end of September. The development of value added was also influenced by adjustments we made to the cost of capital. This affects individual divisions, but not the Group as a whole.

- Germany: The biggest contribution by far, i.e. €2,765 million, to increasing value within the RWE Group came from this division. Most of it is attributable to our power generation activities. The earnings growth posted by this business area was the main reason why value added rose by €601 million. The improved earnings of the sales and distribution network business were also a factor.

- Netherlands/Belgium: Value added by this division dropped by €98 million to –€42 million. Despite consolidation effects, the operating result was much higher than in the preceding year. But this also applies to capital employed, which we had only considered pro rata in 2009, as explained earlier. Another negative effect arose from the takeover of the new-build power plant project in Eemshaven (–€54 million), as this caused capital employed to rise, while earnings were burdened. Excluding this effect, the division would have earned back its cost of capital.

- United Kingdom: RWE npower's value added was also negative. At –€217 million, however, it improved by €37 million year on year. Among other things, this was due to the improved operating result.

- Central Eastern and South Eastern Europe: At €697 million, the division made the second-largest contribution to value added within the RWE Group, posting a gain of €119 million compared to 2009. The development of earnings was the major influential factor.

- Renewables: RWE Innogy's value added fell by €124 million to –€289 million, despite improved earnings. This reflects the substantial investment in the expansion of the generation portfolio.

- Upstream Gas & Oil: Value added by RWE Dea was slightly negative, i.e. –€8 million, but €64 million higher than in 2009. The division benefited from a vastly improved operating result. The rise in capital employed caused by capital expenditure had a counteracting effect.

- Trading/Gas Midstream: The significant drop in earnings at RWE Supply & Trading led to negative value added of –€327 million. However, at €821 million, the prior-year figure had been unusually high.

You will find detailed information on the value management concept on pages 231 et seq.

Reconciliation to net income: negative special items due to commodity derivatives. The reconciliation from the operating result to net income is characterised by negative one-off effects. These primarily arose from the fair valuation of commodity derivatives and impairments on our UK hard coal and oil-fired power plants. The positive impact of the release of provisions fell short of offsetting this. In consequence, net income decreased despite the good operating earnings.

Non-operating result € million	2010	2009	+/– € million
Capital gains	68	35	33
Goodwill impairment losses	–	–	–
Impact of commodity derivatives on earnings	–337	720	–1,057
Restructuring, other	–498	–257	–241
Non-operating result	**–767**	**498**	**–1,265**

Negative influences occurred especially in the non-operating result, which deteriorated by €1,265 million to –€767 million. Its components developed as follows:

- As in 2009, there were no notable capital gains. The single largest earnings contribution came from the sale of a minority interest in a customer's power station in the Czech Republic.

- The accounting treatment of derivative transactions had a negative impact of €337 million, compared to the €720 million in profit recorded a year earlier. Pursuant to International Financial Reporting Standards (IFRS), certain derivatives used to hedge the prices of forward contracts (underlying transactions) are accounted for at fair value at their respective balance sheet date, whereas the underlying transactions (which display the exact opposite development) are only recognised as a profit or loss when they are realised. These timing differences result in short-term effects on earnings, which are neutralised over time. The derivatives largely related to RWE Supply & Trading's gas midstream business. Moreover, the non-operating result was negatively affected because, in 2010, we started accounting for our German gas purchasing agreements at fair value instead of as pending transactions. As commented on earlier, oil-indexed procurement prices for parts of our gas sales are much higher than the sales prices realisable on the market. Therefore, the change in accounting treatment in the first quarter had a very negative effect on earnings. However, this impact weakened considerably over the course of the year, as most of the affected contracts were fulfilled and the influence on earnings of their realisation was considered in the operating result of RWE Supply & Trading.

- The result stated under 'Restructuring, other' amounted to –€498 million. This was €241 million down on the year-earlier figure, which included substantial extraordinary income from the change in nuclear and mining provisions (€411 million). In 2010, we stopped reflecting such effects, which amounted to €197 million in the year under review, in the non-operating result, recognising them in the operating result instead. A charge of €296 million stemmed from an impairment recognised for our UK hard coal and oil-fired power stations. Thereby, we acknowledged that the margins realisable through these plants on the market deteriorated considerably. The earnings trend was positively influenced by the absence of negative effects from the preceding year, which included a write-down on our stake in US-based Excelerate Energy of US$250 million (€179 million). We amortised RWE npower's customer base in the period being reviewed by €262 million. This figure was slightly higher than in 2009 (€252 million) due to movements in foreign exchange rates.

Financial result € million	2010	2009	+/– € million
Interest income	448	589	−141
Interest expenses	−1,258	−1,224	−34
Net interest	**−810**	**−635**	**−175**
Interest accretion to non-current provisions	−940	−957	17
Other financial result	−186	−398	212
Financial result	**−1,936**	**−1,990**	**54**

The financial result improved by €54 million to −€1,936 million. Its components developed as follows:

- Net interest deteriorated by €175 million to −€810 million. Our growth investments and the acquisition of Essent increased our need for financing. We covered part of it by selling securities, which caused interest income to drop. Furthermore, we issued new bonds.

- At €940 million, the interest accretion to non-current provisions was essentially unchanged.

- The other financial result, which includes numerous expense items, improved by €212 million to −€186 million. This was due to the absence of charges from the preceding year incurred in part due to the crisis on financial markets. For example, we had realised write-downs on securities and book losses on the sale of securities. Conversely, we generated income from such sales in 2010.

Reconciliation to net income		2010	2009	+/– %
Operating result	€ million	7,681	7,090	8.3
Non-operating result	€ million	–767	498	–
Financial result	€ million	–1,936	–1,990	2.7
Income from continuing operations before tax	€ million	**4,978**	**5,598**	**–11.1**
Taxes on income	€ million	–1,376	–1,858	25.9
Income from continuing operations	€ million	**3,602**	**3,740**	**–3.7**
Income from discontinued operations	€ million	–	91	–
Income	€ million	**3,602**	**3,831**	**–6.0**
Minority interest	€ million	279	260	7.3
RWE AG hybrid investors' interest	€ million	15	–	–
Net income/RWE AG shareholders' share in net income	€ million	**3,308**	**3,571**	**–7.4**
Recurrent net income	€ million	**3,752**	**3,532**	**6.2**
Earnings per share	€	6.20	6.70	–7.5
Recurrent net income per share	€	7.03	6.63	6.0
Effective tax rate	%	28	33	–

RWE earned €4,978 million in income from continuing operations before tax, 11% less than in 2009. The effective tax rate dropped from 33% to 28%, in part because our corporate tax credit rose and we were able to capitalise loss carryforwards. After tax, income from continuing operations declined by 4% to €3,602 million. Discontinued operations did not contribute to income in 2010, whereas the prior-year figure still included income from American Water, which has since been sold. The minority interest amounted to €279 million, 7% higher than in 2009. For the first time, we are also stating the minority interest allocable to the holders of the hybrid bond issued in September 2010. At €15 million, it corresponds to the post-tax financing costs allocable to the year under review. You can find detailed information on our hybrid bond on pages 102 and 195 of this report.

The RWE Group's net income declined by 7% to €3,308 million. Accordingly, our earnings per share dropped from €6.70 to €6.20. The number of RWE shares outstanding in the period being reviewed averaged 533.6 million (prior year: 533.1 million).

Recurrent net income improved by 6%. The yardstick for determining our dividend is recurrent net income. It does not include the non-operating result. If major non-recurrent effects in the financial result and income taxes occur, these are also excluded. In the year under review, recurrent net income totalled €3,752 million, 6% up year on year. We were therefore slightly up on the forecast issued in February 2010, which envisaged an increase of approximately 5%.

Planned efficiency enhancements compared to 2006 € million (accumulated)	2007	2008	2009	2010	2011	2012
Initial target	100	200	450	700	900	1,200
Increase						200
New target						1,400

Efficiency-enhancement programme: target for 2010 achieved. We are making good progress with the efficiency-enhancement programme we initiated in 2007. By taking measures to reduce costs and increase revenue, we aim to tap additional earning potential – and do so more and more every year. One of the project's goals is to enhance the performance of our German electricity and gas network business, which should limit the impact on our earnings from tariff cuts mandated by the network regulator. Further savings will be achieved through improvements in IT services and purchasing as well as the pooling of back-office functions. Moreover, we intend to increase revenue by improving the availability of our power plants.

By 2009, we had already achieved a positive effect on earnings of €450 million through the programme. The baseline year is 2006. With respect to 2010, we had envisaged increasing the programme's impact on earnings to €700 million. We have achieved this target. The efficiency-enhancement programme will run until the end of 2012 and we want to intensify our efforts by then. For instance, we have identified additional potential for savings in terms of project and material costs. Furthermore, RWE npower will introduce a new IT system, which will allow the company to reduce its sales costs considerably. Therefore, we can raise our overall goal for the programme by 2012. Initially, we wanted to achieve positive effects every year, totalling €1.2 billion from 2006 to 2012. We are now targeting a figure of €1.4 billion.

Capital expenditure on property, plant and equipment and on intangible assets € million	2010	2009	+/– € million
Germany	2,410	2,813	–403
Power Generation	1,180	1,791	–611
Sales and Distribution Networks	1,230	1,022	208
Netherlands/Belgium	1,144	156	988
United Kingdom	876	853	23
Central Eastern and South Eastern Europe	430	368	62
Renewables	614	447	167
Upstream Gas & Oil	507	855	–348
Trading/Gas Midstream	4	2	2
Other, consolidation	394	419	–25
RWE Group	**6,379**	**5,913**	**466**

Capital expenditure on financial assets € million	2010	2009	+/– € million
Germany	45	1,325	–1,280
Power Generation	2	45	–43
Sales and Distribution Networks	43	1,280	–1,237
Netherlands/Belgium	3	7,794	–7,791
United Kingdom	23	114	–91
Central Eastern and South Eastern Europe	8	3	5
Renewables	95	286	–191
Upstream Gas & Oil	–	–	–
Trading/Gas Midstream	61	141	–80
Other, consolidation	29	61	–32
RWE Group	**264**	**9,724**	**–9,460**

Capital expenditure on property, plant and equipment 8% higher year on year. The RWE Group spent €6,643 million in capital in the year under review, compared to €15,637 million in 2009. The significant decline is attributable to financial investments, which barely had an impact in 2010, after having been exceptionally high in 2009 (€9,724 million) due to the acquisition of Essent. Conversely, capital expenditure on property, plant and equipment and intangible assets rose by 8% to €6,379 million. This was in part because Essent's capex was included on a twelve-month basis for the first time. Nevertheless, on the whole, we spent a little less than expected, due, amongst other things, to delays in the construction of power plant projects. In February 2010, we had forecast Group capital expenditure on property, plant and equipment and intangible assets to be in the order of €7.0 billion.

- Germany: Capital expenditure by this division amounted to €2,455 million. This represents a decrease of 41% compared to 2009. The division's business areas displayed the following development:

  Power Generation: Capital spending by this business area was down 36% to €1,182 million. As in the preceding year, almost all of this was spent on property, plant and equipment. The decline is partly due to RWE Power's transfer of the Eemshaven power plant project to Essent. As mentioned earlier, we are building a 1,560 MW twin-unit hard coal facility at the Dutch site. We completed work on the new gas-fired power station in Lingen in the year being reviewed. It has an installed capacity of 876 MW and was commissioned in April. The major ongoing project is the 2,100 MW dual-block lignite-fired power plant in Neurath near Cologne, Germany. We are behind schedule, primarily due to quality-related problems experienced by suppliers. Based on our current planning, both units will go online this year. On top of this, RWE Power is building a 1,528 MW twin-unit hard coal facility in Hamm, Germany. Suppliers caused delays here as well. Therefore, the facility will not go online until 2013. These new-build power plants will enable us to achieve significant efficiency improvements and emission reductions. Furthermore, the new units will be capable of switching loads much faster than older facilities. This enables us to take advantage of price fluctuations in electricity spot trading by making more flexible use of our power plants. These fluctuations are expected to become more frequent in view of the rising share of electricity production accounted for by weather-dependent sources such as wind and solar.

Sales and Distribution Networks: We spent €1,273 million in capital on this business area, 45% less than in the previous year. Capital expenditure on financial assets declined significantly, following several sizeable transactions we had concluded in 2009. These included the acquisition of a 20% stake in the former RWE Westfalen-Weser-Ems held by municipal shareholders for €800 million. Capital expenditure on property, plant and equipment and intangible assets amounted to €1,230 million, 20% up on the preceding year's level. These funds were mainly allocated to upgrades to the network infrastructure. In addition, we invested in new gas storage capacity.

- Netherlands/Belgium: At €1,147 million, capital expenditure by this division was 86% down on the previous year's figure, which was unusually high due to the acquisition of Essent. Including ancillary purchasing costs, we spent €7,794 million on the acquisition of the Dutch energy utility. In contrast, no notable funds were dedicated to financial assets in 2010. Conversely, capital expenditure on property, plant and equipment and intangible assets totalled €1,144 million, which was over seven times higher than in 2009. However, the year-earlier figure only included fourth-quarter spending. The division's single largest undertaking is the power plant project taken over from RWE Power in Eemshaven, the Netherlands. Furthermore, Essent is constructing the Moerdijk 2 and Claus C combined-cycle gas turbine power plants. The former is being built directly adjacent to the existing Moerdijk power plant. It will have an installed capacity of 426 MW and is scheduled to go online in the fourth quarter of 2011. Claus C is envisaged to have an installed capacity of 1,304 MW and replace the existing Claus B (640 MW) gas-fired power station. We plan to commission the plant in the first half of 2012. We expect to spend a total of €1.5 billion on these two projects.

- United Kingdom: RWE npower invested €899 million, 7% less than in 2009. Once again, decreasing spending on financial assets was the main reason. Capital expenditure on property, plant and equipment and intangible assets rose by 3% to €876 million. Centre stage was taken by the construction of two state-of-the-art combined-cycle gas turbine power stations. All four units at our facility at Staythorpe (Nottinghamshire) went online between August and November 2010. It has an aggregate installed capacity of 1,650 MW. The second plant is located at Pembroke, Wales. It will have an installed capacity of 2,188 MW, and is scheduled to begin generation in 2012.

- Central Eastern and South Eastern Europe: Capital expenditure advanced by 18% to €438 million. It was almost exclusively used on property, plant and equipment. The focus continues to be on measures to improve electricity and gas network infrastructure. However, in the year being reviewed, we stepped up our investment in the expansion of our Czech gas storage capacities. Additional funds were dedicated to the construction of a 775 MW combined-cycle gas turbine power station in the Turkish town of Denizli, which we started in mid-2010.

- Renewables: RWE Innogy aims to expand its renewable generation base significantly and is making good progress. At €709 million, capital expenditure in 2010 was in the order of the previous year. Most of it was dedicated to property, plant and equipment. Funds were primarily spent on building new wind power capacity. Our single largest project is the Gwynt y Môr wind farm off the coast of North Wales, which will have a total installed capacity of 576 MW. By the end of 2011, laying of the first foundations for a total of 160 wind turbines should have commenced, with completion scheduled for 2014. Another investment is the planned Nordsee Ost wind farm north of the Isle of Helgoland, which will have an aggregate installed capacity of 295 MW. Construction has begun, with the project due to be completed in 2013. To build the Gwynt y Môr and Nordsee Ost wind farms, we will use our own special construction ships, for which we made down payments in the year under review. Another major project is the expansion of the Thornton Bank wind farm off the Belgian coast from 30 MW to 325 MW. Furthermore, RWE Innogy granted loans to associated companies, but these are not stated as capital expenditure: €300 million (previous year: €220 million) was earmarked for the Greater Gabbard Offshore Winds Ltd. joint venture, which is erecting the namesake wind farm off the UK coast. We own 50% of the company. In addition, we invested in onshore wind energy, for example at sites in Poland, Italy and Scotland. Besides wind power, biomass plays a significant role for us. In the year being reported, we began to construct a 42 MW combined heat and power plant in the Scottish town of Markinch. Moreover, we are building several such facilities at locations in the German state of North Rhine-Westphalia. We also spent capital on hydroelectric projects in 2010, albeit to a lesser extent, for example on the expansion of a run-of-river power station on the upper Rhine.

- Upstream Gas & Oil: Capital spending at RWE Dea amounted to €507 million, clearly down on the previous year's high figure (€855 million). The latter was greatly influenced by the acquisition of a 70% stake in the Breagh gas field in the North Sea. We spent roughly €260 million on it, whereas we did not conclude any transactions of a similar order in 2010. As in the preceding year, RWE Dea's focus was placed on developing existing reserves and resources.

- Trading/Gas Midstream: RWE Supply & Trading roughly halved its capital expenditure to €65 million. As in the preceding year, additions to Excelerate Energy's equity were the single largest item.

Other, consolidation: This item includes €423 million in capital expenditure for 2010, largely relating to property, plant and equipment. Most of the funds were used by Amprion to modernise and expand the electricity transmission network.

Workforce[1]	31 Dec 2010	31 Dec 2009	+/– %
Germany	34,184	33,605	1.7
Power Generation	15,409	15,346	0.4
Sales and Distribution Networks	18,775	18,259	2.8
Netherlands/Belgium	3,899	4,695	–17.0
United Kingdom	11,711	12,224	–4.2
Central Eastern and South Eastern Europe	11,163	11,289	–1.1
Renewables	1,232	980	25.7
Upstream Gas & Oil	1,363	1,279	6.6
Trading/Gas Midstream	1,512	989	52.9
Other	5,792[2]	5,665	2.2
RWE Group	**70,856**	**70,726**	**0.2**

1 Converted to full-time positions.
2 Of which 2,271 at RWE IT and 1,406 at RWE Service.

Employee headcount marginally higher. As of the balance-sheet date, the RWE Group employed 70,856 people, 41,039, 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 130 personnel compared to 31 December 2009, due to operating changes. In contrast, acquisitions and divestments caused a net 311 employees to leave the Group. There were major shifts of personnel between the divisions, because, in 2010, Essent's trading business and wind power activities were reclassified to the Trading/Gas Midstream and Renewables Segments, respectively. In addition, employees transferred from RWE IT to RWE npower and RWE Supply & Trading. As in previous years, we trained far more people than required to cover our own needs. By 31 December 2010, 3,079 young adults were in a professional training programme at RWE. Staff figures do not include trainees.

Cost reductions and efficiency improvements in Group purchasing. RWE Service, our internal service provider, is in charge of purchasing goods and services. This does not include the procurement of electricity, commodities, insurance services, or power plant components needed for new-build projects. RWE Service uses standardised purchasing systems and complies with the principles of best practice. Yet again, the company realised substantial savings in fiscal 2010. For instance, it took charge of nearly all purchases of management, personnel, legal consulting and marketing services. Moreover, we completed the integration of Essent into our corporate purchasing process and refined RWE standards for occupational safety and sustainability into our supplier management system.

Raw materials are sourced by our generation companies either directly on the market, or via RWE Supply & Trading. In 2010, the amount of hard coal procured to generate electricity totalled 16.3 million metric tons of hard coal unit (HCU), compared to 16.2 million metric tons in the previous year. This includes coal for power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. In the financial year that just came to a close, RWE Power sourced 12.2 million metric tons of HCU (previous year: 10.5 million metric tons), and RWE npower purchased 2.2 million metric tons (previous year: 5.2 million metric tons). Essent accounts for 1.8 million metric tons of HCU (prior year: 0.5 million metric tons). Furthermore, the company used 0.8 million metric tons of biomass to co-fire at coal power stations (previous year: 0.2 million metric tons). The slight increase in hard coal volumes is due to the higher utilisation of our power stations in Germany and Essent's first-time inclusion on a twelve-month basis. A counteracting effect was felt from the fact that RWE npower largely met its need by reducing inventory. We cover roughly half of coal demand from our own power plants in Germany from domestic production sources. Russia is RWE npower's major supplier region, and Essent procures two thirds of the hard coal it uses from Colombia. Biomass used for the co-firing of our Dutch coal power plants is largely sourced from North America.

RWE sources lignite from proprietary opencast mines. In the Rhineland, our main mining region, we produced 91 million metric tons of lignite in the year under review (previous year: 92 million metric tons). We used 80 million metric tons to generate electricity and 11 million metric tons to manufacture refined products.

Our gas purchasing is pooled in RWE Supply & Trading. In 2010, our procurement volume amounted to roughly 50 billion cubic metres. About half of it is sourced on the basis of long-term take-or-pay agreements, the conditions of which are orientated towards the development of oil prices. We concluded such supply agreements largely with companies in Russia, Norway, the Netherlands and Germany. In addition, we buy gas on wholesale markets, namely the Title Transfer Facility (Netherlands) and the National Balancing Point (UK). Approximately 3 % of our gas purchase volume is covered by in-house production.

1.7 FINANCIAL POSITION AND NET WORTH

In fiscal 2010, we spent more on property, plant and equipment than ever before – and paid our shareholders a large dividend. Our operating cash flow alone would not have been enough to finance this. Our good creditworthiness enabled us to raise debt at favourable conditions. In addition, we made use of an innovative financial tool by issuing a hybrid bond. This was the largest issuance of a security of this type ever placed by a European industrial enterprise.

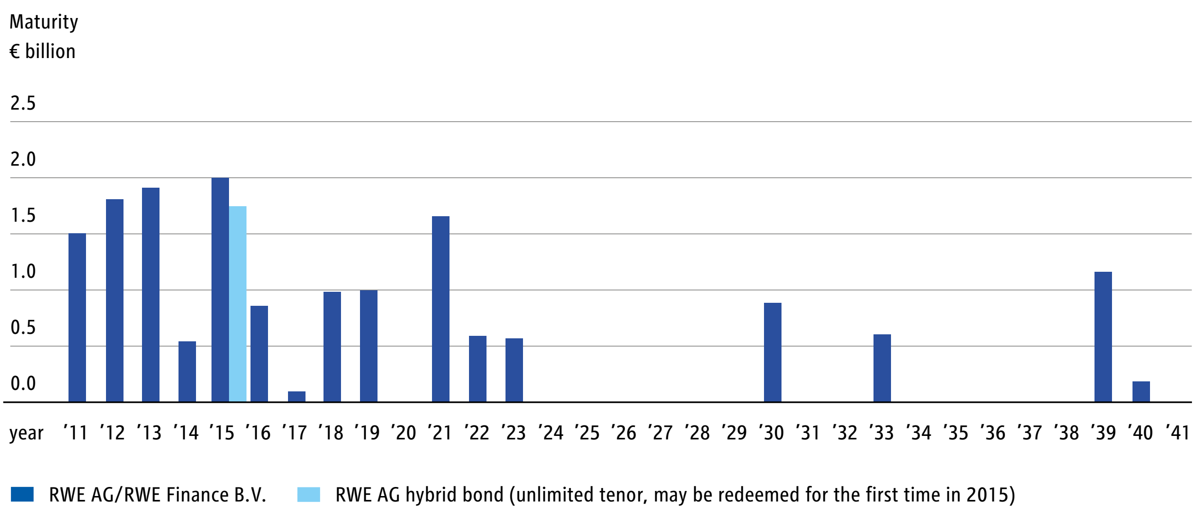
Central financing through RWE AG. The RWE Group's financing is the responsibility of RWE AG. The corporate headquarters does not usually issue bonds itself, instead transferring this task to Netherlands-based RWE Finance B.V. Only in specific cases do other subsidiaries raise capital directly, especially if it is more advantageous economically to make use of local credit and capital markets. Furthermore, RWE AG acts as co-ordinator when Group companies assume a liability: the company decides on the scope of warranties issued and letters of comfort signed. Pooling these activities is a basic prerequisite for managing and monitoring financial risks centrally. Moreover, this strengthens our position when negotiating with banks, business partners, suppliers and customers.

Substantial financial flexibility. We primarily meet our financing needs with the high and stable cash flows from our operating activities. In addition, we have access to a number of flexible financing instruments. One of our major tools is the Debt Issuance Programme (DIP) for long-term refinancing on the capital market. The maximum countervalue of the bonds that we can issue through the DIP totals €30 billion. Last, but not least, a commercial paper programme gives us a maximum of US$5 billion in headroom for short-term financing on the money market. €0.5 billion in RWE commercial paper was outstanding as of 31 December 2010.

A €4.0 billion credit line we obtained in November 2010 serves as an additional liquidity reserve. It has a tenor of an initial five years and replaces two €2.0 billion lines of credit, which would have expired in October 2011. RWE has the option in 2011 and 2012 to file for an extension of the credit line until November 2016 and 2017, respectively.

Neither the aforementioned financing instruments, nor the current credit facilities, contain specific financial covenants such as interest coverage, leverage or capitalisation ratios that could trigger actions, such as acceleration of repayment, provision of additional collateral, or higher interest payments. Likewise, they do not contain rating triggers.

Maturity profile of the RWE Group's capital market debt (as of 31 Dec 2010)



RWE issues hybrid bond with record volume. In September, we issued a hybrid bond with a volume of €1.75 billion. This was the largest and lowest-interest issuance of a security of this type ever placed by an industrial enterprise in Europe. With an annual coupon of 4.625% and an issue price of 99.7%, the bond drew keen interest from investors. Hybrid bonds are a mix of equity and debt financing. In the event of insolvency, they are settled only once all of the company's other debt instruments have been serviced. In exchange, this paper usually has a higher coupon than conventional bonds. RWE's hybrid bond theoretically has an unlimited tenor. However, we have the right to redeem it for the first time after five years. Further information on the hybrid bond can be found in the notes on page 195.

Total volume of bonds outstanding rises to €18.1 billion. Besides the hybrid bond, we only had two minor issuances on the capital market in 2010, whereas we redeemed a total of €0.6 billion in bonds. By 31 December 2010, outstanding paper including the hybrid bond had a value of €18.1 billion. This is €1.7 billion more than in the previous year. The bonds are denominated in euros, sterling, US dollars and Japanese yen. We concluded hedges to manage our currency exposure. Taking such transactions into account, our debt broke down into 72% in euros and 28% in sterling. This means that we do not have any currency exposure from capital market debt in US dollars or in yen. Our bonds' initial tenors range from 2 to 30 years. Their weighted average remaining term to maturity at the end of 2010 was 8.1 years. The hybrid bond is not included in this figure. €1.5 billion in bonds are due for repayment in 2011.

RWE Group's capital market debt as of 31 Dec 2010 by maturity[1]		2011-2014	2015-2018	2019-2023	from 2024
Nominal volume	€ billion	5.8	3.9	3.8	2.8
Relative share of total volume of capital market debt	%	36	24	23	17

1 Excluding the hybrid bond, which has an unlimited tenor.

Net debt rises to €29.0 billion. Our net debt rose by €3.2 billion to €29.0 billion during the 2010 financial year. Capital expenditure on property, plant and equipment played an especially significant role, achieving a new record high of €6.4 billion. The dividend payments of €2.2 billion also made a contribution. In addition, provisions for nuclear waste management increased by €0.5 billion. Conversely, cash provided by operating activities dampened the rise in liabilities. This also applies to the hybrid bond, which was issued in September, because in determining net debt, we classify half of the €1.75 billion in hybrid capital as equity, in line with the procedure followed by the rating agencies. In contrast, our consolidated balance sheet is subject to International Financial Reporting Standards (IFRS), which stipulate that the hybrid capital be fully classified as equity.

Net debt € million	31 Dec 2010	31 Dec 2009	+/– %
Cash and cash equivalents	2,476	3,074	−19.5
Marketable securities	3,445	3,443	0.1
Other financial assets	1,985	3,247	−38.9
Financial assets	**7,906**	**9,764**	**−19.0**
Bonds, other notes payable, bank debt, commercial paper	17,572	17,707	−0.8
Other financial liabilities	2,238	2,439	−8.2
Financial liabilities	**19,810**	**20,146**	**−1.7**
Net financial debt	**11,904**	**10,382**	**14.7**
Provisions for pensions and similar obligations	3,318	3,281	1.1
Surplus of plan assets over benefit obligations	56	79	−29.1
Provisions for nuclear waste management	10,010	9,491	5.5
Mining provisions	2,920	2,712	7.7
Hybrid capital (share of relevance to rating)	880	–	–
Net assets held for sale	12	–	–
Net debt of the RWE Group	**28,964**	**25,787**	**12.3**

Securing current A rating is a high priority. Assessments of creditworthiness made by independent rating agencies have a substantial influence on a company's options to raise capital. The better the rating, the easier it is to gain access to international capital markets and the better the conditions for debt financing. Therefore, we benefit from the fact that the two leading rating agencies, Moody's and Standard & Poor's, have given RWE high credit ratings. The following table provides an overview of our credit ratings at the end of January 2011:

Credit rating	Moody's	Standard & Poor's
Long-term	A2 / negative outlook	A / negative outlook
Short-term	P-1	A-1

Leverage factor remains at 2.8. We manage our debt based on recognised parameters. One of the key figures is the ratio of net debt to EBITDA, which we refer to as the 'leverage factor.' This key performance indicator is of more informational value than the debt total as it reflects the company's earning power and, in turn, the company's ability to service the debt. In February 2010, we set ourselves the goal to orientate our leverage factor towards an upper limit of 3.0. We hit this target. In the financial year that just ended, it was 2.8, matching the 2009 factor.

Cost of debt slightly lower. In 2010, our cost of debt amounted to 4.9%. This figure relates to the RWE Group's average bonds and commercial paper outstanding, including interest derivatives. Hybrid capital is not considered. Our financing costs were marginally down on 2009 (5.0%). The bonds issued in the fiscal year made a contribution to this, bearing a below-average interest rate of 2.7% (including hedges).

Cash flow statement € million	2010	2009	+/– € million
Cash flows from operating activities	5,500	5,299	201
of which: changes in working capital	–2,349	–795	–1,554
Cash flows from investing activities	–6,683	–8,326	1,643
Cash flows from financing activities	638	4,839	–4,201
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	6	13	–7
Total net changes in cash and cash equivalents	**–539**	**1,825**	**–2,364**
Cash flows from operating activities	5,500	5,299	201
Minus capital expenditure on property, plant and equipment and on intangible assets	–6,379	–5,913	–466
Free cash flow	**–879**	**–614**	**–265**

Cash flows from operating activities improved by 4%. In fiscal 2010, we generated €5,500 million in cash flows from operating activities. This was 4% more than in the previous year (€5,299 million). The main driver was the good earnings, whereas effects in working capital had a counterproductive impact. Cash outflows for investing activities totalled €6,683 million. This is the sum by which our cash outflows for investing activities (including changes in cash investments) exceeded proceeds from the disposal of assets and the sale of companies. Cash flows from financing activities amounted to €638 million, despite the high dividend payment for the 2009 financial year. They primarily stem from the bond issuances, which had a total volume of €2.1 billion. Cash and cash equivalents declined by €539 million over the course 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 –€879 million. This was lower than the year-earlier figure, which was already negative (–€614 million). It reflects our extensive investing activity.

Balance sheet structure	31 Dec 2010		31 Dec 2009	
	€ million	%	€ million	%
Assets				
Non-current assets	60,465	65.0	56,563	60.5
Intangible assets	17,350	18.6	17,320	18.5
Property, plant and equipment	32,237	34.6	28,627	30.6
Current assets	32,612	35.0	36,875	39.5
Receivables and other assets[1]	23,258	25.0	27,396	29.3
Total	**93,077**	**100.0**	**93,438**	**100.0**
Equity and liabilities				
Equity	17,417	18.7	13,717	14.7
Non-current liabilities	45,162	48.5	45,633	48.8
Provisions	23,485	25.2	22,315	23.9
Financial liabilities	15,908	17.1	17,019	18.2
Current liabilities	30,498	32.8	34,088	36.5
Other liabilities[2]	20,881	22.4	25,132	26.9
Total	**93,077**	**100.0**	**93,438**	**100.0**

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

Balance sheet structure: equity ratio rises to 18.7 %. As of 31 December 2010, the RWE Group's balance sheet total amounted to €93.1 billion. This is €0.3 billion less than in the preceding year. Major changes occurred with respect to the derivative positions: they were each down €3.3 billion on both the equity and liabilities side of the balance sheet. Our financial accounts receivable from sureties (margins and collateral) declined by €1.3 billion, whereas property, plant and equipment rose by €3.6 billion year on year due to our extensive investment activity. Changes in foreign exchange rates caused the balance sheet total to increase by €0.7 billion. In the year being reviewed, the RWE Group's equity ratio rose from 14.7 % to 18.7 %. Drivers were the company's considerable earning power and the issuance of the hybrid bond. Equity and non-current liabilities covered all our non-current assets at the balance sheet date.

1.8 NOTES TO THE FINANCIAL STATEMENTS OF RWE AG (HOLDING COMPANY)

RWE AG's role in the Group. As the management holding company of the RWE Group, RWE AG handles central management tasks. Its economic situation is largely determined by the subsidiaries' activities.

Financial statements. RWE AG prepares its financial statements in compliance with the rules set out in the German Commercial Code and the German Stock Corporation Act. The rules of the German Accounting Modernisation Act (BilMoG) were applied to the financial year ending on 31 December 2010 for the first time. Adjustments to prior-year figures only reflect the change in the accounting treatment of our own shares. The financial statements are submitted to Bundesanzeiger Verlagsgesellschaft mbH, Cologne, Germany, the operator of the electronic Federal Gazette (Bundesanzeiger) and published in the electronic Bundesanzeiger. They can be ordered from us and are also available on the internet.

Balance sheet of RWE AG (abridged)[1] € million	31 Dec 2010	31 Dec 2009
Non-current assets		
Financial assets	39,849	40,039
Current assets		
Accounts receivable from affiliated companies	3,950	3,896
Other accounts receivable and other assets	876	778
Marketable securities and cash and cash equivalents	1,679	1,751
Total assets	**46,354**	**46,464**
Equity	8,146	7,493
Provisions	4,851	7,360
Accounts payable to affiliated companies	29,462	29,966
Other liabilities	3,895	1,645
Total equity and liabilities	**46,354**	**46,464**

1 Prior-year figures adjusted.

Income statement of RWE AG (abridged) € million	2010	2009
Net income from financial assets	3,184	3,662
Net interest	–681	–1,091
Other income and expenses	1,413	982
Profit from ordinary activities	**3,916**	**3,553**
Extraordinary income and expenses	1	–
Taxes on income	–1,397	–1,115
Net profit	**2,520**	**2,438**
Profit carried forward	–	7
Allocation to retained earnings	–653	–578
Distributable profit	**1,867**	**1,867**

Assets. The net worth of RWE AG is determined by the management of investments and the performance of management functions for the Group companies. The holding company holds the shares in the Group companies and performs financing functions for them. The presentation of the assets changed due to the new rules set out in the BilMoG. Accordingly, assets used to hedge pension obligations are set off against the latter. In the year under review, this primarily affected non-current securities. In consequence, assets were reduced by €3.0 billion. Furthermore, 28.8 million of our own shares stated as current assets with a carrying amount of €2.0 billion must be directly set off against equity. The figure stated for the preceding year was adjusted accordingly. The €1.75 billion hybrid bond we issued in September 2010, which is classified as debt in accordance with German commercial law, was largely responsible for the rise in other liabilities.

As of 31 December 2010, RWE AG's equity ratio was 17.6%. It exceeded the previous year's adjusted figure (16.1%). €0.7 billion was transferred to retained earnings.

Financial position. One of RWE AG's key tasks is to procure funds for its subsidiaries' ongoing business activities. The subsidiary RWE Finance B.V. handles most of the company's external refinancing on the capital market by issuing bonds backed by RWE AG. As mentioned earlier, RWE AG issued a hybrid bond in the financial year that just ended. It has an unlimited tenor and RWE AG can redeem it for the first time after five years. As of 31 December 2010, outstanding bonds and commercial paper issued by RWE including the hybrid bond amounted to €18.1 billion and €0.5 billion, respectively. In 2010, RWE took out a syndicated credit line with several banks for a total of €4.0 billion. It has a term of five years and replaces two tranches, each of which had a volume of €2.0 billion and would have expired in October 2011.

Earnings position. RWE AG's earnings are largely determined by those achieved by its subsidiaries. The net profit generated in 2010 was marginally up year on year. Income from financial assets, which was primarily contributed by RWE Power as well as the network and sales companies in Germany and Central Eastern Europe, declined slightly. Conversely, net interest improved. This is primarily because, pursuant to the BilMoG, income from securities held to hedge pension obligations is set off against interest expenses associated with provisions for pensions. The 'Other income and expenses' item also improved, especially as income tax apportionments from subsidiaries were higher than in 2009. Accordingly, the tax expense rose compared to 2009.

The Supervisory and Executive Boards of RWE AG will propose to the Annual General Meeting on 20 April 2011 that a dividend of €3.50 per share be paid for fiscal 2010. Relative to the Group's recurrent net income, this results in a payout ratio of 50%. It is thus at the low end of the target range of 50% to 60%.

Takeover provisions: disclosure in compliance with Secs. 315, Para. 4 and 289, Para. 4 of the German Commercial Code (HGB) and report of the Executive Board in accordance with Sec. 176, Para. 1, Sentence 1 of the German Stock Corporation Act (AktG). RWE AG's subscribed capital remained unchanged, consisting of 523,405,000 no-par-value common shares in the name of the bearer (93.1% of the subscribed capital) and 39,000,000 no-par-value preferred shares in the name of the bearer without voting rights (6.9% of the subscribed capital). The remaining rights and obligations are determined by the German Stock Corporation Act (AktG). Holders of non-voting preferred shares have a right to a preferred share of profits of €0.13 per share when the distributable profit is distributed. The composition of subscribed capital and, above all, the legal definition of the non-voting preferred shares issued by RWE are in compliance with the provisions of the law and of the Articles of Incorporation.

In compliance with Sec. 21, Para. 1 of the German Securities Trading Act (WpHG), on 21 December 2007, RW Energie-Beteiligungsgesellschaft mbH & Co. KG, Dortmund, informed us that it held 16.089% of RWE AG's voting stock at the time.

Executive Board members are appointed and dismissed in accordance with Secs. 84 et seq. of the German Stock Corporation Act (AktG) in connection with Sec. 31 of the German Co-Determination Act (MitbestG). Amendments to the Articles of Incorporation are made pursuant to Secs. 179 et seqq. in connection with Sec. 16, Para. 6 of the Articles of Incorporation of RWE AG. According to Sec. 16, Para. 6 of the Articles of Incorporation, unless otherwise provided for by law or in the Articles of Incorporation, the Annual General Meeting shall adopt all resolutions with a simple majority of the votes cast; in so far as a majority of the capital stock represented is required, the simple majority shall suffice. We thus made use of the legal possibility of determining a different capital majority for amendments to the Articles of Incorporation than prescribed by law. Amendments to the Articles of Incorporation that only concern the wording, without changing content, may be decided upon by the Supervisory Board (Sec. 10, Para. 9 of the Articles of Incorporation).

Pursuant to the resolution passed by the Annual General Meeting on 22 April 2010, the company was authorised to purchase shares of any class in RWE until 21 October 2011, totalling up to 10% of the share capital. The purchase may be limited to shares of a single class. It is at the Executive Board's discretion to purchase the shares on the stock market or by making a public call for shares. This can be done through the use of put or call options. The own shares may then be called in. If common shares are bought back, they can also be transferred to third parties within the scope of mergers or acquisitions, or sold in another manner. A sale not conducted on the stock exchange or via a tender to all shareholders may only be made in exchange for cash. Moreover, the price at the time of sale may not be significantly lower than the stock-market price for common shares bearing the same rights. Common shares bought back may be used to redeem convertible and option bonds issued on the basis of the resolutions passed by the Annual General Meeting held on 22 April 2009. The authorisation may be exercised in full or in part and also for partial amounts.

Pursuant to the resolution passed by the Annual General Meeting on 22 April 2009, the Executive Board was authorised to issue option or convertible bonds until 21 April 2014. The bonds' combined nominal value is limited at €6 billion. The shareholders' subscription rights can be waived if the bonds are issued at a price in line with the market and the new shares do not account for more than 10% of the share capital. The Executive Board may also waive the shareholders' subscription rights in order to avoid allocation of fractions of shares that would result from the subscription. This can also be done in order to offer the shares to holders of earlier convertible and option bonds in a number to which they would be entitled on conversion or exercise of the option as shareholders. Pursuant to Sec. 4, Para. 3a and 3b of the Articles of Incorporation, €143,975,680 in conditional capital, divided among 56,240,500 common shares in the name of the bearer, may be used to exercise convertible and option rights.

Pursuant to Sec. 4, Para. 2 of the Articles of Incorporation, the Executive Board is authorised to increase the company's capital stock with the Supervisory Board's approval by up to €287,951,360 until 16 April 2013 either at once or in several increments through the issuance of no-par-value common shares in the name of the bearer in exchange for contributions in cash or in kind (authorised capital). The shareholders' subscription rights can be waived with the Supervisory Board's approval, in order to avoid allocation of fractions of shares. The subscription rights can also be waived in order to issue shares in exchange for contributions in kind within the scope of mergers or for the purpose of acquiring stakes in companies. Subscription rights can also be waived in the event of a cash capital increase if the price at which the new shares are issued is not significantly lower than the price at which shares outstanding are traded on the stock market, and if the portion of the capital stock accounted for by the new shares, for which subscription rights are waived, does not exceed 10% in total. The Executive Board shall be empowered, subject to the consent of the Supervisory Board, to determine the further details and conditions of the share issuance. Shares from authorised capital are added to shares from conditional capital in cases where they are both issued waiving the shareholders' subscription rights. In such cases, the capital stock may not be increased by more than 20% through the issuance of new shares.

RWE AG's syndicated credit line has a change of control clause including the following main provisions: in the event of a change of control or majority at RWE, further drawings are suspended until further notice and the lenders shall enter into negotiations with us on a continuation of the credit line. Should an agreement with the majority of the lenders not be reached within 30 days from such a change of control, the lenders shall cancel the line of credit. RWE's non-subordinated bonds have a change of control clause with the following essential provisions: in the event of a change of control in conjunction with a drop in RWE AG's credit rating below investment-grade status, creditors have the right to demand that their bonds be redeemed. The redemption amount is calculated on the basis of the corresponding bond conditions. The hybrid bond has a change of control clause according to which we may fully cancel and redeem the hybrid bond within a defined change of control period in the event of a change of control. If it is not redeemed and the credit rating drops below investment-grade status during the change of control period, the rate of remuneration for the hybrid bond increases by 500 basis points p.a.

Executive Board members have a special right of termination in the event of a change of control. On execution of this special right of termination, Executive Board members receive a one-off payment in the amount of the compensation due until the end of the duration of the contract originally agreed, which shall correspond to at least twice their total contractual annual compensation and shall not correspond to more than three times their total contractual annual compensation. This is in line with the requirements of the German Corporate Governance Code. Dr. Jürgen Großmann was granted this special right of termination before the amendment to the German Corporate Governance Code, which took effect in 2008. His employment contract envisages a one-off payment that covers all of the remuneration due until the end of the contractual term as well as the sum contractually agreed instead of a pension commitment.

Furthermore, in the event of a change of control, retained Executive Board bonuses are prematurely valued and possibly paid. This is done on the basis of the average bonus-malus factor of the last three years. Whether retained bonuses are paid out and the amount of the payout depend on this factor.

The 2005 long-term incentive plan (Beat) and the 2010 RWE performance share plan (Beat 2010) for the Executive Board and executives of RWE AG and of affiliated companies include a provision for a change of control. In such events, all holders of performance shares receive a compensatory payment. The amount of the compensatory payment is determined by multiplying the price paid for RWE shares as part of the takeover by the final number of performance shares as of the date of the takeover offer, in line with the corresponding plan conditions.

The authorisation to conduct share buybacks, the authorised capital, the provision governing changes of control over the syndicated credit line and the RWE bonds as well as the provisions effective in the event of a change of control in the Executive Board members’ contracts as well as in the 2005 long-term incentive plan (Beat) and the 2010 RWE performance share plan (Beat 2010) are in line with generally accepted German capital market standards.

1.9 INNOVATION

Efficient, climate-friendly and intelligent – this is our vision for the energy supply of the future. Our extensive research and development work contributes to turning this vision into reality. However, progress in climate protection must not result in setbacks in terms of efficiency or security of supply. Therefore, we focus on solutions that are comprehensively sustainable, from the use of carbon dioxide as a raw material and new electricity storage technologies to electric cars.

Research and development costs up 35 %. Our research and development (R&D) is designed to create solutions for an environmentally friendly, reliable and affordable supply of energy, thereby safeguarding our competitiveness over the long term. This is an area in which we greatly rely on our co-operation with partners in plant engineering and the chemical industry as well as research institutes. As a result, our range of action is larger than the following figures might otherwise indicate. Last financial year, we spent €149 million on R&D, €39 million more than in 2009. Part of the reason for this is that we included Essent, and thus its R&D expenditure, on a twelve-month basis for the first time in the year under review. Three hundred and sixty of our employees were solely or partially dedicated to R&D work.

Research and development		2010	2009	2008	2007	2006
R&D costs	€ million	149	110	105	74	73
R&D employees		360	350	330	270	273

Carbon dioxide: from pollutant to commodity. How can we reconcile generating electricity from fossil fuel – especially coal – with the goal of protecting the climate? An answer to this question is provided by technologies which prevent carbon dioxide from power plants entering into the atmosphere. What needs to be done first is to isolate the CO_2. Several methods can be employed to do so. The most advanced technology by far is the separation of the carbon dioxide from the flue gas that is produced when coal or gas is combusted. This technique is known as 'CO_2 washing.' We built a pilot plant at our Niederaußem site to test it. Since 2009, we have been testing new 'CO_2 detergents' for large-scale technical use there, together with BASF and Linde. The results are promising: compared to the substances commonly used today, the new solvents consume up to 20 % less energy when isolating the carbon dioxide. In addition, we have proven that they withstand several wash cycles. We intend to test additional detergents in a second pilot plant, which is located at our Aberthaw power station in the UK. Preparations for construction are underway. Our goal is to be in a position to use CO_2 washing commercially no later than 2020.

However, capturing the carbon dioxide is only the first step. In addition, the gas has to be kept from the atmosphere permanently, for example by storing it in rock formations deep under the surface of the earth. We are looking into ways of separating and storing carbon dioxide in Eemshaven (Netherlands) where we are building a twin-unit hard coal-fired power plant with an aggregate installed capacity of 1,560 MW. We could supplement it with a CO_2 separation demonstration unit if we received support from an EU subsidy programme. In Germany, however, there is still no legal framework for the underground storage of CO_2. Furthermore, it has become clear that it meets with resistance from local residents. Against this backdrop, we are taking another step forward. We are investigating how to turn a harmful greenhouse gas into a valuable commodity in times of increasingly scarce resources, although the emission reduction potential of this method is much lower than through storage. Our ideas centre on how CO_2 can be used as a carbon building block in the fields of biotechnology, chemistry and biology. We launched three co-operation projects in 2010 to address this issue. The first undertaking was initiated by RWE Power in January together with the Hessian company BRAIN. The task at hand is to use micro-organisms to convert carbon dioxide into biomass, bio-plastics and chemical intermediates. BRAIN is a leader in the field of 'white biotechnology,' the term used to describe the use of biotechnological methods in industrial production. A second project was started by RWE Power in June 2010 in conjunction with Bayer and the Institute for Technical and Macromolecular Chemistry at RWTH Aachen University. In this undertaking, we are looking into ways to manufacture plastics from CO_2. Germany's federal education and research ministry (BMBF) is subsidising this project. Our project list is rounded off by the third research activity we initiated called 'CO_2RRECT.' The idea behind this is that experts from RWE, Bayer, Siemens and several universities and research centres use electricity from renewable sources in order to produce hydrogen through electrolysis. In a second step, the hydrogen is brought into contact with CO_2. The result is chemical intermediates such as carbon monoxide and formic acid. In this manner, carbon dioxide can be used as a starting material for products in daily use such as CDs. This project is also being subsidised by the BMBF.

More efficient lignite-based electricity generation. A serious disadvantage in capturing CO_2 is that it leads to efficiency drops in electricity generation. It is therefore all the more important that we constantly work on raising the efficiency of our power stations. A milestone passed on the way to achieving this is the demonstration unit for drying lignite prior to combustion, which we commissioned at our Niederaußem site in 2009. The method employed – fluidised bed drying with integrated waste heat use – increases the efficiency of lignite-based electricity generation by up to 10%. RWE developed this technology and had it patented. Since selling a license for the use of this method in an Australian project, Linde-KCA-Dresden GmbH and Uhde Services GmbH have also obtained our permission to employ the technology from 2010 onwards. We intend to market it worldwide, which will contribute to ensuring that the lignite-fired power plants of other companies also have higher efficiencies and lower emissions.

Energy from the force of the ocean. Our R&D activity in the field of electricity production also addresses energy from renewables. We are taking various approaches in this area, such as harnessing the energy of the sea. In June 2010, RWE Innogy and Voith Hydro decided to build an ocean current power generation plant in the waters of the Orkney Islands (Scotland). The joint venture, named Voith Hydro Ocean Current Technologies, will install a marine tidal current turbine there, with an installed capacity of 1 MW. We plan to put it through a two-year test so we can gain important expertise concerning the operation of this type of plant. In addition, we want to pave the way for new methods of using energy from renewables by providing third parties with financial assistance for putting their ideas into practice. Via the subsidiary we established in October 2010, Innogy Venture Capital GmbH, we acquire stakes in young companies working on implementing promising technologies.

RWE plans highly efficient compressed air storage facility. Due to the rapid rise in the number of wind turbines and solar panels, electricity on the system is increasingly influenced by weather conditions. However, the supply of electricity must always meet demand in order for the grid voltage to remain stable. Striking this balance is becoming an ever-more ambitious task, which cannot be accomplished without new electricity storage techniques. Against this backdrop, RWE Power joined forces with the German Aerospace Centre as well as General Electric Group and Züblin to develop key components for an innovative pressurised-air storage facility. If we accomplish this successfully, the next step would be to build a demonstration facility in Staßfurt (Saxony-Anhalt). When electricity supply is high, air is compressed and forced into subterranean cavities, where it is stored. This compressed air can be used to generate electricity when needed. We plan to build a demonstration plant capable of storing 1,000 MWh and an electric capacity of up to 200 MW. It should have an efficiency of 70%. We intend to accomplish this by capturing the heat generated during the compression process and returning it to the facility's energy cycle. It would be the first time this method is used on a large scale anywhere in the world.

RWE conducts research on the intelligent networking of decentralised electricity sources. In the energy world of the past, electricity was fed into the grid almost exclusively by large-scale power plants, whereas the role assumed by homes was limited to that of consumer. In the meantime, this picture has changed. More and more households are equipped with solar panels and produce electricity themselves, feeding their surplus energy into the system. This translates into additional co-ordination work for operators of medium and low-voltage networks. Therefore, in the energy world of the future, smart grids will play a key role. Networks of this type feature new control technology enabling a more efficient use of their capacity. In the last financial year, we gave the go-ahead for the construction of such an intelligent electricity network in Bitburg/Prüm in Eifel County. The project is being supported by the German economics and technology ministry. It is being carried out by a consortium led by RWE Deutschland AG, which includes ABB and Consentec as well as Dortmund Technical University, all of which are located in Germany.

Another step towards the future consists of forming IT links between small decentralised power producers and users. Within the scope of the EU-subsidised PowerMatching City Hoogkerk demonstration project in the Netherlands, we are testing the technical prerequisites and commercial impact of such networks. For example, customers can consult price data to determine when to switch on their washing machines or heat pumps. This brings demand for electricity more in line with supply, reducing both costs and system load. In addition, we are testing a novel control programme, which conveniently takes automatic energy usage decisions for customers.

Charging instead of filling: the mobility of the future. In addition to smart grids, another integral component of tomorrow's energy world is electric cars. They are occasionally seen on Germany's roads, sometimes bearing the RWE logo. The German government has set itself the goal of having a million electric cars on the country's roads by 2020. We are supporting this undertaking by setting up and constantly refining a network of charging stations with a user-friendly billing system. To supplement these efforts, we started investigating with our partners Renault, RWTH Aachen University and Aachener Forschungsgesellschaft Kraftfahrwesen mbH how suitable electric cars are for commuters. We are examining how specific driving styles on short routes affect the performance of an electric motor. Beside technical aspects, we want to use our study to analyse customer acceptance and develop ideas for new products. Here again, we are receiving assistance from the realm of politics, as the project is being subsidised by the German transport, building and urban development ministry.

1.10 DEVELOPMENT OF RISKS AND OPPORTUNITIES

Traditionally, the energy sector is considered a crisis-proof industry. Nevertheless, last year, it also experienced a rise in risks. Uncertain political framework conditions, changing market structures and fluctuating 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 solid business management. It is equally important to identify – and take advantage of – opportunities.

Organisation of risk management in the RWE Group. Overall responsibility for the groupwide risk management system sits with the Executive Board of RWE AG. It establishes the rules and minimum standards, defines the caps for the aggregated market and credit risks and takes decisions on transactions that can result in substantial risks.

Within the scope of restructuring the RWE Group, we also refined the organisation of our risk management. The Controlling/Organisational Efficiency Department within the CFO's mandate has taken overall responsibility for the control, steering and co-ordination of the risk management system since the beginning of the 2011 financial year. This organisational unit regularly reports on the Group's risk situation to the Executive Board and the Risk Management Committee.

The Risk Management Committee is in charge of monitoring and refining the risk management system. It is composed of the heads of the following RWE AG corporate departments: Commodity Management, Compliance, Controlling/Organisational Efficiency, Finance, Accounting, Legal/Board Affairs, Audit and Strategy. The Committee is chaired by the head of the Corporate Controlling/Organisational Efficiency Department.

In addition, the following organisational units have been entrusted with corporate risk management tasks:

Commodity Management, the corporate department created in January 2011, controls commodity positions. This department reports to the Executive Board member in charge of commercial management. Within a framework determined by the Executive Board, it grants approvals for hedging strategies and large commodity transactions. In addition, it derives limits for the commodity risks of the operating companies from the risk caps established by the Executive Board.

The CFO of RWE AG is in charge of tracking and monitoring commodity risks. In fulfilling this task, he is assisted by the CFOs and managing directors in charge of finance of our major Group companies. The Risk Controlling Unit, which belongs to the Controlling/Organisational Efficiency Department, establishes performance targets for risk measurement, monitors commodity risks and reports on this to the Executive Board. This is how we ensure that these risks, which are very important to us, are closely monitored and that guidelines are implemented uniformly throughout the Group.

The controlling of the RWE Group's credit risks is handled by the Credit Risk Controlling Unit, which also belongs to the Controlling/Organisational Efficiency Department.

The operating management of financial risks at the RWE AG level is the responsibility of the Financial Controlling Organisational Unit, which belongs to the Finance Department. Its tasks include reporting on currency, interest and liquidity risks.

The strategic guidelines for the management of our financial assets (including the funds of RWE Pensionstreuhand e.V. and RWE Pensionsfonds AG) are determined by the Asset Management Committee. It evaluates the earnings prospects and risks against each other, selects suitable asset classes (bonds, stocks, etc.) and decides on the allocation of the company's funds to them. The members of the Asset Management Committee are the CFO of RWE AG, the Head of Corporate Finance and the CFOs of RWE Power, RWE Dea, RWE npower, Lechwerke, enviaM and Süwag.

Risks in financial reporting are monitored by RWE AG's Corporate Accounting Department. This department also reports directly to the CFO. It uses an internal control system, which is described in detail on pages 125 et seq. In addition, the Corporate Compliance Department focuses on ensuring compliance with RWE's code of conduct and the avoidance of corruption risks. It reports to the President and CEO of RWE AG or, if members of the Executive Board are affected, directly to the Chairman of the Supervisory Board and the Chairman of the Audit Committee.

Under the expert management of the aforementioned areas, our Group companies see to it that the risk management guidelines are implemented throughout the Group.

Risk management as a continuous process. Risk management has been integrated into our operating workflow as a continuous process. In the RWE Group, risks and opportunities, defined as negative or positive deviations from target figures, are identified and classified early on. We evaluate risks according to their probability of occurrence and damage potential and aggregate them at the Group company or Group level. Risk monitoring covers the three-year horizon of our medium-term planning. However, it may extend beyond that for material strategic risks. Risks that share the same cause are aggregated to one position. If a risk can be reduced, the residual risk is reported together with the countermeasures already taken. The damage potential is defined in relation to the operating result and equity of the business unit concerned and the Group as a whole. Using a risk matrix, the corresponding risks thus become visible in terms of their probability of occurrence and potential damage. We can derive from this, among other things, the need for action with respect to individual risks. Risks with a high probability of occurrence or damage potential are mitigated by taking operational measures. Where necessary, we account for them by taking precautionary steps on the balance sheet, e.g. provisions. We evaluate and manage opportunities as part of our regular planning process.

We prepare standardised reports on our risks and opportunities for our management and supervisory committees on a quarterly basis. The Executive Board of RWE AG is immediately informed of unforeseen material changes to the risk situation. Our Group Audit Department regularly appraises the quality and functionality of our risk management system. Nevertheless, we cannot guarantee with absolute certainty that all relevant risks are identified and that the controls work. For example, human error can never be ruled out completely.

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 uncertain, as evidenced by the introduction of the German nuclear fuel tax. State budgetary deficits are increasing the pressure on governments in numerous European countries to impose new burdens on companies such as energy utilities, which are bound to certain locations. Substantial risks also exist in connection with the extension of nuclear power plant lifetimes voted for by the German Lower House. Important details which significantly affect the profitability and continuing operation of our plants remain to be clarified. It is also uncertain whether the lifetime extension is legally valid. In addition to energy policy, 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 fuel prices can have a substantial impact on earnings if electricity quotations do not move accordingly. We limit sudden market price risks by selling forward electricity up to three years before it is delivered and generally hedging the price of the fuel and emission certificates needed to generate it on conclusion of these forward transactions. We also hedge via forward transactions in the gas business. Risks exist in this context, 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. In some cases, the price 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 is uncertain. Despite this and other imponderables, there are no identifiable risks that jeopardise the continued operation of RWE AG or the RWE Group.

Major risk and opportunity categories. The following illustrates the risks and opportunities which may have a substantial impact on our asset, financial and earnings positions. They can be divided among the following categories:

- **Risks and opportunities arising from the volatility of commodity prices:** The development of prices on commodity markets greatly influences our earnings, especially in the field of electricity generation. For example, decreasing electricity prices or rising fuel costs may lead to a decline in generation margin contributions and reduce the value of our power plants. RWE Dea's upstream business is also exposed to price risks. Moreover, unfavourable market developments can cause our electricity and gas purchase prices to exceed the prices we can realise through sales to end-customers and distributors. This primarily relates to those of our gas procurement contracts which are linked to the price of oil. However, the aforementioned risks are contrasted by the possibility that the prices may develop in RWE's favour. We assess the price risks to which we are exposed on the procurement and sales markets taking account of current forward prices and expected price volatility. Commodity and credit risks faced by generation and sales companies are managed by following hedging rules established by RWE AG. As already mentioned, in the generation business, we limit risks by selling most of our electricity early on, via forward contracts, and hedging the price of the required fuel and emission certificates. We also make use of forward markets to limit risks in RWE Dea's upstream business and in RWE Supply & Trading's midstream business.

RWE Supply & Trading plays a central role when it comes to managing commodity price risks. The company is the RWE Group's interface to the world's wholesale markets for energy and energy commodities. It markets large portions of the Group's generation position and purchases the fossil fuels and CO_2 emission certificates needed to produce electricity. RWE Supply & Trading thus pools the risk and value added from commodity transactions for the Group and combines the expertise for these transactions centrally. Its role as internal transaction partner makes it easier for us to limit the earnings risks for the generation and sales businesses stemming from price swings on energy markets. RWE Supply & Trading also uses commodity derivatives to minimise risk in the procurement and sales businesses. The trading activities are not exclusively orientated towards reducing risks. RWE Supply & Trading undertakes proprietary trading to a strictly limited extent in order to take advantage of changes in prices on energy markets.

The RWE Group's risk management system for energy trading is firmly aligned with best practice as applied to the trading transactions of banks. Transactions are concluded with third parties only if credit risks are within approved limits. Groupwide guidelines provide structures and processes for the treatment of commodity risks and associated credit risks. The commodity positions in our subsidiaries are constantly monitored, and findings are reported to the responsible committees. Furthermore, the Executive Board of RWE AG receives detailed updates on our consolidated commodity risk positions on a quarterly basis. The Group companies inform the Corporate Risk Controlling Department about their positions, which consolidates them. This procedure is not followed for market risks arising in connection with the pure trades conducted by RWE Supply & Trading. Such risks are monitored daily and stated separately.

The upper risk limits in the energy trading business are set and constantly monitored by the Executive Board of RWE AG. Among other things, we calculate the Value at Risk (VaR) to quantify price risks. In principle, the VaR figures within the RWE Group are based on a confidence interval of 95% and a holding period of one day. This means that, with a probability of 95%, the maximum daily loss does not exceed the VaR. Our central risk controlling parameter for the energy trading activities of RWE Supply & Trading is the Global VaR, which may not exceed €40 million. In fiscal 2010, it averaged €11 million, and the maximum was €17 million. However, our risk analysis is not only based on the amount of VaR. We also factor extreme scenarios into stress tests, determine the influence they can have on liquidity and earnings, and take countermeasures whenever the risks are too high.

- **Risks and opportunities resulting from gas procurement contract price renegotiations:** Some of our gas purchases are based on long-term agreements linked to the price of oil. However, gas prices have been decoupled from the price of oil on international markets since the middle of 2009. As a result, the gas we buy is more expensive than at the TTF (Netherlands) and NBP (United Kingdom) trading hubs, exposing us to potential declines in margins and customer losses. This primarily affects our German and Czech activities. To obtain better purchase conditions, we entered into contract renegotiations with our gas suppliers, some of which have already turned into arbitration proceedings. Their outcomes will have a substantial influence on our medium-term earnings. Our expectations are based on detailed legal assessments which we carried out in the run-up to the renegotiations. There is a risk that the outcomes of the price renegotiations may lag behind our expectations. But they may also offer us the opportunity to enforce conditions that are more favourable than assumed initially.

- **Legal risks:** The RWE Group's exposure to the constant change in the political, legal and social environment in which it does business can be expected to have a substantial impact on earnings. Lignite and hard coal power plants account for a significant portion of our electricity generation portfolio. The costs we incur to purchase CO_2 certificates are, as a result, far above the sector average. In December 2008, the EU member states agreed that the Western European electricity sector will be allocated hardly any free certificates from 2013 onwards. This will cause our CO_2 costs to be much higher than in the current trading period, which will last until 2012. We intend to significantly reduce our specific carbon dioxide emissions and make our power generation portfolio more efficient through our investment programme. Furthermore, we limit our CO_2 risk by participating in climate-protection projects in developing and newly industrialising countries within the scope of the Kyoto Clean Development Mechanism and Joint Implementation programme. Another measure involves the virtual swapping of power plant capacity with various contracting parties. In addition, we conclude long-term electricity supply agreements, in which the CO_2 price risk is borne by the customer, and purchase CO_2 certificates for future periods early on.

As a utility, we plan our capital expenditure for periods extending over decades, making us especially dependent on reliable political framework conditions in the energy sector. However, there are substantial uncertainties. In particular, this affects the use of nuclear energy in Germany. As explained earlier, the new German nuclear fuel tax has considerable negative effects on our earnings, financial and capital expenditure planning. However, we believe that the legal admissibility of such a levy is fundamentally questionable. Substantial uncertainty surrounds the German Lower House's decision to extend the lifetimes of nuclear power stations. For instance, the additional safety requirements for the plants' operation and the investments required as a result have yet to be determined. In addition, there is a risk that the lifetime extension may be annulled if it is found that it required approval from the German Upper House, or because later governments repeal it. Some opposition parties and federal states have already announced that they will file suits against the lifetime extension at the German Constitutional Court.

We are exposed to risks associated with approvals when building and operating production facilities. This particularly affects our opencast mines and power plants. If their operation is interrupted or curtailed, this can result in significant production and earnings shortfalls. Furthermore, there is a danger of new-build projects either receiving late or no approval, or of granted approvals being withdrawn. Depending on the construction progress made and the contractual obligations to suppliers, this can have a significant negative financial impact. We take precautionary measures against this by preparing our applications for approval with great care and ensuring that approval processes are handled competently.

In Germany, risks also arise from the monitoring of anti-competitive pricing practices, the legal framework of which became stricter at the end of 2007. The investigations into the wholesale electricity market initiated by the German Federal Cartel Office in the spring of 2009 ended without any violation of antitrust law having been identified. Legislative initiatives exist at national and European levels aiming to constantly monitor electricity generation and wholesale electricity markets, which could result in new transparency obligations for the companies.

The incentive-based regulation of our German electricity and gas network companies in effect since 2009 is also associated with earnings risks. Uncertainty exists in particular with respect to the recognition of costs and efficiency figures for the second regulatory period. Irrespective of this, the return on equity and debt needs to be improved. Furthermore, the influence of other factors used to calculate revenue has not been determined conclusively.

- **Other legal and arbitration procedures:** Individual RWE Group companies are involved in litigation and arbitration proceedings due to their operations or sale of companies. Out-of-court claims have been filed against some of them. Furthermore, Group companies are directly involved in various procedures with public authorities or are at least affected by their results. However, we do not expect any material effects on the RWE Group.

  Conciliation proceedings in connection with the legal restructuring of companies are currently pending. They were initiated by outside shareholders in order to examine the appropriateness of conversion ratios or cash compensation. Since these figures were calculated by independent experts, we believe the associated risks are low. If different legally enforceable decisions are reached, we will pay compensation to the affected shareholders, including those who are not directly involved in the conciliation proceedings.

- **Financial risks and opportunities:** The volatility of foreign exchange rates, interest rates and share prices can also have a significant effect on our earnings. The management of financial risks is governed by a specific guideline and is the responsibility of the CFO of RWE AG.

  Due to our international activities, currency risk management is very important. Group companies are generally obliged to hedge their currency risks via RWE AG. The parent company determines the net financial position for each currency and hedges it, if necessary with external market partners. The VaR concept is one of the tools used to measure and limit risk. In the year under review, the average VaR for RWE AG's foreign currency position was less than €1 million.

  We also give significant importance to the management of interest rate risks. We differentiate between two risk categories. On the one hand, rises in interest rates can lead to reductions in the price of securities held by RWE AG. This primarily relates to fixed-interest bonds. On the other hand, interest rate increases also cause our financing costs to rise. The VaR for the securities price risk of our capital investments in 2010 averaged €9 million (previous year: €21 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 amounted to €5 million at the balance sheet date.

  The securities we hold in our portfolio include shares. The VaR for the risk associated with changes in share prices averaged €11 million (previous year: €21 million).

Risks and opportunities from changes in the price of securities are controlled by a professional fund management system. The Group's financial transactions are recorded centrally using special software and monitored by RWE AG. This enables the balancing of risks across individual companies. Range of action, responsibilities and controls are set out in internal guidelines, to which our Group companies are obliged to adhere.

- **Creditworthiness of business partners:** Our business relations with financial institutions, trading partners, customers and suppliers expose us to credit risks. We counter them in part by closely tracking the creditworthiness of our counterparties. Credit risk management is governed by a dedicated guideline which is valid throughout the Group. Compliance with the groupwide standards for measuring and managing credit risks established in this guideline is monitored by the Credit Risk Controlling Department.

  We manage credit risks by setting limits and by adjusting them on a timely basis, especially in the event of changes in creditworthiness. If necessary, we request cash collateral or bank guarantees. We also take out credit insurance policies or make use of credit default swaps insofar as economically feasible. Most of the banks and trading partners with which we have credit relationships are of good creditworthiness. We determine their credit standing using an internal assessment method. For banks, we use external ratings and an early warning indicator, which we developed in light of the financial market crisis. We sell a significant portion of our electricity generation on the exchange. The credit risk for these sales is assumed by a clearing unit. As a rule, over-the-counter trading transactions are concluded on the basis of framework agreements, e.g. those prescribed by the European Federation of Energy Traders (EFET). In addition, we agree on collateral. We measure the credit risks of the energy trading and financial activities on a daily basis.

- **Liquidity risk:** Liquidity risks consist of the danger of our liquidity reserves no longer being sufficient to meet financial obligations in a timely manner. At RWE, such obligations result above all from the refinancing of due financial liabilities. Furthermore, we must put up collateral if trading contracts (e.g. with exchanges) marked to market result in a loss. We classify our liquidity risk as low. The basis for this is our solid financing. We have strong cash flows from operating activities, substantial cash and cash equivalents, unused credit lines, and further financial latitude through our Commercial Paper and Debt Issuance Programmes (see page 101). Our careful planning ensures that we are liquid at all times. Among other things, we make use of a groupwide notification system, which records the Group companies' short, medium and long-term liquidity needs.

- **Risks and opportunities associated with corporate strategy:** Decisions on capital expenditure on property, plant and equipment and acquisitions are associated with major risks and opportunities, due to the amount of capital employed and the fact that it is tied up long term. When a company is acquired, problems can arise in relation to the integration of employees, processes and technologies. RWE has specific accountability provisions and approval processes in place to prepare and implement strategic decisions concerning capital expenditure on property, plant and equipment and acquisitions. Closely monitoring both our markets and competitors helps us record strategic risks and opportunities adequately and early on. We are following the situation in North Africa closely. Most of our local capital expenditure is backed by federal guarantees against political risks.

- **Continuity of business activities:** We operate technologically complex and interconnected production plants in all parts of our value chain. Uninsured damage can be incurred by our lignite mining equipment, power stations, power plant components and grids. There is an increasing risk of outages in our power plants due to the ageing of their components. In addition, the construction of new plants can be delayed due to accidents, faulty material or time-consuming approval procedures. Our grid business is exposed to the risk of facilities being damaged by force majeure such as severe weather conditions. We limit these risks through high safety standards as well as regular inspection, maintenance and servicing work. If economically viable, we take out appropriate insurance policies.

- **IT security:** Our business processes are supported by efficient data processing systems. Nevertheless, we cannot fully rule out a lack of availability of IT infrastructure or a breach in the security of our data. We mitigate these risks by applying high security standards as well as raising user awareness and limiting access privileges. In addition, we regularly invest in hardware and software upgrades. Our IT is largely based on standards common in the market. Its operations are run in modern data centres. We have established a mandatory groupwide process for managing risks associated with engineering IT solutions.

- **Human resources:** Competition for the best talent is becoming increasingly fierce. To secure and strengthen our position in this area, when recruiting staff, we highlight RWE's attractiveness as an employer and strive to retain experts and executives over the long term. In addition to performance-based compensation and progressive employee benefits, we put a great deal of effort into the varied prospects offered throughout the RWE Group: trainee programmes, cross-disciplinary career paths, assignments in various European Group companies as well as attractive continued education and advanced training offerings. We limit staff fluctuation risks by ensuring suitable replacements are in place and by early succession planning.

Report on the Internal Control and Risk Management System – statements in accordance with Sec. 315, Para. 2, No. 5 and Sec. 289, Para. 5 of the German Commercial Code (HGB). Risks associated with financial reporting reflect the fact that our annual and interim financial statements may contain misrepresentations that could have a significant influence on the decisions made by their addressees. Our accounting-based internal controlling system (ICS) aims to detect potential sources of error and limit the resulting risks. It covers the financial reporting of the entire RWE Group. This enables us to ensure with sufficient certainty that the parent company and consolidated financial statements are prepared in compliance with statutory regulations.

The design of the accounting-related ICS largely mirrors the organisation of our accounting and financial reporting process. One of the main features of this process is the control over the Group and its operating units. The basis is provided by the target parameters determined by the Executive Board of RWE AG. Building on them and our expectations concerning the operating business trend, we develop our medium-term budget once a year. It includes the figures budgeted for the following fiscal year as well as the figures planned for subsequent years. We prepare forecasts in line with the budget for financial years underway. The Executive Board of RWE AG and the management boards of its major subsidiaries convene once a quarter in order to evaluate the interim and annual financial statements and update the forecasts.

Accounting is mostly handled locally. Occasionally, this function is performed by Group companies for their subsidiaries. Certain processing tasks such as payroll accounting are pooled at internal service providers like RWE Service GmbH or are at least subject to uniform groupwide quality standards. As holding company, RWE AG performs central accounting tasks. These include consolidation, the accounting treatment of provisions for pensions in Germany, and goodwill impairment tests. RWE AG is also in charge of tasks relating to the management and monitoring of financial instruments, money transactions, cash investments and tax group accounting. External service providers are commissioned in certain cases.

The CEOs and CFOs or the managing directors of major subsidiaries as well as select RWE AG department heads must take an internal balance-sheet oath for external half and full-year reporting.

Only then do the members of the Executive Board of RWE AG take an external half and full-year balance-sheet oath and sign the responsibility statement. Thereby, they confirm that the prescribed accounting standards and the RWE Group's accounting guidelines have been adhered to and that the figures give a true and fair view of the net assets, financial position and results of operations.

We prepare our financial statements using a groupwide reporting system that we also use to prepare the budgets and forecasts. All fully consolidated subsidiaries use this system. It forms the basis for a standardised data reporting process within the Group. The financial accounting systems are largely maintained by RWE IT GmbH.

We identify risks in financial reporting at the divisional level on the basis of quantitative, qualitative and process-related criteria. The foundations of the ICS are our generally binding guidelines and ethical values, which are also set out in RWE's Code of Conduct. Building on this, the minimum requirements of the major processing steps ensure the integrity of data collection and management. The risks of individual balance-sheet items resulting from subjective discretion or complex transactions are recorded in a groupwide risk and control matrix. Once a year, we prove that the necessary controls have actually been implemented and carried out properly. This is done by the Internal Audit Department, external auditors, or the management in charge of performing the controls.

When in session, the Audit Committee of the Supervisory Board regularly concerns itself with the effectiveness of the accounting-related ICS. Once a year, the CFO of RWE AG holds a presentation on the risks of financial reporting before this committee. He also explains which control measures were taken and how the proper implementation of the controls was verified.

Our Group Audit Department is certified to the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA). In organisational and disciplinary matters, it reports directly to the CEO.

Corporate Governance Declaration in accordance with Sec. 289a of the German Commercial Code (HGB). The Executive Board of RWE Aktiengesellschaft issued a corporate governance statement in accordance with Sec. 289a of the German Commercial Code on 11 February 2011 and published it on the internet at www.rwe.com/corporate-governance-declaration-sec–289a-HGB.

1.11 OUTLOOK FOR 2011

Whereas the economy continues to recover, the conditions underlying our business are becoming more difficult. Germany's new nuclear fuel tax and the unfavourable development of electricity and gas prices will have extremely negative effects in 2011. We expect that our operating result will be about 20% below the record level set in 2010. By reducing capital expenditure, making divestments and cutting more costs, we intend to stabilise our financial and earnings power. Nevertheless, our medium-term earnings forecast is also cautious.

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 will probably slow, 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. However, given the increased utilisation of industrial capacity, investing activity is likely to pick up. Economic growth in the Eurozone may come close to last year's level (1.7%). The economic forecast for Germany is somewhat better. The country's council of experts believes that a gain of more than 2% is possible. As a result, Germany would return to the gross domestic product achieved in 2008. In addition to the traditional driving forces, 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 1.5%. The same applies to the United Kingdom. Savings programmes mandated by the state and the increase in value-added tax will probably curtail consumer spending. Initial estimates for our Central Eastern European core markets indicate a continued recovery. Poland and the Czech Republic could achieve growth rates in excess of 3%. Hungary's currently slow expansion is likely to pick up slightly.

Economy has a positive impact on energy consumption. The development of energy usage will probably benefit from the economy's positive effects in 2011 as well. We expect that production growth in Germany's energy-intensive sectors will normalise in single-digit percentage territory. If demand in the other consumption sectors remains stable, the need for electricity should increase marginally. In the United Kingdom, it was on a slight decline even before the economic crisis due to progress made in terms of energy efficiency. Even if industrial production expands, it is unlikely to surpass last year's level in 2011. Our forecast for the Netherlands is similar. In contrast, electricity consumption in our Central Eastern European markets may rise by more than 2%. Given the economy's momentum in these countries, it should grow considerably in the next few years as well.

Since demand for gas is more dependent on temperatures than for electricity, it is subject to higher fluctuation and is difficult to predict. Excluding potential weather-related effects, German gas usage should be in the order of last year. Minor economic stimulus is expected. However, the continued expansion of renewables might reduce the utilisation of gas power plant capacities. Gas consumption in the Netherlands is also likely to stagnate if we exclude weather-related effects. In the United

Kingdom, it could actually drop due to measures to improve energy efficiency. Conversely, in our Central Eastern European markets, we expect to see marginal gains. Besides cyclical effects, the mounting importance of gas over other energy sources will play a role.

Fuel expected to be more expensive than in 2010. The price curve on international crude oil, hard coal and natural gas markets recently trended upward. Dynamic economic development displayed by emerging countries such as China and India was the main reason. On top of this, exceptional effects on hard coal came to bear – most notably the flood disaster in Australia, which brought operations at numerous mines to a halt. On 31 January 2011, a metric ton of thermal hard coal cost US$122 (including freight and insurance) in Rotterdam spot trading. 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 also be around US$120. This would represent a significant rise compared to 2010 (US$93). The situation on crude oil markets is similar. At the end of January, a barrel of Brent crude traded at US$98. The price expected for the full year is approximately US$100, which is also far above the 2010 level (US$79). This is due to fears that the unrest in North Africa may curtail oil supplies. The appreciation of crude oil will be reflected on the Continental European gas market with a time lag, 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 adjustments 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. In European trading of CO_2 emission allowances, prices have been moving sideways in a narrow corridor since 2009. At present, there are no signs of prices rising above or falling below the corridor.

Realised electricity price lower year on year. Quotations on electricity forward markets stagnated recently, despite the fact that fuel has become more expensive. However, we assume that they will rise if the hard coal and natural gas price trends currently observed prove sustainable. But this would not have a notable 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 50% of production for 2012 and over 10% for 2013 (as of the end of 2010). With respect to forward sales, we generally purchase or hedge the prices of the fuel required to generate the electricity when we enter into the agreements. This also holds true for the purchase of emission allowances.

Organic growth despite difficult framework conditions. Climate protection, resource conservation and organic growth continue to top our agenda as we maintain our strategic course, despite difficult economic and political conditions. However, we will slow our pace somewhat. The burdens stemming from the nuclear fuel tax and the unfavourable development of electricity and gas prices will weigh heavily on us in the years to come. We will scale back our capital expenditure on property, plant and equipment somewhat. Initially, we had budgeted a total of €28 billion for the period from 2010 to 2013. We have subsequently reduced this sum by about €3 billion, which means that we plan to spend a total of about €18 billion in 2011 and the two following years. Attractive projects that are not urgent will be postponed, and we will fully renounce undertakings that only stand a chance of earning moderate returns. The cuts will largely have an impact after 2011. Our ongoing new-build power plant projects remain unaffected by this.

Fast pace of expansion of renewable energy and the upstream position. The increase of our generation capacity based on renewables will accelerate in the next few years. RWE Innogy will invest an average of €1.2 billion per annum on this until 2013. New offshore wind projects are the focal point. The 504 MW Greater Gabbard wind farm off the UK coast, in which we hold a stake of 50%, is scheduled for completion in 2011. By the end of 2010, roughly half of the 140 wind turbines had already been erected. The first set of wind turbines at our German Nordsee Ost project will go online in 2012. The wind farm will have an aggregate installed capacity of 295 MW when it is completed in 2013. The 576 MW Gwynt y Môr wind farm off the coast of Wales should be fully commissioned by 2014. We will also expand our onshore wind power capacity, above all in the United Kingdom, Italy and Poland. Furthermore, we are building biomass thermal power plants in the UK and a facility for the manufacture of wood pellets in the USA. This course for growth will also be reflected in the operating result of RWE Innogy. We expect it to post double-digit percentage annual growth rates until 2013.

We intend to increase our oil and gas production to approximately 70 million barrels of oil equivalent by 2016. RWE Dea will spend more than €3 billion developing its reserves from 2011 to 2013. The main areas in Europe are the UK North Sea and the Norwegian coast. In addition, we plan to set aside a large share of capital expenditure for North Africa. We are therefore observing the region's political situation with keen interest.

All eyes still on climate protection. Lowering our carbon emissions remains one of our major strategic goals. Given that we are among Europe's biggest power producers, we believe we shoulder a special responsibility in this regard. The cash flows from our current power plant activities give us the financial strength to manage the gradual conversion of our generation portfolio ourselves. We want to reduce our CO_2 exposure to the level of an average competitor in our markets by no later than 2020 by taking emissions-reducing and financial measures (see page 53). In view of the high proportion of our portfolio accounted for by lignite and hard coal-fired power stations, this is an ambitious target. Massive investments will have to be made to accomplish this. Of the just over €8 billion we have set aside for the expansion and modernisation of our generation portfolio until

2013, over 60% is allocable to carbon-free or low-carbon technologies. The remaining expenditure has been earmarked for the newest generation of coal-fired power plants, the efficiency of which is up to 30% higher than that of their predecessors. Moreover, we are also spending capital on CO_2 reduction projects outside Europe within the scope of the Kyoto Clean Development Mechanism and Joint Implementation scheme. Furthermore, we are looking into the possibility of conducting virtual power plant swaps with other electricity generators, are concluding long-term agreements pursuant to which the customers bear the CO_2 risk for the electricity they procure, and we purchase CO_2 certificates for future periods on the wholesale market.

Divesting to preserve financial headroom. The acquisition of Essent will remain our biggest growth step via a takeover in the next few years. We do not rule out further acquisitions, but if at all, they would be on a much smaller scale. We are evaluating how to grow our market share or establish starting positions – above all in Central Eastern and South Eastern Europe – by taking interests in established local energy companies. However, as a rule, we only consider acquisitions if they meet our financial criteria. The key yardstick is the internal rate of return (IRR). It must at least match the cost of capital plus a return premium. However, the most important items on our agenda when it comes to financing our growth investments and safeguarding our financial room for manoeuvre are divestments. By the end of 2013, we want to have sold Group companies and investments with a combined value of €8 billion. By divesting our long-distance gas transmission operator Thyssengas and our minority interest in a hard coal-fired power plant in Rostock, we have already taken the first few steps in this direction.

Forecast for 2011: revenue lower year on year. 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. They are factored into EBITDA and the operating result based on their net income.

Significant drop in earnings expected. In the current financial year, the deterioration of economic and political framework conditions will have a significant impact on our earnings. Whereas the considerable decline in prices on wholesale electricity markets compared to 2008 has not had a sizeable effect so far due to our early forward sales, it will cause margins to shrink markedly in 2011. On top of that, we will be faced with the burdens imposed by the nuclear fuel tax introduced in Germany in 2011. Charges in the gas midstream business will again be higher year on year. In some cases, we still have to pay much more for gas purchases 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
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 and 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%

We anticipate that the RWE Group's EBITDA will close some 15% down on last year's level (€10,256 million). The operating result (€7,681 million) is expected to decline by approximately 20%. Our forecast for recurrent net income (€3,752 million), the basis for determining the dividend, is a decrease of about 30%.

- Germany: From our current perspective, the division's operating result is anticipated 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 realised price is lower than the €67 per MWh recorded in 2010. The nuclear fuel tax levied for the first time in 2011 and retrofitting measures at the Biblis nuclear power station will also lead to earnings shortfalls. We expect that nuclear energy provisions will provide positive effects over 2010.

  Sales and 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. Conversely, our refunds of excess fees (see page 88) will be lower than in 2010.

- 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 RWE Supply & Trading. 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, IT and staff cost savings will have a positive impact.

- United Kingdom: We expect this division to continue growing its operating result, in part driven by extensive measures taken to improve efficiency. Furthermore, we believe that margins in the residential customer business will recover. RWE npower raised residential electricity and gas tariffs by an average of 5.1 % with effect from 4 January 2011. Conversely, upfront network costs 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 probably be lower than in 2010. Moreover, the high level of capital expenditure will be reflected in an increase in depreciation.

- Central Eastern and South Eastern Europe: From our current perspective, the operating result achieved by this division is likely to be much lower than the unexpectedly good figure posted last year. Margins in the Czech gas supply and gas storage businesses 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. We expect to be able to complete the construction of the Greater Gabbard offshore wind farm over the course of the year. In addition, we assume that weather conditions will normalise, following the extremely low wind levels in 2010. This would also have a positive impact on earnings. A counteracting effect will stem from the fact that ongoing and planned investment projects are 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 higher oil production volume and lower exploration costs will have a positive impact. However, our gas production is likely to remain below the 2010 level. This is a result of the natural decline in production caused by the progressive depletion of existing reserves, mainly affecting gas fields in Germany and the United Kingdom. Anticipated production increases in Norway and Egypt will have a positive effect.

- Trading/Gas Midstream: We expect this division to close the year with another operating loss, which might be more significant than in 2010 (–€21 million). This is due to burdens in the gas midstream business. As explained earlier, since 2009, oil-indexed gas purchase prices have been much higher in some cases 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 the decisions will probably not be taken until 2012 or 2013. We expect that the trading activities of RWE Supply & Trading will post a stable performance compared to 2010.

Lower dividend for fiscal 2011. 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 the RWE Group's 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 continue to increase over the course of the year 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, in order to secure our solid A rating. The aforementioned capital expenditure cuts and divestments will help us to accomplish this.

Headcount: marginal growth expected. Our workforce will grow somewhat in the current financial year, as a result of our investment programme. Jobs are being created above all in the Germany and Renewables Divisions. A counteracting effect will come from the fact that we will probably account for Amprion at equity from 2011 onwards and therefore no longer consider the company when calculating our personnel figures. In addition, the sale of Thyssengas will reduce the Group's workforce.

New earnings forecast for 2012 and 2013. In February 2010, we provided an outlook on our medium-term earnings trend. We had anticipated being able to increase our operating result and recurrent net income by an average of 5% per year for the period until 2012. The baseline year for this forecast was 2008. Due to the unexpected deterioration in economic and political framework conditions, we will not manage to achieve this goal. The German nuclear fuel tax and persistently low prices on electricity and gas wholesale markets will curtail our earnings also beyond 2011. This will primarily affect our German electricity generation and the gas midstream business. In contrast, the Renewables and Upstream Gas & Oil growth segments are likely to continue their positive earnings trends. On the whole, we expect that the RWE Group's operating result will continue to decline in 2012 and the following year, albeit not as much as in 2011.

Therefore, we cannot uphold the outlook for 2013 we published in February 2010, either. We had anticipated being able to close with EBITDA, an operating result and recurrent net income up on 2009 levels. Based on our current planning, EBITDA and the operating result will be in the order of €8 billion and €5 billion in 2013. The figure we expect to post in terms of recurrent net income is approximately €2 billion. In 2013, earnings in the electricity generation business will again worsen considerably year on year, because we will no longer be allocated any CO_2 emission allowances free of charge. The expected earnings growth in the Renewables and Upstream Gas & Oil Divisions will not be able to compensate for this. We anticipate that RWE Innogy's operating result will reach €500 million after 2013, the year originally scheduled. Our planned €8 billion in divestments have already been considered in the forecast for 2012/2013.

Dividend remains attractive. We uphold our payout ratio of 50% to 60% over the medium term as well. This means that we still want to pay out at least half our recurrent net income to our shareholders. RWE will therefore continue to pay an attractive dividend.

2.0 OUR RESPONSIBILITY

2.1 SUPERVISORY BOARD REPORT

Dear Shareholders,

In fiscal 2010, the Supervisory Board fulfilled all of the duties imposed on it by German law and the company's Articles of Incorporation. We regularly advised the Executive Board on running the company and monitored its measures. In so doing, we were consulted on all fundamental decisions. The Executive Board informed us of all the material aspects of business developments, major events and transactions regularly, extensively and in a timely manner, both in writing and verbally. We were kept abreast of the earnings situation, risks and risk management in an equally thorough manner.

The Supervisory Board convened four ordinary meetings in the year under review. None of the Board members attended less than half of the meetings. The average participation rate was 95%. We took our decisions on the basis of detailed reports and draft resolutions submitted by the Executive Board. We were also informed of projects and transactions of special importance or urgency between meetings. The Supervisory Board passed the resolutions required of it by law or the Articles of Incorporation. Where necessary, it also did so when in session. As Chairman of the Supervisory Board, I was constantly in touch with the Chairman of the Executive Board in order to immediately discuss events of material importance to the RWE Group's situation and development.

Main points of debate. One of the central topics of our consultations in fiscal 2010 were the developments on the international gas market and German energy policy. Extensive debates were held on the extension of nuclear power plant lifetimes and the introduction of a tax on nuclear fuel, as these measures have significant influence on the RWE Group's earnings. The Executive Board informed us about these steps in detail and analysed their implications. In addition, we repeatedly concerned ourselves with the Group's new organisational structure, the status of new-build power plant projects and financing activities. We closely monitored the establishment of RWE Technology, the progress of RWE Innogy's projects and the integration of Essent, which was acquired in 2009, into the RWE Group.

The Supervisory Board also held in-depth debates on the German Act on the Appropriateness of Management Board Compensation (VorstAG), which entered into force in August 2009, and on its effects on the company. Due to the VorstAG, it became necessary to make adjustments to the Executive Board compensation system, for which the Supervisory Board passed a resolution at its meeting on 23 February 2010.

Need for action also arose from the German Accounting Modernisation Act (BilMoG), which took effect on 29 May 2009. The BilMoG tightened the requirements for the qualification of the supervisory boards of listed corporations. Pursuant to Sec. 100, Para. 5 of the German Stock Corporation Act (AktG), at least one independent individual possessing expertise in the field of accounting or financial statement audits must be appointed to the supervisory board. In its February session, the Supervisory Board designated Mr. von Boehm-Bezing as its independent financial expert.

Dr. Manfred Schneider, Chairman of the Supervisory Board of RWE AG.

By introducing the BilMoG, the German legislator defined the requirements to be fulfilled with respect to the establishment and activity of an audit committee. To do even better justice to these requirements, we adapted the Supervisory Board's bylaws at our September meeting.

Supervisory Board members disclosed potential conflicts of interest in some cases in the period under review. In one case, this led to the Supervisory Board member in question abstaining from influencing the relevant debates and refraining from casting a vote during the passage of the corresponding resolution.

The Executive Board regularly informed us of the revenue and earnings, measures to reduce costs, and price developments on energy markets. In our session on 17 December 2010, following in-depth consultations, we adopted the Executive Board's planning for 2011 and the forecast for 2012 and 2013. We received detailed commentary in cases where there were deviations from plans and goals established previously.

Committees. The Supervisory Board has five committees. Their members are listed on page 235. These committees are charged with preparing issues and resolutions of the Supervisory Board meetings. In certain cases, they exert decision-making powers conferred on them by the Supervisory Board. The committee chairmen regularly informed the Supervisory Board of their work.

The **Executive Committee** convened two ordinary meetings in the 2010 financial year. Among other things, it did preparatory work for the Supervisory Board debates concerning the 2009 financial statements of RWE Aktiengesellschaft and the Group, as well as the planning for fiscal 2011 and forecasts for 2012 and 2013.

The **Audit Committee** convened five times. It discussed the quarterly financial reports, the financial statements for the first half and the annual financial statements at length. In addition, it prepared the award of the audit contract to the independent auditor, including the priorities of the audit and the fee agreement. Special attention was also paid to the Group's risk management and the accounting-related internal controlling system. Furthermore, the committee dealt with compliance issues and the audit results of the internal audit department as well as its audit schedule. Further topics of debate in fiscal 2010 were the implementation of the BilMoG in accounting terms, the internal control system of RWE Supply & Trading, the implementation of the capital expenditure programme, as well as the economic development of Essent and its integration into the Group.

The annual and interim financial statements were each discussed at length with the Executive Board and the independent auditor before they were published. The independent auditor was present at all of the Committee meetings, participated in the debates, and reported on his audit and/or his audit-like review.

The **Personnel Affairs Committee** held three meetings. Debates primarily addressed the compensation system, the amount of Executive Board remuneration, the company pension scheme as well as the new requirements of the German Act on the Appropriateness of Management Board Compensation (VorstAG). Furthermore, the Committee prepared the Supervisory Board's personnel-related decisions.

The **Nomination Committee** was in session once, in order to prepare the appointment of Dr. Wolfgang Schüssel to the Supervisory Board. A focal point of the committee's work in-between sessions was the identification of suitable candidates for potential replacements on the Supervisory Board.

In the financial year that just ended, there was no reason to convene the **Mediation Committee**, which complies with Sec. 27, Para. 3 of the German Co-Determination Act (MitbestG).

Financial statements for fiscal 2010. The financial statements of RWE Aktiengesellschaft, which were prepared by the Executive Board in compliance with the German Commercial Code (HGB), the financial statements of the Group, which were prepared in compliance with International Financial Reporting Standards (IFRSs) pursuant to Sec. 315a of the German Commercial Code (HGB), the combined review of operations for RWE Aktiengesellschaft and the Group, and the accounts were scrutinised by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and were issued an unqualified auditor's opinion. In addition, the independent auditor found that the Executive Board had established an appropriate early risk detection system. The auditors were elected by the Annual General Meeting on 22 April 2010 and commissioned by the Supervisory Board to audit the financial statements of RWE AG and the Group. Documents supporting the annual financial statements, the annual report and the auditor's report were submitted to all the members of the Supervisory Board in good time. The Executive Board also commented orally on the documents in the Supervisory Board's balance sheet meeting of 22 February 2011. The responsible independent auditors reported at this meeting on the material results of the audit and were available to provide supplementary information. The Audit Committee had previously concerned itself in depth with the financial statements of RWE Aktiengesellschaft and the Group, as well as audit reports, during its meeting on 21 February 2011, with the auditor present. It recommended that the Supervisory Board approve the financial statements as well as the appropriation of profits proposed by the Executive Board.

The Supervisory Board thoroughly reviewed the financial statements of RWE Aktiengesellschaft and the Group, the combined review of operations for RWE Aktiengesellschaft and the Group, and the proposed appropriation of distributable profit. No objections were raised as a result of this review. As recommended by the Audit Committee, the Supervisory Board approved the auditor's results of the audit of both financial statements and adopted the financial statements of RWE Aktiengesellschaft and the Group for the period ending 31 December 2010. The 2010 annual financial statements are thus adopted. The Supervisory Board concurs with the appropriation of profits proposed by the Executive Board, which envisages a dividend payment of €3.50 per share.

Changes in personnel on the Supervisory and Executive Boards. With effect from 1 February 2010, Frithjof Kühn was appointed to succeed Heinz-Eberhard Holl as member of the Supervisory Board by court decree. Furthermore, as of 1 March 2010, Dr. Wolfgang Schüssel was appointed by court decree successor to Dr. Thomas Fischer as member of the Supervisory Board.

Dr. Ulrich Jobs retired from the company's Executive Board with effect from the end of the day of 30 September 2010. On behalf of the Supervisory Board, I would like to take this opportunity to thank him again for all the work he has done over the years.

I thank the RWE Executive Board and all the Group's employees for the work they did in the financial year that just came to a close. Their dedication and expertise made a decisive contribution to the company's commercial success.

On behalf of the Supervisory Board

Manfred Schneider

Dr. Manfred Schneider
Chairman

Essen, 22 February 2011

2.2 CORPORATE GOVERNANCE

Responsible and transparent corporate governance is one of the cornerstones of our sustained success. Our guiding principle is always the most up-to-date version of the German Corporate Governance Code, which was introduced in 2002. In recent years, we have always issued an unconditional statement of compliance. New recommendations were included in the Code in May 2010, and we intend to continue complying with them entirely in the future.

The German Corporate Governance Code. 'Corporate governance' defines the responsible and transparent management and monitoring of a company, focused on long-term commercial success. RWE allows itself to be judged by this. We use the recommendations of the German Corporate Governance Code (hereinafter referred to as the 'Code') as the main benchmark for this. The Code aims to increase the confidence placed by domestic and international investors, customers, employees and the public in German listed companies. The Government Commission of the German Corporate Governance Code submitted the first version of the Code in February 2002. Since then, the Commission has reviewed the Code every year against the backdrop of domestic and international developments and adapted it whenever necessary.

New Code recommendations. The German Corporate Governance Code was again refined last year. In its plenary session on 26 May 2010, the Government Commission added various details to the diversity recommendations for management and supervisory board members. In addition, new recommendations were adopted in order to render supervisory boards more professionally qualified. The new version of the Code was announced in the electronic edition of the German Federal Gazette on 2 July 2010.

- **Diversity in supervisory and management boards.** The recommendation concerning diversity in German supervisory boards (Item 5.4.1) was amended to require supervisory boards to establish specific goals regarding their composition. Taking into account the company's situation, the objectives must consider the company's international activity, potential conflicts of interest of the supervisory board members and diversity, as well as specifying an age limit. In particular, women are to be represented appropriately. The Code further recommends that companies report on their goals concerning the composition of their supervisory boards and the status of their implementation in future corporate governance reports (cf. Item 5.4.1, Para 3). With respect to the staffing of management boards, supervisory boards are to ensure compliance with diversity requirements, with due regard to the appropriate representation of women (Item 5.1.2). The same recommendation was issued to management boards in relation to the staffing of management positions (Item 4.1.5).

- **Rendering supervisory boards more professional.** In addition to the focus on diversity, Code amendments also dealt with the qualifications of supervisory board members. The statutory obligation for supervisory board members to independently implement the continued education and advanced training measures necessary to perform their duties was included in the Code, in order to emphasise the importance of such measures. The new rule also requires companies to provide the board members with adequate support in this context (Item 5.4.1, Para. 4). Pursuant to another recommendation, supervisory board members sitting on the management board of a listed company may exercise no more than three mandates in listed companies outside their group of companies. In the future, the limitation will be expanded to include mandates in supervisory bodies of companies, subject to comparable requirements (Item 5.4.5).

RWE welcomes the Code's new diversity recommendations, but has complied with them only to a limited extent so far. Another recommendation that we did not fully adhere to for a certain time relates to the cap on the number of supervisory board mandates. Additional commentary on the deviations has been provided in the statement of compliance (see below). Otherwise, we comply with all of the recommendations of the current version of the Code and take up its suggestions, with a few exceptions.

Our listed Group company Lechwerke AG is also putting the Code into practice. However, the specifics of membership in the Group must be taken into account in this context. Lechwerke AG has included information on the deviations from the Code's recommendations in its statement of compliance.

Directors' dealings and potential conflicts of interest. Transparency is a core element of good corporate governance. It is indispensable, especially in cases where transactions concluded by the Executive Board may lead to conflicts of interest. We would like to highlight the following aspects of RWE's corporate governance practice:

- Material transactions concluded between RWE or a Group company and an Executive Board member or related party were in line with prevailing market standards. No conflicts of interest of members of the Executive Board going above and beyond this were notified. No Supervisory Board member concluded a contract with RWE AG.
- Executive Board members, related parties and one member of the Supervisory Board purchased RWE shares in the year under review. No sales were notified to us. We published information on transactions notified to us in accordance with Sec. 15a of the German Stock Corporation Act (WpHG) throughout Europe.

The RWE shares and related financial instruments directly or indirectly held by members of the Executive and Supervisory Boards account for less than 1% of the shares issued by RWE.

We publish further information on our corporate governance practices on the internet at www.rwe.com/investorrelations. This web page also provides access to our Articles of Incorporation, the bylaws of the Supervisory Board and the Executive Board, RWE's code of conduct, all the corporate governance reports and statements of compliance as well as the corporate governance declaration in accordance with Sec. 289a of the German Commercial Code.

Statement of compliance in accordance with Sec. 161 of the German Stock Corporation Act. After an orderly audit, the Executive and Supervisory Boards of RWE AG issued the following declaration of compliance:

Since its last statement of compliance on 23 February 2010 and until 2 July 2010,
RWE Aktiengesellschaft complied with all of the recommendations of the Government Commission of the German Corporate Governance Code issued in the 5 August 2009 version of the Code. Since

3 July 2010, RWE Aktiengesellschaft has complied with all of the recommendations of the version of the Code issued on 2 July 2010, with the following exceptions:

- The diversity recommendations set out in Item 5.1.2, Sentence 1 and Item 5.4.1, Paras. 2 and 3 are not being fully complied with at present. Ensuring diversity is already common practice throughout the Group. Among other things, we have had diversity programmes tailored to increase the share of women in managerial positions for quite a while. However, an overall concept for achieving diversity goals when staffing the Executive Board is yet to be created. The same applies to the staffing of the Supervisory Board. As before, the Nomination Committee and the plenary session of the Supervisory Board considered the issue of diversity, RWE's international operations, potential conflicts of interest, and the established age limit for Supervisory Board members when selecting the candidates for the election of the shareholder representatives scheduled for 20 April 2011. However, no specific goals existed that could have been considered or presented in the Annual Report, and they are still yet to be established. The Supervisory Board of RWE AG is of the opinion that creating an overall concept for the diversity of members of the Executive and Supervisory Boards and determining specific goals regarding the composition of the Supervisory Board requires extensive preparatory work and in-depth discussions, which should be left to the Supervisory Board, which will have been recomposed after this year's Annual General Meeting. Only in this manner can one ensure that all material aspects be considered and that both the concept and the goals prove themselves in practice. In the current financial year, the Supervisory Board will deal with the issue extensively and provide information in accordance with statutory regulations on any corresponding adjustments to RWE's corporate governance.

- RWE Aktiengesellschaft followed the recommendation in Item 5.4.5 to a limited extent from 3 July 2010 to 21 January 2011. Until the end of this period, Dr. Ekkehard Schulz was Chairman of the Executive Board of ThyssenKrupp AG and sat on the supervisory boards of two listed companies as well as of a non-listed company with similar requirements concurrently to his membership in the Supervisory Board of RWE. As he has retired from the Executive Board of ThyssenKrupp, we comply with the Code's recommendation unconditionally once again. It is the view of the Supervisory Board of RWE AG that it was in the company's best interest to keep Dr. Schulz on the RWE board. This opinion is based on Dr. Schulz's years-long tenure on RWE's Supervisory Board as well as on the extensive expertise and experience he possesses by virtue of his leading positions in companies with international activities. Moreover, the deviation from the Code's recommendation only lasted for a very short period.

RWE Aktiengesellschaft

On behalf of the Supervisory Board — On behalf of the Executive Board

Dr. Manfred Schneider — Dr. Jürgen Großmann — Dr. Rolf Pohlig

Essen, 22 February 2011

2.3 COMPENSATION REPORT

For us, transparent reporting on Executive and Supervisory Board compensation is one of the core elements of good corporate governance. On the following pages, we have presented the principles of RWE AG's compensation system as well as its structure and the payments. The 2010 compensation report fully complies with the recommendations of the German Corporate Governance Code. It is part of the combined review of operations and the corporate governance report.

Executive Board compensation

Compensation structure. The structure and amount of Executive Board member compensation are determined by the Supervisory Board and reviewed on a regular basis. The existing compensation system ensures that Executive Board members are compensated in a manner commensurate with their activities and responsibilities, in line with common practice within the Group and on the external market. It takes into account not only their personal performance, but also the company's business situation, its performance and prospects for the future.

In light of the German Act on the Appropriateness of Management Board Compensation (VorstAG) which came into force on 5 August 2009, the Supervisory Board reviewed the compensation system and brought the compensation structure more in line with sustainable business development. On 22 April 2010, the updated compensation system was presented to the Annual General Meeting, which approved it by a significant majority vote.

Short-term compensation components. The total cash compensation consists of a non-performance-based fixed component and a variable performance-related component. If the degree to which targets have been achieved is 100%, the total cash compensation breaks down into approximately 45% (formerly 40%) for the fixed component and approximately 55% (formerly 60%) for the variable component.

The variable component consists of a company bonus, accounting for approximately 70%, and an individual bonus, accounting for approximately 30%. The company bonus is based on the Group's value added. If the figure budgeted for the fiscal year in question is achieved, the degree to which the target has been achieved is 100%; the degree can amount to between 0% (formerly 50%) and, as before, 150%. The personal bonus depends on the degree to which an Executive Board member achieves the performance goals agreed with the Chairman of the Supervisory Board at the beginning of the financial year. The maximum degree to which this target can be achieved is 120%.

In order to enable the members of the Executive Board to partake in an even more measurable manner of both positive and negative company performance over the long term, payment of 25% of the bonus is withheld for three years. This corresponds to nearly 15% of the total cash compensation. A review based on what is termed a 'bonus malus factor' is conducted by the Supervisory Board at the end of the three-year period, in order to determine whether the Executive Board has managed the company sustainably. Only if this applies is the retained bonus paid.

The development of the Group's added value determines 45% of the bonus malus factor. Another 45% is determined on the basis of a company-specific index, which reflects the Group's success in the field of corporate responsibility (CR). This CR Index, which builds on the sustainability reporting that has been a fixture at RWE for many years, reflects the Group's environmental and social activity. The remaining 10% of the bonus malus factor is determined by the Group-internal Motivation Index, which measures employee satisfaction and motivation.

At the beginning of the three-year period, the Supervisory Board establishes binding target figures for value added, the CR Index, and the Motivation Index, which may not be altered during the observation period. These target figures are compared to the figures actually achieved at the end of the three-year period. The bonus malus factor calculated by this method determines whether the retained bonus is paid as well as its amount. The better the figures actually achieved, the higher the bonus malus factor. It may vary between 0% and 130%.

The presented amendments to the compensation scheme will be implemented in accordance with statutory regulations for the Chairman of the Executive Board as soon as his contract has been adapted. In particular, the rules concerning the partial retention of the bonus and the bonus malus factor do not apply yet, and the bonus for fiscal 2010 will be fully paid out after the 2011 Annual General Meeting. In contrast, the new rules apply to the other members of the Executive Board as they agreed to an advance application of the refined compensation system with effect from the year under review.

In addition to cash compensation, Executive Board members receive non-cash remuneration and other compensation, consisting primarily of sums reflecting the use of company cars according to German fiscal guidelines and accident insurance premiums.

Compensation also includes payment for exercising Supervisory Board mandates held by Executive Board members at affiliates. All this income is deducted from the variable compensation and therefore does not increase the total remuneration.

The short-term compensation components paid to members of the Executive Board for fiscal 2010 were as follows:

Short-term Executive Board compensation in 2010	Non-performance-based compensation		Performance-based compensation		Non-cash and other remuneration		Payment for exercise of mandates[1]		Other payments		Total	
€ '000	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Dr. Jürgen Großmann[2]	2,700	2,700	3,898	4,431	30	24	37	7	2,000	2,000	8,665	9,162
Dr. Leonhard Birnbaum	750	680	779	1,259	24	22	0	0	0	0	1,553	1,961
Alwin Fitting	769	680	794	1,246	18	16	3	13	0	0	1,584	1,955
Dr. Ulrich Jobs[3]	630	760	789	1,282	17	23	80	125	0	0	1,516	2,190
Dr. Rolf Pohlig	840	760	809	1,340	32	31	60	67	0	0	1,741	2,198
Dr. Rolf Martin Schmitz	750	453	543	742	20	12	236	97	0	0	1,549	1,304
Total	**6,439**	**6,033**	**7,612**	**10,300**	**141**	**128**	**416**	**309**	**2,000**	**2,000**	**16,608**	**18,770**

1 Income from the exercise of mandates is part of variable compensation.
2 Dr. Jürgen Großmann receives an annual €2,000,000 instead of a pension commitment.
3 Dr. Ulrich Jobs retired from the Executive Board as of 30 September 2010.

The retained 25% of the bonus is not included in 2010 compensation because it does not have an impact on remuneration until the end of the three-year period and only affects it if the necessary prerequisites are met. The following presentation is therefore voluntary, and aims to convey a complete picture of the compensation components.

Bonus retention € '000	2010	2009
Dr. Jürgen Großmann	0	0
Dr. Leonhard Birnbaum	260	0
Alwin Fitting	266	0
Dr. Ulrich Jobs[1]	0	0
Dr. Rolf Pohlig	290	0
Dr. Rolf Martin Schmitz	260	0
Total	**1,076**	**0**

1 Dr. Ulrich Jobs retired from the Executive Board as of 30 September 2010.

Long-term incentive compensation. With the exception of the Chairman of the Executive Board, performance shares were awarded to members of the Executive Board as part of the Beat 2010 long-term incentive plan ("Beat" for short). Performance shares are granted on condition that the Executive Board members invest in RWE common shares a sum which is equal to one-third of the value of the performance shares granted after taxes. The shares must be held for the respective Beat tranche's entire waiting period. Any necessary notifications of directors' dealings were published.

The former Beat 2005 long-term incentive plan was adapted in view of the VorstAG. Most importantly, the former waiting period was extended from three to four years, and additional exercise dates after the term were included. Beat thus supplements the compensation system with an even longer-term incentive component, rewarding the sustainable contribution made by executives to the company's success to an even greater extent. As before, the company's performance is measured using the Total Shareholder Return (TSR) of RWE shares, which covers both the development of the share price and reinvested dividends. The payout factor is determined by comparing RWE's TSR with the TSR of other companies in the Dow Jones STOXX Utilities Index.

Executives entitled to participate in Beat receive a conditional allocation of performance shares every year. A performance share allocated in the fiscal year consists of the conditional right to receive a payout in cash following a waiting period of four (previously three) years. However, a payout only takes place if, on conclusion of the waiting period, the RWE share's performance is better than the performance of 25% of the companies in the peer group, measured in terms of their index weighting as of the inception of the programme. Consequently, the decisive factor is not only RWE's position among the companies in the peer group, but also which of the companies RWE outperforms.

Payment in the fiscal year corresponds to the average RWE share price during the last 60 (previously 20) trading days prior to the expiry of the programme, the number of conditionally allocated performance shares, and the payout factor. Payment for Executive Board members is limited to one-and-a-half times the value of the performance shares at grant.

Performance shares granted under Beat in the year under review break down as follows:

Long-term incentive share-based payment	Beat 2010: 2010 tranche	
	No.	Allocation value at grant €'000
Dr. Leonhard Birnbaum	28,891	750
Alwin Fitting	28,891	750
Dr. Ulrich Jobs	28,891	750
Dr. Rolf Pohlig	28,891	750
Dr. Rolf Martin Schmitz	28,891	750
Total	**144,455**	**3,750**

In the year under review, the 2007 long-term incentive tranche of the Beat 2005 programme was paid out as follows:

Long term incentive share-based payment	Beat 2005: 2007 tranche payout € '000
Alwin Fitting	590
Dr. Ulrich Jobs	590
Dr. Rolf Pohlig	590
Total	**1,770**

Executive Board members still hold performance shares from the Beat 2005 programme's 2008 and 2009 tranches from Executive Board activity in previous years. These allocations are not part of total compensation for the 2010 financial year. Instead, they are part of total compensation for the two preceding fiscal years. As such, they are presented in the compensation reports for 2008 and 2009.

German Accounting Standard (DRS) 17 mandates that the total expense recognised for share-based payments allocable to each Executive Board member be disclosed and itemised. Due to the development of the share price, no expenses were recognised for share-based payments in the period under review. Instead, part of the existing provision was released in the period being reviewed as follows:

Allocation to expenses for long-term incentive share-based payments 2008/2009/2010 tranches	2010 € '000	2009 € '000
Dr. Leonhard Birnbaum	–65	433
Alwin Fitting	–161	941
Dr. Ulrich Jobs	–161	941
Dr. Rolf Pohlig	–161	941
Dr. Rolf Martin Schmitz	–29	319
Total	**–577**	**3,575**

Total compensation. In total, the Executive Board received €16,608,000 in short-term compensation components in fiscal 2010. In addition to this, long-term compensation components from the 2010 tranche of the Beat programme amounting to €3,750,000 were allocated. Total compensation of the Executive Board for fiscal 2010 therefore amounted to €20,358,000.

Employment termination benefits. Executive Board members receive the following benefits from RWE when they retire from the Board:

Pension commitments. The members of the Executive Board – with the exception of its Chairman, Dr. Jürgen Großmann – receive pension commitments (direct commitments), which grant them or their surviving dependants entitlement to a life-long pension or surviving dependants' benefits. These benefits are due in the event of retirement upon reaching the age of 60 (retirement age), permanent disability, death and early termination or non-extension of the employment contract by the company. The amount of qualifying income and the level of benefits determined by the duration of service are taken as a basis for each member's individual pension and surviving dependants' benefits. Profit participation and other fringe benefits are not factored into the pension. The ceiling for pension benefits for members of the Executive Board is 60% of the last qualifying income on the day before they reach retirement age. The widow's pension amounts to 60% of her husband's pension, the orphan's pension amounts to 20% of the widow's pension. Vested old-age pension benefits do not expire. The amount of the old-age pension and the surviving dependants' benefits are reviewed every three years, taking account of all major circumstances, with due regard to changes in the cost of living. Due to earlier provisions, there are some differences in the pension commitments in terms of the calculation of the level of benefits, the crediting of other pensions and benefits, and the adjustment mode selected for pensions and surviving dependants' benefits.

In the event of an early termination or non-extension of an employment contract, Executive Board members shall only receive payment if the termination or non-extension was occasioned by the company and effected without due cause. In such cases, they start receiving pension payments when they leave the company, but no earlier than on completion of their 55th year of age. In the event of a non-extension or early termination of an employment contract, 50% of the income earned through other activities until the end of the Executive Board member's 60th year of age or the beginning of the member's occupational disability is taken into account in determining the pension payments.

The service cost of pension commitments in fiscal 2010 totalled €776,000. At the end of the year under review, the present value of the defined benefit obligation was €17,007,000. The following is a breakdown of service costs and the present value of pension benefits, taking into account both age and years of service.

Pensions		Predicted annual pension on reaching the company age limit (60 years)[1] € '000		Service cost € '000		Defined benefit obligation € '000	
	Age	2010	2009	2010	2009	2010	2009
Dr. Leonhard Birnbaum	44	270	245	111	85	889	635
Alwin Fitting	57	312	283	188	136	4,648	3,935
Dr. Ulrich Jobs[2]	57	302	274	149	155	4,251	3,761
Dr. Rolf Pohlig	58	302	274	84	63	2,733	2,159
Dr. Rolf Martin Schmitz[3]	53	408	370	244	0	4,486	3,713
				776	**439**	**17,007**	**14,203**

1 Based on compensation qualifying for pensions as of 31 December 2010.
2 Dr. Ulrich Jobs retired from the Executive Board as of 30 September 2010. This led to a one-off increase in the service cost of €520,000.
3 Dr. Rolf Martin Schmitz's projected pension includes pensions due from former employers.

With regard to Executive Board members, vested pension benefits from earlier employment and years of service for previous employers which have been recognised, are credited to the company's pension payments by contractual arrangement.

Change of control. Executive Board members have a special right of termination in the event that the company loses its independence as the result of control being taken over by shareholders or third parties. In such cases, they have the right to retire from the Executive Board within six months of the time at which the change of control becomes known and to request that their employment contract be terminated in combination with a one-off payment. To the extent necessary to ensure the company's survival, however, the Supervisory Board can demand that the Executive Board member remain in office until the end of the six-month period.

A change of control as defined by this provision occurs when a shareholder or a group of shareholders acting jointly, or third parties acting jointly, acquire at least 30% of the voting rights in a company, or if any of the aforementioned can exert a controlling influence on the company in another manner. A controlling influence may also exist if one or several jointly acting shareholders or third parties hold more than half of the voting stock represented at three consecutive Annual General Meetings. The aforementioned provisions do not apply if the change of control puts the control of the company in the hands of individual or jointly acting cities or communities or companies which are majority-owned by an entity under public law in the Federal Republic of Germany.

On termination of their employment contracts, Executive Board members receive a one-off payment in the amount of the compensation due until the end of the duration of the contract originally agreed, which shall not be higher than three times their total contractual annual compensation and shall not be less than twice their total contractual annual compensation.

As regards benefits, effective as of the end of the employment contract's agreed duration, Executive Board members are treated as if the company had not extended their employment contracts at that time, without there being a material reason in the sense of Section 626 of the German Civil Code (BGB).

The Chairman of the Executive Board, Dr. Jürgen Großmann, was granted a special right of termination before the amendment to the German Corporate Governance Code with effect from 6 June 2008. On exercise of his contractually secured special right of termination, Dr. Großmann shall receive a one-time payment that covers all of the remuneration due until the expiry of his employment contract, including the amount contractually agreed instead of a pension commitment.

In the event of a change of control, all the performance shares granted to the Executive Board and entitled executives shall expire. Instead, a compensatory payment shall be made, which shall be determined when the takeover offer is made. The amount shall be in line with the price paid for RWE shares at the time of the takeover. This shall then be multiplied by the final number of performance shares. Performance shares shall also expire in the event of a merger with another company. In this case, the compensatory payment shall be calculated based on the expected value of the performance shares at the time of the merger. This expected value shall be multiplied by the number of performance shares granted, pro-rated up to the date of the merger.

In the event of a change of control, the Executive Board's retained bonuses are valued early and, if applicable, paid out. This is done based on the average bonus malus factor for the last three years. The average calculated by this method determines whether the retained bonuses are paid out as well as the amount of the payout.

Severance cap. If an Executive Board mandate is otherwise terminated early without due cause, Executive Board members shall receive a severance payment of no more than two total annual compensations and no more than the compensation due until the end of the employment contract. This rule shall be applied to the Chairman of the Executive Board in line with the German Corporate Governance Code only once his contract has been adapted or extended.

Other commitments. Dr. Ulrich Jobs reached an agreement with the company to retire from the Executive Board early, with effect from 30 September 2010. He received a total of €3,149,000, consisting of a base salary and bonuses for the period from 1 October 2010 through to 31 March 2012, to which he was entitled on the basis of his contract, which would have expired on 31 March 2012. He shall also be conditionally allocated the same number of performance shares for this period as the other Executive Board members. Performance shares granted earlier shall remain valid in accordance with the plan conditions. Dr. Jobs shall receive a company pension from 1 April 2012 onwards, in line with the contractual arrangements.

Supervisory Board compensation

The compensation of the Supervisory Board is set out in the Articles of Incorporation and is determined by the Annual General Meeting. Supervisory Board members receive a fixed compensation of €40,000 per fiscal year for their services after each fiscal year. The compensation increases by €225 for every €0.01 by which the dividend exceeds €0.10 per common share.

The Chairperson of the Supervisory Board receives three times and the Deputy Chairperson receives twice the aforementioned amount. If a committee has been active at least once in a fiscal year, committee members receive one-and-a-half times the compensation and the committee chairperson receives twice the compensation. If a member of the Supervisory Board holds several offices on the Supervisory Board of RWE AG concurrently, he or she receives compensation only for the highest-paid position. Out-of-pocket expenses are refunded.

Supervisory Board compensation	2010 base compensation		2010 committee compensation		Total	
€ '000	Fixed	Variable	Fixed	Variable	2010	2009
Dr. Manfred Schneider, Chairman	40	77	80	153	350	292
Frank Bsirske, Deputy Chairman	40	77	40	77	234	234
Dr. Paul Achleitner	40	77	20	38	175	175
Werner Bischoff	40	77	20	38	175	175
Carl-Ludwig von Boehm-Bezing	40	77	40	77	234	234
Heinz Büchel	40	77	20	38	175	175
Dieter Faust	40	77	20	38	175	175
Dr. Thomas R. Fischer (until 31 Jan 2010)	3	6	0	0	9	193
Andreas Henrich	40	77	0	0	117	117
Heinz-Eberhard Holl (until 31 Jan 2010)	3	6	2	3	14	175
Frithjof Kühn (since 1 Feb 2010)	37	70	18	35	160	0
Hans Peter Lafos	40	77	0	0	117	21
Dr. Gerhard Langemeyer	40	77	20	38	175	175
Dagmar Mühlenfeld	40	77	20	38	175	175
Dr. Wolfgang Reiniger	40	77	0	0	117	117
Günter Reppien	40	77	20	38	175	175
Dagmar Schmeer	40	77	20	38	175	175
Dr.-Ing. Ekkehard D. Schulz	40	77	20	38	175	175
Dr. Wolfgang Schüssel (since 1 Mar 2010)	34	64	0	0	98	0
Uwe Tigges	40	77	20	38	175	175
Manfred Weber	40	77	0	0	117	117
Dr. Dieter Zetsche	40	77	0	0	117	54
Total	**797**	**1,532**	**380**	**725**	**3,434**	**3,304**

In total, the emoluments of the Supervisory Board amounted to €3,434,000 in fiscal 2010. Additionally, certain Supervisory Board members were paid compensation totalling €243,000 for exercising mandates at subsidiaries.

2.4 WORKFORCE

The challenges faced by RWE are bigger than ever. To overcome them, we need employees with innovative ideas and who are willing to take initiative. Recruiting talent within and outside the Group, developing it, and retaining it over the long term are important cornerstones of our personnel strategy. Another task at hand is to promote flexibility and willingness to change. Only by taking this approach can we guarantee that vacancies are filled optimally – with the right employees, at the right time and at the right place.

RWE addresses budding professionals. Demographic change has caused the number of suitable young professionals to decrease and competition for employees is already much fiercer than a few years ago. Therefore, we must investigate all the possibilities of engaging with talented young people and arousing their interest in RWE. In particular, the internet offers a variety of options. Via our portal at www.rwe.com/career, we address pupils, students and graduates as well as individuals with work experience. The portal is well received. It was ranked fourth among the web presences of 100 German companies in a survey conducted by the personnel consulting institute Potentialpark. However, besides communicating via the internet, it is also important to establish personal contacts. Therefore, we launched a 'mobile information campaign' in 2010 to target students. Last year, we visited ten universities with an information booth. RWE employees explained the areas of activity of our company as well as points of entry. Furthermore, we acquainted the students with the energy industry through presentations and an exhibition of technological innovations. More than 4,000 young people accepted our invitation to inform themselves about RWE at these venues. Employer branding is another field in which we are active. This term designates the use of concepts from the field of marketing to present a company as an attractive employer and to distinguish it from its competitors. To sharpen our profile in this area, we launched an advertising campaign in 2010. It was a great success. In a ranking published by the consulting firm Universum, RWE was recognised as the best up-and-comer in the 'Most Attractive Employer of the Year' category.

Identifying and making use of our employee potential. At RWE, the search for talent does not end at the factory gate. It is vital for us to know our personnel's qualifications and make strategic use of them. A system, in which we record and constantly update the know-how of our employees, assists us to this end. This makes it easier for us to fill vacancies with suitable personnel from within our own ranks. Our HR work also aims to support those of our employees looking for new challenges within the RWE organisation, even going beyond their Group company and home country. This is why we expanded our in-house job board. Besides giving our workforce the opportunity to stay abreast of the vacancies offered by our subsidiaries, our employees can register their interest in taking on a new task. This makes it easier for our executives to target employees willing to change when staffing vacant positions. Wherever possible and reasonable, we fill managerial positions from within our own ranks. This reduces the cost of acquainting them with their new duties and provides performance incentives to especially qualified individuals. To ensure that no talent remains undetected, our executive staff assesses the potential of their teams once every two years. The division heads then convene to select from a list of proposals those individuals whom they consider to have the most potential. Their information is stored in a database accessible to all executives from all Group companies. Furthermore, the management boards of RWE AG and the Group companies meet once a year to nominate succession candidates for key executive positions. Taking this approach has enabled us to staff over 90 % of our managerial vacancies with internal candidates.

Opportunities through diversity. Society increasingly demands that companies recognise the benefits of a diverse workforce. This is an area in which RWE is pursuing a number of goals. In line with the international reach of our business, we promote cross-country mobility within the RWE Group and respect for people with different cultural backgrounds. Moreover, we want to hire more women at RWE. Our aim is also to have more female representation in executive positions, and we have initiated a special mentoring programme for this purpose. Among other things, participants are shown the range of ways to plan one's career successfully at RWE. Support is also provided by our international network for women in managerial positions. At the end of 2010, 11 % of all executive staff at RWE was female, compared to 9 % a year earlier.

Long-term incentives for enduring success. Strong retention of our executives and high identification with company targets – these are the objectives we are pursuing with our long-term incentive plan, 'Beat.' Under this programme, we grant executives so-called performance shares (see pages 196 et seqq.), which are paid out after four years at the earliest. The amount of the payout depends on the development of RWE's share price and reinvested dividends compared to competitors. The payout is capped, and poor performance can cancel it completely. Since 2010, all executives participating in Beat have been obliged to invest in RWE common shares a sum corresponding to one-sixth of the value of the allocated performance shares. This requirement previously applied only to members of executive and management boards of the most important Group companies.

Good ideas pay off. Our groupwide idea management system provides our employees with an incentive to capitalise on their experience and creativity in order to improve work processes. In the last fiscal year alone, some 6,300 ideas were submitted. We estimate the commercial benefit to exceed €50 million per year. One example is the development of a drone, which can be used to easily and safely monitor poorly accessible areas such as power plant boilers and smokestacks. Besides increasing occupational safety, this saves both time and money. In 2010, we rewarded our employees for their innovative ideas with more than €2 million in bonuses.

2.5 SUSTAINABILITY

Sustainable business practice pays off – for investors, customers, employees and society. It forms the basis of lasting value creation, reliable customer relationships, attractive jobs and a strong community. This is all indispensable for companies with a long-term orientation and regional roots like RWE.

Ten fields of action orientated towards sustainability. We can only achieve long-term success as a company if we secure society's acceptance through responsible action. Our corporate responsibility (CR) strategy encompasses ten fields of action in which we pool the issues and challenges that are most demanding to us. We want everything that we do in the field of CR to be transparent, measureable and binding. Therefore, we have defined key performance indicators for each of the fields of action and set ourselves goals which we intend to achieve in the years ahead. The extent to which we are successful in this area also influences the compensation of the Group's Executive Board. Since 2010, 25% of the bonus payable to the Executive Board has been retained for three years. At the end of this period, the Supervisory Board verifies whether the company developed sustainably. Only if confirmed is the retained bonus paid out, just under half of which is linked to the success we achieve in the ten CR action fields. This makes us one of the first companies in the DAX to link executive board remuneration directly to the achievement of sustainability goals.

On this and the following pages, we will present the ten action fields of our CR strategy as well as the key figures we use to measure our success in this area. Further information can be found in the report entitled 'Our Responsibility,' which will be published in April 2011, and on the web at www.rwe.com/responsibility.

(1) Climate protection. Society expects us to come up with solutions for protecting the climate. As Europe's largest emitter of carbon dioxide, we carry an especially significant responsibility, as high emissions result in high economic risks. Therefore, we invest billions of euros expanding our renewable generation portfolio and building state-of-the-art gas and coal-fired power stations. This enables older, more emission-intensive power plants to go offline without jeopardising security of supply. By 2020, we intend to have reduced our CO_2 exposure to our competitors' average. We also want to accomplish this through financial hedges, such as the purchase of emissions allowances through climate-protection projects in developing and emerging countries and the virtual swap of carbon-intensive generation capacity for competitors' lower-emission capacities. The target we have set ourselves for 2013 is to limit our CO_2 exposure to an equivalent of 0.67 metric tons for every megawatt hour of electricity generated.

(2) Energy efficiency. Making sparing use of energy is not only good for the climate, but also conserves resources and therefore saves money. We assist our customers to this end in various ways, including the use of smart meters, automated home consumption (smart homes) and the promotion of electric cars. Our website at www.energiewelt.de includes in-depth advice on how to save energy as well as information on subsidy programmes and manufacturer offers. However, it is primarily incumbent upon us as a company to make efficient use of scarce resources. We are therefore working on reducing the energy consumption of our vehicle fleet and properties. Nevertheless, the most important lever in terms of energy efficiency are our power plants. As set out earlier, we are increasingly replacing old facilities with new ones. Therefore, the efficiency of our fossil fuel-fired power stations will improve markedly in the next few years. Our target for 2013 is 42.4%.

(3) Security of supply. Energy must be available whenever it is needed. Our customers rely on us to ensure this – both today and tomorrow. Therefore, RWE places great importance on a balanced and widely diversified generation portfolio, including nuclear, coal, gas and renewables. We also capitalise on the advantages of diversity in gas procurement. Security of supply does not build on the sources of energy alone. It also concerns its transmission to the consumer. The objective we are pursuing with respect to electricity is to keep the annual average outage of our distribution networks per customer in Germany below 25 minutes. In comparison, at 20.4 minutes, it was clearly below this mark in 2009. Nevertheless, we believe our goal is ambitious, because the requirements placed on the capabilities and operation of networks are increasing due to the expansion of renewable energy and the increasing use of decentralised power generation units. Interruptions in the supply of gas are much shorter, because the gas network acts as a buffer. They recently averaged some three minutes per customer per year.

(4) Pricing. Our customers expect excellent service, customised offerings and fair prices. In addition, they are more and more willing to switch providers. Innovative products tailored to suit the needs of homes and commercial operations enabled us to defend our share of the market in 2010, despite mounting competition. Our aim is to have satisfied customers who stay with us over the long term, perhaps even buying more than one product from us, and recommend us to both family and friends. In 2010, we started measuring our success in this respect in Germany using a loyalty index. It is based on surveys of our residential and commercial customers. The index moves on a scale of 0 to 100 points. A score below 70 designates low satisfaction, with values from 70 to 79 indicating mediocre satisfaction and figures above 80 representing high satisfaction. We achieved 71 points in the year under review. Our goal for 2013 is to achieve an index rating of at least 73.

(5) Social responsibility. As we are an energy company, we have strong links with the communities at our sites, some of which have been in existence for decades. We are a reliable employer and principal in these communities, where we work on social issues. Our charitable activities are pooled in the RWE Foundation, which began its work in 2009. It is endowed with a capital stock of €56 million and promotes the education, culture, and social integration of young people. Through our 'RWE Companius' initiative, we support the strong effort put in by RWE employees for social causes. Last year, we spent €2.2 million promoting approximately 1,800 projects. All these measures benefit RWE, as they improve our acceptance by the general public. Once a year, we commission an opinion survey institute to identify how RWE is perceived by the public when compared to our major competitors. In 2010, we had the best reputation in our peer group, a position we intend to maintain.

(6) Demographic change. In view of the steady drop in birth rates, especially in Germany, we must see to it early on that we retain access to adequately qualified staff over the long term. We already take advantage of many ways to attract young talent to our company and create a working environment that meets their expectations. In addition, we project our need for personnel over the long term, taking into account the effects of demographic change on various professions. One of the tools we use in this analysis is a demographics index, which measures the RWE Group's age structure. The higher the index score, the more evenly the age groups are represented in our Group companies. The best possible ranking is 100. In the financial year under review, we achieved a score of 84 points. We intend to maintain this level through to 2013.

(7) Supply chain. Our stakeholders increasingly question whether human rights are observed, working conditions are reasonable and the environment is being protected in countries from which we source our products and fuels. By implementing a supply chain management system, we want to ensure that our business relationships with external partners adhere to our groupwide code of conduct. The Code forbids us from maintaining business relationships with companies which are publicly known to infringe the fundamental ethical principles set out by the UN Global Compact initiative. This is how we mitigate the risk of misconduct by external companies affecting our reputation. Contraventions of the Global Compact by suppliers of plants and complex components are unlikely, because they are almost exclusively domiciled in OECD member states. We have established processes for the procurement of standard goods and services as well as for energy fuels, which enable us to obtain information on supplier compliance with the Global Compact. In 2010, two thirds of our business relationships were already covered by these processes. We are aiming for a ratio of 95% by 2013.

(8) Innovation. We will achieve our goals in the fields of climate protection, energy efficiency and security of supply only if we have access to cutting-edge technologies. This is why we assign significant importance to research and development (R&D). We are conducting over 200 projects along our entire value chain – from raw material extraction via the conversion, distribution and storage of energy to its use (see pages 112 et seqq.). To manage our R&D activities, we set up a groupwide innovation management system. We identify the most strategically important issues at the beginning of every year. We measure our success by the degree to which we have taken specific R&D measures and informed the public about our activities.

(9) Occupational safety and health management. We want our employees to return home as healthy as when they arrive at work. In order to do the best possible justice to this ambition, we constantly work on improving occupational safety and health. The measures taken as part of the company health management system launched in 2009 are tailored to maintain staff performance. We introduced a Workload Accomplishment Index (WAI) in Germany in 2010. The WAI gives employees a basis for systematically assessing – with the assistance of a physician – the degree to which they are physically and psychologically capable to do their work at present and in the future. RWE's culture of safety is also important to us. To improve it, we initiated the 'Sicher voRWEg' campaign in 2008, focusing on executive instruction. This and a host of additional measures have instilled the work and health philosophy into teams and daily routines. We measure our success in the field of occupational safety by the fact that accident frequency resulting in at least one lost day of work per employee is steadily declining. In the year being reviewed, we experienced 3.5 for every million hours worked. This means the accident rate was down for the ninth straight year. We intend to achieve a rate below 2.5 by 2013.

(10) Environmental protection. Our measures for protecting the environment go far beyond limiting carbon dioxide emissions. Most of our activity is hardly noticed by the public. It is based on a number of legal and approval requirements, the fulfilment of which is considered a matter of course. To the best of our knowledge, RWE companies did not violate any statutory regulations in the year being reviewed, meaning our groupwide environmental management system is fulfilling its purpose. We further expanded it in 2010 as we integrated new subsidiaries, in particular Essent. Coverage is now at 98%, thereby nearly reaching our goal of 100%, which we intend to achieve by 2013.

In 2010, our capital expenditure on environmental protection measures amounted to €2,863 million. Two thirds of this sum were assigned to climate protection, including investments in the modernisation of our power plants and the expansion of our renewable electricity generation portfolio. A substantial share of our environmental expenditure was dedicated to clean air, including the cost of operating flue gas desulphurisation units. Action we take to protect nature and conserve landscapes mainly encompasses the recultivation of lignite mining sites.

Environmental expenditure	Cost		Capital expenditure		Total	
€ million	2010	2009	2010	2009	2010	2009
Clean air	348	242	45	103	393	345
Nature and landscape protection	73	75	18	12	91	87
Water protection	261	105	43	22	304	127
Waste disposal	162	172	1	–	163	172
Noise abatement	18	5	3	5	21	10
Brownfield sites, soil contamination	4	5	1	1	5	6
Climate protection	172	162	1,714	1,320	1,886	1,482
Total	**1,038**	**766**	**1,825**	**1,463**	**2,863**	**2,229**

RWE qualifies for sustainability indices. Our company was again recognised for its sustainability strategy. RWE was included in the Dow Jones Sustainability Index (DJSI), the renowned index group, for yet another year in September 2010. Selections are made based on economic, ecological and social criteria. RWE is represented in the DJSI World and the DJSI Europe. From the utility sector, 17 and eight companies qualified for these indices, respectively. We are one of the few German companies to have belonged to the index family without interruption since its inception in 1999. The Dow Jones Sustainability indices are established and published by Sustainable Asset Management (SAM) in co-operation with Dow Jones Indexes and STOXX Limited. They are widely recognised as the world's prime index group for corporate performance in the field of sustainability.

Sustainability indicators reflect responsible action. As set out earlier, we established specific goals for each CR action field. Furthermore, there are a number of other indicators which reflect our performance in the field of sustainable business management. The following is an overview of some key performance indicators. They are divided into categories, i.e. environment, society and corporate governance. The selection of indicators is orientated towards the recommendations of the Society of Investment Professionals in Germany (DVFA).

Field	Performance indicator		2010	2009	2008	2007
Environment	**RWE-owned plants**					
	NO_x emissions[1]	g/kWh	0.58	0.67	0.67	0.76
	SO_2 emissions[1]	g/kWh	0.29	0.34	0.39	0.57
	Particulate emissions[1]	g/kWh	0.019	0.024	0.028	0.034
	Ash[1]	thousand mt	7,740	7,429	6,406	6,687
	Gypsum[1]	thousand mt	2,053	1,956	1,533	1,671
	Primary energy consumption[2]	billion kWh	403.0	368.2	396.0	411.7
	Water consumption[1,3]	m^3/MWh	1.41	1.70	1.49	1.69
	Specific CO_2 emissions	mt/MWh	0.715	0.792	0.749	0.861
	Scope 1 CO_2 emissions[4]	million mt	144.9	135.9	147.4	155.1
	Total plants[5]					
	Specific CO_2 emissions	mt/MWh	0.732	0.796	0.768	0.866
	Scope 1 CO_2 emissions[4]	million mt	167.1	151.3	174.5	189.7
	Scope 2 CO_2 emissions[6]	million mt	3.1	3.5	3.8	3.6
	Scope 3 CO_2 emissions[7]	million mt	135.7	128.1	127.0	127.8
	Capital expenditure of the Renewables Division	€ million	709	733	1,102	–[8]
	Share of the Group's electricity generation accounted for by renewables	%	4.0[9]	3.5	2.4	2.4
Society	Employees[10]		70,856	70,726	65,908	63,439
	Share of women in the company	%	26.2	26.1	25.6	25.2
	Share of women in executive positions	%	10.8	9.0[11]	8.9	8.9
	Fluctuation rate	%	8.3	8.7	8.8	9.1
	Training days per employee (Germany)		4.7	4.8	4.6	4.2
	Health ratio	%	95.6	95.4	95.4	95.6
	Lost-time incident frequency	LTIF[12]	3.5	4.3	5.3	6.1
	Fatal work-related accidents[13]		3	5	12	9
Corporate governance	Share of the RWE Group's revenue earned in countries with a high or very high risk of corruption[14]	%	12.0	12.7	12.9	11.8
	R&D costs	€ million	149	110	105	74

1 Figures for 2009 adjusted due to the inclusion of Netherlands/Belgium and Hungary.
2 Figures for 2009 adjusted due to the inclusion of the Netherlands/Belgium.
3 Difference between power plant water withdrawals and returns to rivers and other surface waters; excluding power plants with sea water cooling.
4 Scope 1: direct CO_2 emissions from in-house sources (oil and gas production, gas transmission & electricity generation).
5 Including power stations not under RWE ownership, but that we can deploy at our discretion on the basis of long-term agreements.
6 Scope 2: indirect CO_2 emissions from the generation of electricity purchased from third parties which is used when being transmitted over the RWE network (network losses).
7 Scope 3: indirect CO_2 emissions that do not fall under Scope 1 or 2, produced through the generation of electricity procured from third parties, (including network losses in third-party networks), production and transmission of used fuel, and CO_2 emissions of gas sold to customers.
8 RWE Innogy was established in February 2008.
9 Electricity generation based on wind (3.1 TWh), hydro (3.5 TWh) and biomass (2.3 TWh).
10 Converted to full-time positions.
11 Excluding Essent.
12 Sum of all accidents for every million hours worked. Excluding employees of third-party companies.
13 Including employees of third-party companies.
14 Countries rated lower than six on a scale of zero to ten in the Corruption Perceptions Index by the anti-corruption organisation Transparency International, with ten corresponding to the lowest risk of corruption.

3.0 RESPONSIBILITY STATEMENT

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

Essen, 11 February 2011

The Executive Board

Großmann Birnbaum Fitting

Pohlig Schmitz

4.0 CONSOLIDATED FINANCIAL STATEMENTS

4.1 INCOME STATEMENT

€ million	Note	2010	2009
Revenue (including natural gas tax/electricity tax)	(1)	**53,320**	**47,741**
Natural gas tax/electricity tax	(1)	2,598	1,550
Revenue	(1)	**50,722**	**46,191**
Changes in finished goods and work in progress		–20	44
Other own work capitalised		219	210
Other operating income	(2)	1,276	1,610
Cost of materials	(3)	33,176	29,838
Staff costs	(4)	4,873	4,610
Depreciation, amortisation, and impairment losses	(5)	3,213	2,357
Other operating expenses	(6)	4,428	3,924
Income from operating activities of continuing operations		**6,507**	**7,326**
Income from investments accounted for using the equity method	(7)	310	131
Other income from investments	(7)	97	131
Financial income	(8)	1,248	1,699
Finance costs	(8)	3,184	3,689
Income from continuing operations before tax		**4,978**	**5,598**
Taxes on income	(9)	1,376	1,858
Income from continuing operations		**3,602**	**3,740**
Income from discontinued operations			91
Income		**3,602**	**3,831**
of which: minority interest		279	260
of which: RWE AG hybrid capital investors' interest		15	
of which: net income/income attributable to RWE AG shareholders		**3,308**	**3,571**
Basic and diluted earnings per common and preferred share in €	(28)	**6.20**	**6.70**
of which: from continuing operations in €		(6.20)	(6.58)
of which: from discontinued operations in €			(0.12)

4.2 STATEMENT OF RECOGNISED INCOME AND EXPENSES[1]

€ million	Note	2010	2009
Income		**3,602**	**3,831**
Currency translation adjustment		218	8
Fair valuation of financial instruments available for sale	(29)	2	383
Fair valuation of financial instruments used for hedging purposes	(29)	161	122
Other comprehensive income of investments accounted for using the equity method (pro rata)		-34	36
Actuarial gains and losses of defined benefit pension plans and similar obligations		1	–788
Other comprehensive income		**348**	**–239**
Total comprehensive income		**3,950**	**3,592**
of which: attributable to RWE AG shareholders		(3,671)	(3,442)
of which: attributable to RWE AG hybrid capital investors		(15)	
of which: attributable to minority interests		(264)	(150)

1 Figures stated after taxes.

4.3 BALANCE SHEET

Assets € million	Note	31 Dec 2010	31 Dec 2009
Non-current assets			
Intangible assets	(10)	17,350	17,320
Property, plant and equipment	(11)	32,237	28,627
Investment property	(12)	162	182
Investments accounted for using the equity method	(13)	3,694	3,736
Other non-current financial assets	(14)	750	709
Financial receivables	(15)	1,042	1,118
Other receivables and other assets	(16)	2,213	2,488
Income tax assets		626	507
Deferred taxes	(17)	2,391	1,876
		60,465	**56,563**
Current assets			
Inventories	(18)	3,293	3,115
Financial receivables	(15)	2,746	3,422
Trade accounts receivable	(19)	9,485	9,530
Other receivables and other assets	(16)	10,484	13,784
Income tax assets		543	660
Marketable securities	(20)	3,196	3,290
Cash and cash equivalents	(21)	2,476	3,074
Assets held for sale		389	
		32,612	**36,875**
		93,077	**93,438**

Equity and liabilities € million	Note	31 Dec 2010	31 Dec 2009
Equity	(22)		
RWE AG shareholders' interest		14,574	12,792
RWE AG hybrid capital investors' interest		1,759	
Minority interest		1,084	925
		17,417	**13,717**
Non-current liabilities			
Provisions	(24)	23,485	22,315
Financial liabilities	(25)	15,908	17,019
Other liabilities	(27)	3,584	3,972
Deferred taxes	(17)	2,185	2,327
		45,162	**45,633**
Current liabilities			
Provisions	(24)	5,572	5,829
Financial liabilities	(25)	3,902	3,127
Trade accounts payable	(26)	8,415	9,697
Income tax liabilities		90	218
Other liabilities	(27)	12,376	15,217
Liabilities held for sale		143	
		30,498	**34,088**
		93,077	**93,438**

4.4 CASH FLOW STATEMENT

€ million	Note (32)	2010	2009
Income		3,602	3,831
Depreciation, amortisation, impairment losses/write-backs		3,184	2,464
Changes in provisions		338	−10
Changes in deferred taxes		−680	97
Income from disposal of non-current assets and marketable securities		−165	69
Other non-cash income/expenses		1,570	−357
Changes in working capital		−2,349	−795
Cash flows from operating activities of continuing operations		**5,500**	**5,299**
Cash flows from operating activities of discontinued operations			11
Cash flows from operating activities		**5,500**	**5,310**
Intangible assets/property, plant and equipment/investment property			
Capital expenditure		−6,379	−5,913
Proceeds from disposal of assets		176	103
Acquisitions and investments			
Capital expenditure		−258	−8,801
Proceeds from disposal of assets/divestitures		220	2,328
Changes in marketable securities and cash investments		−442	4,427
Cash flows from investing activities of continuing operations (before transfer to contractual trust arrangements)		**−6,683**	**−7,856**
Transfer to contractual trust arrangements			−470
Cash flows from investing activities of continuing operations (after transfer to contractual trust arrangements)		**−6,683**	**−8,326**
Cash flows from investing activities of discontinued operations			−78
Cash flows from investing activities		**−6,683**	**−8,404**
Net change in equity (incl. minority interest)		27	186
Issuance of hybrid capital		1,738	
Dividends paid to RWE AG shareholders and minority interests		−2,198	−2,592
Issuance of financial debt		3,485	11,592
Repayment of financial debt		−2,414	−4,347
Cash flows from financing activities of continuing operations		**638**	**4,839**
Cash flows from financing activities of discontinued operations			65
Cash flows from financing activities		**638**	**4,904**
Net cash change in cash and cash equivalents		−545	1,810
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents		6	13
Net cash change in cash and cash equivalents from discontinued operations			2
Net change in cash and cash equivalents		**−539**	**1,825**
Cash and cash equivalents at beginning of the reporting period		3,074	1,249
Cash and cash equivalents at end of the reporting period		**2,535**	**3,074**
of which: reported as “Assets held for sale”		−59	
Cash and cash equivalents at end of the reporting period as per the consolidated balance sheet		**2,476**	**3,074**

4.5 STATEMENT OF CHANGES IN EQUITY

Statement of changes in equity € million	Subscribed capital of RWE AG	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 capital investors' interest	Minority interest	Total
					Currency translation adjustments	Fair value measurement of financial instruments					
Note (22)						Available for sale	Used for hedging purposes				
Balance at 1 Jan 2009	**1,440**	**1,158**	**11,200**	**–2,500**	**112**	**–274**	**451**	**11,587**		**1,553**	**13,140**
Capital paid in										10	10
Sales of own shares			–52	228				176			176
Dividends paid[1]			–2,401					–2,401		–121	–2,522
Income			3,571					3,571		260	3,831
Other comprehensive income			–769		115	403	122	–129		–110	–239
Total comprehensive income			2,802		115	403	122	3,442		150	3,592
Other changes			–12					–12		–667	–679
Balance at 31 Dec 2009	**1,440**	**1,158**	**11,537**	**–2,272**	**227**	**129**	**573**	**12,792**		**925**	**13,717**
Capital paid in									1,738	21	1,759
Dividends paid[1]			–1,867					–1,867		–160	–2,027
Income			3,308					3,308	15	279	3,602
Other comprehensive income			14		218	–30	161	363		–15	348
Total comprehensive income			3,322		218	–30	161	3,671	15	264	3,950
Other changes			–22					–22	6	34	18
Balance at 31 Dec 2010	**1,440**	**1,158**	**12,970**	**–2,272**	**445**	**99**	**734**	**14,574**	**1,759**	**1,084**	**17,417**

1 Following the reclassification of minority interests to other liabilities as per IAS 32.

4.6 NOTES

Basis of presentation

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

The consolidated financial statements for the period ended 31 December 2010 were approved for publication on 11 February 2011 by the Executive Board of RWE AG. The statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable in the EU, as well as in accordance with the supplementary accounting regulations applicable pursuant to Sec. 315a, Para. 1 of the German Commercial Code (HGB). The previous year's figures were calculated according to the same principles.

A statement of changes in equity has been disclosed in addition to the income statement, the statement of recognised income and expenses, the balance sheet and the cash flow statement. The Notes to the financial statements also include segment reporting.

Several balance sheet and income statement items have been combined in the interests of clarity. These items are stated and explained separately in the Notes to the financial statements. The income statement is structured according to the nature of expense method.

The consolidated financial statements have been prepared in euros. Unless specified otherwise, all amounts are stated in millions of euros (€ million).

These consolidated financial statements were prepared for the 2010 fiscal year (1 January to 31 December).

The Executive Board of RWE AG is responsible for the completeness and accuracy of the consolidated financial statements and the review of operations of the Group, which is combined with the review of operations of RWE AG.

We employ internal control systems, uniform groupwide directives, and programmes for basic and advanced staff training to ensure that the consolidated financial statements and combined review of operations are adequately prepared. Compliance with legal regulations and the internal guidelines as well as the reliability and viability of the control systems are continuously monitored throughout the Group.

In line with the requirements of the German Corporate Control and Transparency Act (KonTraG), the Group's risk management system enables the Executive Board to identify risks at an early stage and initiate countermeasures, if necessary.

The consolidated financial statements, the combined review of operations and the report of the independent auditor are discussed in detail by the Audit Committee and at the Supervisory Board's meeting on financial statements with the independent auditor present. The results of the Supervisory Board's examination are presented in the report of the Supervisory Board (pages 136 to 139 of this Annual Report).

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. Material associates and material joint ventures are accounted for using the equity method.

Investments in subsidiaries, joint ventures or associates which are of secondary importance from a Group perspective are accounted for in accordance with IAS 39. Subsidiaries which are not included in the scope of consolidation account for less than 1% of the Group's revenue, income and debt. Subsidiaries with negative income or equity are generally fully consolidated.

The information pursuant to Sec. 313, Para. 2 of the German Commercial Code (HGB), which forms part of the Notes to the consolidated financial statements, is not included in the printed version. The information can be found on our company's website at www.rwe.com. Material consolidated investments and investments accounted for using the equity method are listed on pages 228 to 230 of this Annual Report.

In the year under review, 11 companies domiciled in Germany and 18 outside of Germany were consolidated for the first time. 17 companies, three of which were headquartered in Germany, are no longer included in the scope of consolidation; 20 companies were merged, of which 13 were domiciled in Germany. Furthermore, seven associates (of which two in Germany) were accounted for using the equity method for the first time. In respect of companies accounted for using the equity method in the previous year, four were sold, including one headquartered in Germany; one company abroad was merged and seven companies were no longer accounted for using the equity method, of which six were headquartered in Germany. First-time consolidation and deconsolidation generally take place when control is transferred.

Scope of consolidation	Germany 31 Dec 2010	Foreign countries 31 Dec 2010	Total 31 Dec 2010	Total 31 Dec 2009
Fully consolidated companies	204	241	445	453
Investments accounted for using the equity method	69	52	121	126

Corporate acquisitions. On 30 September 2009, RWE acquired 100% of the Dutch power utility Essent N. V.'s voting stock. The accounting treatment of the business acquisition was finalised as of 30 September 2010, without any adjustments to the preliminary accounting treatment as of 31 December 2009.

Assets and liabilities held for sale / Discontinued operations. In 2009, RWE made a commitment to the EU Commission to sell its interests in Thyssengas GmbH, which operates RWE's long-distance gas transmission network in Germany. RWE concluded a contract on the sale of its 100% stake in Thyssengas GmbH in December 2010, subject to the approval of the EU Commission and the anti-trust authorities. The anti-trust authorities and the EU Commission granted approval in December 2010 and late January 2011, respectively. The assets and liabilities of Thyssengas are stated as "held for sale" as of 31 December 2010. Thyssengas is included under "Other/consolidation" in the segment reporting.

The following table presents the assets and liabilities of Thyssengas which are held for sale:

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

In the previous year, American Water Works Company Inc. (American Water), Wilmington/Delaware, USA, was stated as a discontinued operation. Figures for the activities of American Water during the period of full consolidation (January to March 2009) are presented in the following table:

Key figures for American Water € million	Jan - Mar 2009
Revenue	426
Expenses/income	–323
Ordinary income from discontinued operations before tax	103
Taxes on income	–39
Income	64
Fair value adjustments	–39
Income from discontinued operations	25

Moreover, after deconsolidation due to loss of the voting majority in American Water, €42 million resulting from the sale, –€2 million in fair value adjustments and €26 million in income from investments were reported in income from discontinued operations in the previous year.

Changes in the scope of consolidation resulted in a decrease of €111 million in non-current assets (including deferred taxes), and €61 million in cash and cash equivalents, and an increase of €482 million in current assets (excluding cash and cash equivalents) as well as an increase of €57 million in non-current and current liabilities. These figures each include the mutually offsetting effects of items reported as “Assets and liabilities held for sale”.

The total sales price for divested subsidiaries amounted to €227 million (previous year: €222 million), which was paid in cash or cash equivalents.

Effects of changes in the scope of consolidation have been stated in the Notes insofar as they are of particular importance.

Consolidation principles

The financial statements of German and foreign companies included in the scope of the Group's financial statements are prepared using uniform accounting policies. On principle, subsidiaries whose fiscal years do not end on the Group's balance-sheet date (31 December) prepare interim financial statements as of this date.

Business combinations are reported according to the acquisition method. This means that capital consolidation takes place by offsetting the purchase price, including the amount of the minority interest, against the acquired subsidiaries' revalued net assets at the time of acquisition. In doing so, minority interest is generally measured at the prorated value of the subsidiaries' identifiable net assets. Subsidiaries' identifiable assets, liabilities and contingent liabilities are measured at full fair value, regardless of the amount of the minority interest. Intangible assets are reported separately from goodwill if they are separable from the company or if they stem from a contractual or other right. In accordance with IFRS 3, no new restructuring provisions are recognised within the scope of the purchase price allocation. If the purchase price exceeds the revalued prorated net assets of the acquired subsidiary, the difference is capitalised as goodwill. If the purchase price is lower, the (negative) difference from first-time consolidation is included in income.

Capitalised goodwill is not amortised: it is tested for impairment once every year, or more frequently if there are indications of impairment. In the event of deconsolidation, residual carrying amounts of capitalised goodwill are taken into account when calculating income from disposals. Changes in share ownership which do not alter the ability to control the subsidiary are recognised without an effect on income. If shares in a subsidiary are sold resulting in a change in control, the remaining shares are revalued with an effect on income.

Expenses and income as well as receivables and payables between consolidated companies are eliminated. Intra-group profits and losses are eliminated.

For investments accounted for using the equity method, goodwill is not reported separately, but rather included in the value recognised for the investment. In other respects, the consolidation principles described above apply. Goodwill is not amortised. If impairment losses on the equity value become necessary, we report such under income from investments accounted for using the equity method. The financial statements of investments accounted for using the equity method are prepared using uniform accounting policies.

Foreign currency translation

In their individual financial statements, the companies measure non-monetary foreign currency items at the balance-sheet date using the exchange rate in effect on the date they were initially recognised. Monetary items are converted using the exchange rate valid on the balance-sheet date. Exchange rate gains and losses from the measurement of monetary balance-sheet items in foreign currency occurring up to the balance-sheet date are recognised in the income statement under other operating income or expenses.

Functional foreign currency translation is applied when converting the financial statements of companies outside of the euro area. As the principal foreign enterprises included in the consolidated financial statements conduct their business activities independently in their national currencies, their balance-sheet items are translated into euros in the consolidated financial statements using the average exchange rate prevailing on the balance-sheet date. This also applies for goodwill, which is viewed as an asset of the economically autonomous foreign entity. We report differences to previous-year translations in other comprehensive income without an effect on income. Expense and income items are translated using annual average exchange rates. When translating the adjusted equity of foreign companies accounted for using the equity method, we follow the same procedure.

The following exchange rates (among others) were used as a basis for foreign currency translations:

Exchange rates	Average		Year-end	
in €	2010	2009	31 Dec 2010	31 Dec 2009
1 US dollar	0.76	0.72	0.75	0.69
1 pound sterling	1.17	1.12	1.16	1.13
100 Czech korunas	3.96	3.77	3.99	3.78
100 Hungarian forints	0.36	0.35	0.36	0.37
1 Polish zloty	0.25	0.23	0.25	0.24

Accounting policies

Intangible assets are accounted for at amortised cost. With the exception of goodwill, all intangible assets have finite useful lives and are amortised using the straight-line method. Useful lives and methods of amortisation are reviewed on an annual basis.

Software for commercial and technical applications is amortised over three to five years. "Operating rights" refer to the entirety of the permits and approvals required for the operation of a power plant. Such rights are generally amortised over the economic life of the power plant, using the straight-line method. Easement agreements in the electricity and gas business, and other easement rights, generally have useful lives of up to 20 years. Concessions in the water business generally have terms of up to 25 years. Capitalised customer relations are amortised over a period of up to ten years. Useful lives and methods of amortisation are reviewed on an annual basis.

Goodwill is not amortised; instead it is subjected to an impairment test once every year, or more frequently if there are indications of impairment.

Development costs are capitalised if a newly developed product or process can be clearly defined, is technically feasible and it is the company's intention to either use the product or process itself or market it. Furthermore, asset recognition requires that there be a sufficient level of certainty that the development costs lead to future cash inflows. Capitalised development costs are amortised over the time period during which the products are expected to be sold. Research expenditures are recognised as expenses in the period in which they are incurred.

An impairment loss is recognised for an intangible asset, if the recoverable amount of the asset is less than its carrying amount. A special regulation applies for cases when the asset is part of a cash-generating unit. Such units are defined as the smallest identifiable group of assets which generates cash inflows; these inflows must be largely independent of cash inflows from other assets or groups of assets. If the intangible asset is a part of a cash-generating unit, the impairment loss is calculated based on the recoverable amount of this unit.

If goodwill was allocated to a cash-generating unit and the carrying amount of the unit exceeds the recoverable amount, the allocated goodwill is initially written down by the difference. Impairment losses which must be recognised in addition to this are taken into account by reducing the carrying amount of the other assets of the cash-generating unit on a prorated basis. If the reason for an impairment loss recognised in prior years has ceased to exist, a write-back is performed. The increased carrying amount resulting from the write-back may not, however, exceed the amortised cost. Impairment losses on goodwill are not reversed.

Property, plant and equipment is stated at depreciated cost. Borrowing costs are capitalised as part of the asset's cost, if they are incurred directly in connection with the acquisition or production of a "qualified asset" for which a considerable period of time is required to prepare the asset for use or sale. If necessary, the cost of property, plant and equipment may contain the estimated expenses for the decommissioning of plants or site restoration. Maintenance and repair costs are recognised as expenses.

Exploratory wells are accounted for at cost, according to the successful efforts method, meaning that expenses for exploration activities are only capitalised for successful projects, for example when wells specifically lead to the discovery of crude oil or natural gas. Seismology and geology expenditures are recognised as expenses. Within the framework of the unit-of-production method, we do not depreciate or amortise capitalised exploration expenses in the exploration phase, but rather after production begins. Exploration assets are tested for impairment as soon as facts and information indicate that the carrying value exceeds the recoverable amount.

With the exception of land and leasehold rights, as a rule, property, plant and equipment is depreciated using the straight-line method, unless in exceptional cases another depreciation method is better suited to the usage pattern. We calculate the depreciation of RWE's typical property, plant and equipment according to the following useful lives, which apply throughout the Group:

Useful life in years	
Buildings	7 – 75
Technical plants	
Thermal power plants	10 – 40
Wind turbines	up to 20
Electricity grids	20 – 45
Water main networks	20 – 80
Gas and water storage facilities	15 – 50
Gas distribution facilities	14 – 40
Mining facilities	3 – 25
Mining developments	33 – 35
Wells in Upstream Gas & Oil	up to 29

Property, plant and equipment held under a finance lease is capitalised at the fair value of the leased asset or the present value of the minimum lease payments, depending on which is lower. They are depreciated using the straight-line method over the expected useful life or the lease term, whichever is shorter.

Impairment losses and write-backs on property, plant and equipment are recognised according to the principles described for intangible assets.

Investment property consists of all real property held to earn rental income or for long-term capital appreciation rather than for use in production or for administrative purposes. This property is measured at depreciated cost. Transaction costs are also included in the initial measurement. Depreciable investment property is depreciated over 7 to 75 years using the straight-line method. Fair values of investment property are stated in the Notes and are determined using internationally accepted valuation methods such as the discounted cash flow method or are derived from the current market prices of comparable real estate.

Impairment losses and write-backs for investment property are also recognised according to the principles described for intangible assets.

Investments accounted for using the equity method are initially accounted for at cost and thereafter based on the carrying amount of their prorated net assets. The carrying amounts are increased or reduced annually by prorated profits or losses, dividends and all other changes in equity. Goodwill is not reported separately, but rather included in the recognised value of the investment. Goodwill is not amortised. An impairment loss is recognised for investments accounted for using the equity method, if the recoverable amount is less than the carrying amount.

Other financial assets are comprised of shares in non-consolidated subsidiaries and in associates/joint ventures not accounted for using the equity method, as well as other investments and non-current marketable securities; these assets are shown in the category "Available for sale". This category includes financial instruments which are neither loans or receivables, nor financial investments held to maturity, and which are not measured at fair value through profit or loss. Initially and in the following periods, they are recognised at fair value as long as such can be determined reliably. They are initially measured on their settlement date. Unrealised gains and losses are stated as other comprehensive income, with due consideration of any deferred taxes. Gains or losses are recognised in the income statement upon sale of the financial instruments. If there are objective, material indications of a reduction in the value of an asset, an impairment loss is recognised with an effect on income. If a debtor is experiencing significant financial difficulties, or is delinquent on payments of interest or principal, this can be an indication of impairment of the financial asset in question. The same is true when there is no longer an active market for a financial asset.

Receivables are comprised of financial receivables, trade accounts receivable and other receivables. With the exception of financial derivatives, receivables and other assets are stated at amortised cost. Allowances for doubtful accounts are based on the actual default risk. As a rule, the amounts of receivables are corrected through the use of an allowance account, in accordance with internal Group guidelines. Prepayments received from customers for consumption which is yet to be metered and billed are netted out against trade accounts receivable of the utilities.

Loans reported under financial receivables are stated at amortised cost. Loans with interest rates common in the market are shown on the balance sheet at nominal value; as a rule, however, non-interest or low-interest loans are disclosed at their present value discounted using an interest rate commensurate with the risks involved.

CO_2 emission allowances are accounted for as intangible assets and reported under other assets. Allowances which are purchased and allowances allocated free of charge are both stated at cost and are not amortised.

Deferred taxes result from temporary differences in the carrying amount in the separate IFRS financial statements and the tax base, and from consolidation procedures. Deferred tax assets also include tax reduction claims resulting from the expected utilisation of existing loss carryforwards in subsequent years. Deferred taxes are capitalised if it is sufficiently certain that the related economic advantages can be used. Their amount is assessed based on the tax rates applicable or expected to be applicable in the specific country at the time of realisation. The tax regulations valid or adopted as of the balance-sheet date are key considerations in this regard.
The tax rate used to calculate deferred taxes in Germany is 31.2% (previous year: 30.9%). This is derived from the prevailing 15% corporate tax rate, the 5.5% solidarity surcharge, and the Group's average local trade tax rate in Germany, which was adjusted during the year under review. Deferred tax assets and deferred tax liabilities are netted out for each company and/or tax group.

Inventories are assets which are held for sale in the ordinary course of business (finished goods and goods for resale), which are in the process of production (work in progress – goods and services) or which are consumed in the production process or in the rendering of services (raw materials including nuclear fuel assemblies and excavated earth for lignite mining).

Insofar as inventories are not acquired primarily for the purpose of realising a profit on a short-term resale transaction, they are carried at the lower of cost or net realisable value. Production costs reflect the full costs directly related to production and are determined based on normal capacity utilisation. In addition to directly allocable costs, production costs include adequate portions of required materials and production overheads, including production-related depreciation. Borrowing costs, however, are not capitalised as part of the cost. The valuation is generally based on average values. The usage of excavated earth for lignite mining is calculated using the FIFO method.

If the net realisable value of inventories written down in earlier periods has increased, the reversal of the write-down is recognised as a reduction of the cost of materials.

Nuclear fuel assemblies are stated at depreciated cost. Depreciation is determined by operation and capacity, based on consumption and the reactor's useful life.

Inventories which are acquired primarily for the purpose of realising a profit on a short-term resale transaction are stated at their net realisable value less distribution costs. Changes in value are recognised with an effect on income.

Securities classified as current **marketable securities** essentially consist of marketable securities held in special funds as well as fixed-interest securities which have a maturity of more than three months and less than one year from the date of acquisition. All of these securities are classified as "Available for sale" and are stated at fair value. The transaction costs directly associated with the acquisition of the financial asset are included in the initial measurement; these securities are initially measured on their settlement date. Unrealised gains and losses are included in other comprehensive income, with due consideration of any deferred taxes. Gains or losses are recognised in the income statement at the time of sale. If there are objective, material indications of a reduction in value, an impairment loss is recognised with an effect on income.

Financial assets are derecognised when the contractual rights to cash flows from the asset expire or if the entity transfers the financial asset. The latter applies when substantially all the risks and rewards of ownership of the asset are transferred, or the entity no longer has control of the asset.

Cash and cash equivalents consist of cash on hand, demand deposits and current fixed-interest securities with a maturity of three months or less from the date of acquisition.

Assets are stated under **"Assets held for sale"** if they can be sold in their present condition and their sale is highly probable. Such assets may be certain non-current assets, asset groups ("disposal groups") or operations ("discontinued operations"). Liabilities intended to be sold in a transaction together with assets are a part of a disposal group or discontinued operations, and are reported separately under **"Liabilities held for sale"**.

Non-current assets held for sale are no longer depreciated or amortised. They are recognised at fair value less costs to sell, as long as this amount is lower than the carrying amount.

Gains or losses on the valuation of specific assets held for sale and of disposal groups are stated under income from continuing operations until final completion of the sale.

The item "Income from discontinued operations" in the income statement includes income from operating activities as well as gains or losses resulting from recognition at fair value or from the disposal of activities.

The groupwide stock option plans are accounted for as cash-settled **share-based payment**. At the balance-sheet date, a provision is recognised in the amount of the prorated fair value of the payment obligation. Changes in the fair value are recognised with an effect on income. The fair value of options is determined using generally accepted valuation methodologies.

Provisions are recognised for all legal or constructive obligations to third parties which exist on the balance-sheet date and relate to past events, and with regard to which it is probable that an outflow of resources will be required, and the amount of which can be reliably estimated. Provisions are carried at the prospective settlement amount and are not offset against reimbursement claims. If the provision to be measured involves a large number of items, the obligation is estimated by weighting all possible outcomes by their probability of occurrence (expected value method).

All non-current provisions are recognised at their prospective settlement amount, which is discounted as of the balance-sheet date. In the determination of the settlement amount, any cost increases likely to occur up until the time of settlement are taken into account.

If necessary, the cost of property, plant and equipment may contain the estimated expenses for the decommissioning of plants or site restoration, for which decommissioning, restoration and similar provisions are recognised. If changes in the discount rate or changes in the estimated timing or amount of the payments result in changes in the provisions, the carrying amount of the respective asset is adjusted by the same amount. If the decrease in the provision exceeds the carrying amount of the underlying asset, the excess is recognised immediately through profit or loss.

As a rule, releases of provisions are credited to the expense account on which the provision was originally recognised.

Provisions for pensions and similar obligations are recognised for defined benefit plans. These are obligations of the company to pay future and ongoing post-employment benefits to entitled current and former employees and their surviving dependents. In particular, the obligations refer to retirement pensions. Individual commitments are generally calculated according to the employees' length of service and compensation.

Provisions for defined benefit plans are based on the actuarial present value of the respective obligation. This is measured using the projected unit credit method. This benefit/years-of-service method not only takes into account the pension benefits and benefit entitlements known as of the balance-sheet date, but also anticipated future increases in salaries and pension benefits. The calculation is based on actuarial reports, taking into account appropriate biometric parameters (for Germany, in particular the "Richttafeln 2005 G" by Klaus Heubeck). The provision derives from the balance of actuarial present value of the obligations and the fair value of the plan assets. The service cost is disclosed in staff costs. The interest cost and expected return on plan assets are included in the financial result.

Actuarial gains and losses are fully recognised in the fiscal year in which they occur. They are reported as a component of other comprehensive income outside of profit or loss in the statement of recognised income and expenses and immediately assigned to retained earnings. They remain outside profit or loss in subsequent periods as well.

In the case of defined contribution plans, the enterprise's obligation is limited to the amount it contributes to the plan. Contributions to the plan are reported under staff costs.

Waste management provisions in the nuclear energy sector are based on obligations under public law, in particular the German Atomic Energy Act, and on restrictions stipulated in operating licenses. These provisions are measured using estimates, which are based on and defined in contracts, on information from internal and external specialists and expert opinions, as well as on data from the German Federal Office for Radiation Protection (BfS).

Obligations existing as of the balance-sheet date and identifiable when the balance sheet is being prepared are recognised as provisions for mining damage to cover land recultivation and remediation of mining damage that has already occured or been caused. The provisions must be recognised due to obligations under public law, such as the German Federal Mining Act, and formulated, above all, in operating schedules and water law permits. Provisions are generally recognised based on the increase in the obligation, e.g. in line with lignite production. Such provisions are measured at full expected cost or according to estimated compensation payments.

Furthermore, provisions are made owing to obligations under public law to dismantle production facilities and fill wells. The amount of these provisions is determined on the basis of total cost estimates, which reflect past experience and the comparative rates determined by the German Association of Oil and Natural Gas Production Industry. An analogous approach is taken for foreign subsidiaries.

A provision is recognised to cover the obligation to deliver CO_2 emission allowances to the respective authorities; this provision is measured at the carrying amount of the CO_2 allowances capitalised for this purpose. If a portion of the obligation is not covered with the available allowances, the provision for this portion is measured using the market price of the emission allowances on the reporting date.

Liabilities consist of **financial liabilities, trade accounts payable** and **other liabilities**. Upon initial recognition, liabilities are stated at fair value including transaction costs and are carried at amortised cost in the periods thereafter (except for derivative financial instruments). Liabilities from finance lease agreements are measured at the lower of fair value of the leased asset or the present value of minimum lease payments.

Deferred income and prepayments from customers are recognised as liabilities under other liabilities. Deferred income includes advances and contributions in aid of construction and building connection that are carried as liabilities by the utilities and which are generally amortised and included in income over the useful life of the corresponding asset. Deferred income also includes taxable and non-taxable government grants for capital expenditure on non-current assets, which are generally recognised as other operating income in line with the assets' depreciation.

Certain minority interests are also presented under other liabilities. Specifically, this pertains to purchase price obligations from rights to tender minority interests (put options).

Derivative financial instruments are recognised as assets or liabilities and measured at fair value, regardless of their purpose. Changes in this value are recognised with an effect on income, unless the instruments are used for hedge accounting purposes. In such cases, recognition of changes in the fair value depends on the type of hedging transaction.

Fair value hedges are used to hedge assets or liabilities carried on the balance sheet against the risk of a change in their fair value. Hedges of unrecognised firm commitments are also recognised as fair value hedges. For fair value hedges, changes in the fair value of the hedging instrument as well as the fair value of the respective underlying transactions are recognised in the income statement. This means that gains and losses from the fair valuation of the hedging instrument are allocated to the same line items of the income statement as the gains or losses from the underlying hedged transaction or portions thereof. In the event that unrecognised firm commitments are hedged, changes in the fair value of the firm commitments with regard to the hedged risk result in the recognition of an asset or liability with an effect on income.

Cash flow hedges are used to hedge the risk of variability in cash flows related to an asset or liability carried on the balance sheet or related to a highly probable forecast transaction. If a cash flow hedge exists, unrealised gains and losses from the hedging instrument are initially stated as other comprehensive income. Such gains or losses are recognised in the income statement when the hedged underlying transaction has an effect on income. If forecast transactions are hedged and such transactions lead to the recognition of a financial asset or financial liability in subsequent periods, the amounts that were recognised in equity until this point in time are recognised in the income statement in the period during which the asset or liability affects the income statement. If the transactions result in the recognition of non-financial assets or liabilities, for example the acquisition of property, plant and equipment, the amounts recognised in equity without an effect on income are included in the initial cost of the asset or liability.

The purpose of hedges of a net investment in a foreign entity is to hedge the currency risk from investments with foreign functional currencies. Unrealised gains and losses from hedges are recognised in other comprehensive income until disposal of the foreign unit.

IAS 39 stipulates the conditions for the recognition of hedging relationships. Amongst other things, the hedging relationship must be documented in detail and be effective. According to IAS 39, a hedging relationship is "effective" when the changes in the fair value of the hedging instrument are within 80% to 125%, both prospectively and retrospectively, of the opposite change in the fair value of the hedged item. Only the effective portion of a hedge is recognised in accordance with the preceeding rules. The ineffective portion is recognised immediately in the income statement with an effect on income.

Contracts that were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with the company's expected purchase, sale or usage requirements (own-use contracts) are not accounted for as derivative financial instruments, but rather as executory contracts. If the contracts contain embedded derivatives, the derivatives are accounted separately from the host contract, if the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract. Written options to buy or sell a non-financial item which can be settled in cash are not own-use contracts.

Contingent liabilities are possible obligations to third parties or existing obligations which will probably not lead to outflow of economic benefits or the amount of which cannot be measured reliably. Contingent liabilities are only recognised on the balance sheet, if they were assumed within the framework of a business combination. The amounts disclosed in the Notes correspond to the exposure at the balance-sheet date.

Management judgements in the application of accounting policies. Management judgements are required in the application of accounting policies. In particular, this pertains to the following items:

- With regard to certain contracts a decision must be made as to whether they are to be treated as derivatives or as so-called own-use contracts, and be accounted for as executory contracts.
- Financial assets must be allocated to the categories "Held to maturity investments", "Loans and receivables", "Financial assets available for sale", and "Financial assets at fair value through profit or loss".
- With regard to "Financial assets available for sale" a decision must be made as to if and when reductions in value are to be recognised as impairments with an impact on income.
- With regard to assets held for sale, it must be determined if they can be sold in their current condition and if the sale of such is highly probable. If both conditions apply, the assets and any related liabilities must be reported and measured as "Assets held for sale" or "Liabilities held for sale", respectively.

Management estimates and judgements. Preparation of consolidated financial statements pursuant to IFRS requires assumptions and estimates to be made, which have an impact on the recognised value of the assets and liabilities carried on the balance sheet, on income and expenses and on the disclosure of contingent liabilities.

Amongst other things, these assumptions and estimates relate to the accounting and measurement of provisions. With regard to pension provisions and similar obligations, the discount factor and the expected return on plan assets are important estimates. The discount factor for pension obligations is determined on the basis of yields on high quality, fixed-rate corporate bonds on the financial markets as of the balance-sheet date. In Germany, an increase or decrease of one percentage point in the discount factor would result in a reduction of €1,314 million (previous year: €1,287 million) or an increase of €1,672 million (previous year: €1,638 million), respectively, in the present value of the obligations of the pension plans. For the Group companies in the UK, identical changes in the discount factor would reduce or increase pension obligations by €627 million (previous year: €529 million) or €798 million (previous year: €653 million), respectively. However, as the commitments stemming from company pension plans are primarily covered by funds and the value of most plan assets typically exhibits negative correlation with the market yields of fixed-interest securities, the pension provisions – as determined taking into account the existing plan assets – only depend on the prevailing level of market interest rates to a limited degree.

For the accounting of business combinations, the identifiable assets, liabilities and contingent liabilities are recognised at fair value as of the date of acquisition. In this regard, the most important estimates relate to the determination of the fair value of these items as of the acquisition date. Fair value is calculated either on the basis of reports of independent external valuation experts or internal analyses using suitable valuation techniques. Amongst other things, special attention is paid to the projection of future cash flows and determination of the discount rate.

The impairment test for goodwill is based on certain assumptions pertaining to the future, which are regularly adjusted.

Deferred tax assets are recognised if realisation of future tax benefits is probable. Actual future income for tax purposes and hence the actual realisability of deferred tax assets, however, may deviate from the estimation made when the deferred taxes are capitalised.

Further information on the assumptions and estimates upon which these consolidated financial statements are based can be found in the explanations of the individual items.

All assumptions and estimates are based on the circumstances and forecasts prevailing on the balance-sheet date. Furthermore, as of the balance-sheet date realistic assessments of overall economic conditions in the sectors and regions in which the Group conducts operations are taken into consideration with regard to the prospective development of business. Actual amounts may deviate from the estimated amounts if the overall conditions develop differently than expected. In such cases, the assumptions, and, if necessary, the carrying amounts of the affected assets and liabilities are adjusted.

As of the date of preparation of the consolidated financial statements, it is not presumed that there will be a material change in the assumptions and estimates.

Capital management. RWE's capital management is determined by the Group's strategic objectives and focuses on increasing the value of the business over the long term. To achieve this goal, the RWE Group endeavours to constantly optimise its existing operations, to safeguard its market position by offering competitive products and services and, if necessary, to optimise its portfolio via value-creating acquisitions and divestitures.

RWE manages its capital structure on the basis of financial indicators. One key indicator is the "debt factor" (leverage factor), which is calculated using net debt. Net debt is calculated by adding material non-current provisions as well as one half of the issued hybrid capital to net financial debt and subtracting the surplus of plan assets over benefit obligations. The debt factor is the ratio of net debt to EBITDA. For the year under review, this factor was 2.8 (previous year: 2.8). The debt factor is not to exceed 3.0 over the long term, thus supporting a solid credit rating.

We place great importance on maintaining a solid credit rating and thus ensuring financial flexibility. The credit rating is influenced by a number of qualitative and quantitative factors. These include aspects such as the amount of cash flows and debt as well as market conditions, competition, and the political framework.

The issuance of a €1.75 billion hybrid bond in September 2010 also had a beneficial effect on the rating. One half of the hybrid capital is classified as equity by the two leading rating agencies, Moody's and Standard & Poor's. As a result, the debt indicators relevant to the rating are better than they would be if a traditional bond had been issued.

At present, Moody's and Standard & Poor's assign the ratings A2 and A, both with a negative outlook, to the non-subordinated bonds issued by RWE AG and by RWE Finance B.V. with a guarantee by RWE AG. RWE thus continues to have investment-grade ratings. The short-term credit ratings are P-1 and A-1. We are committed to maintaining our good credit ratings.

Changes in accounting policies

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have approved several amendments to existing International Financial Reporting Standards (IFRSs) and adopted several new IFRSs and interpretations, which became effective for the RWE Group as of fiscal 2010:

IFRS 3 (2008) "Business Combinations" contains amended regulations on the accounting of business combinations. Compared to the original version of IFRS 3, the changes relate to the scope of application and the treatment of step acquisitions. IFRS 3 (2008) also contains a new option for companies: non-controlling interests can be measured at fair value or at the proportionate share of net assets individually for each transaction. Depending on which option a company exercises, any goodwill is recognised in full or only in proportion to the majority owner's interest. The changes will have a corresponding impact on the accounting treatment of business transactions.

IAS 27 (2008) "Consolidated and Separate Financial Statements": In particular, by revising IAS 27, the IASB changed the regulations for the treatment of transactions with non-controlling interests of a group. Transactions which result in a parent company changing its ownership interest in a subsidiary without a loss of control are to be accounted for as equity transactions without an effect on profit or loss. Regulations for treatment in the event of a loss of control over a subsidiary were also changed: the standard regulates how deconsolidation gains or losses are to be calculated and how residual ownership interest in the former subsidiary is to be measured following a partial sale. The changes will thus affect the accounting treatment of certain business transactions.

The following standards and interpretations, which are applicable for the first time in fiscal 2010, do not have a material impact on the RWE Group's consolidated financial statements.

- Improvements to International Financial Reporting Standards (2009)
- IFRS 1 (restructured in 2008) – First-time Adoption of International Financial Reporting Standards
- Amendment to IFRS 1 (2009) – Additional Exemptions for First-time Adopters
- Amendment to IFRS 2 (2009) – Group Cash-settled Share-based Payment Transactions
- Amendment to IAS 39 (2009) – Eligible Hedged Items
- IFRIC 12 – Service Concession Arrangements
- IFRIC 15 – Agreements for the Construction of Real Estate
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 – Distributions of Non-cash Assets to Owners
- IFRIC 18 – Transfers of Assets from Customers

New accounting policies

The IASB and the IFRS IC have adopted further standards and interpretations, which are not yet mandatory in the EU. These standards and interpretations are presented below. EU endorsement is still pending in some cases. We are currently reviewing what effects they will have on the RWE Group's consolidated financial statements.

IFRS 9 (2009)"Financial Instruments" replaces the previous regulations of IAS 39 on the classification and measurement of financial assets and liabilities. IFRS 9 (2009) becomes effective for the first time for fiscal years starting on or after 1 January 2013.

IAS 24 (2009) "Related Party Disclosures" essentially simplifies reporting on related companies which are controlled or significantly influenced by the state. IAS 24 (2009) becomes effective for the first time for fiscal years starting on or after 1 January 2011.

Amendment to IAS 32 (2009) "Classification of Rights Issues" addresses the issuer's accounting treatment of certain rights, options or warrants denominated in a foreign currency. In the future, these instruments must be classified as equity. The new regulations become effective for the first time for fiscal years starting on or after 1 February 2010.

With regard to the following standards and interpretations, which are not yet applicable in fiscal 2010, it is already foreseeable that these will have no material impacts on the RWE Group's consolidated financial statements:

- Improvements to IFRS (2010)
- Amendment to IFRS 1 (2010) – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- Amendment to IFRS 1 (2010) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- Amendment of IFRS 7 (2010) – Financial Instruments: Disclosures
- Amendment to IAS 12 (2010) – Deferred Tax: Recovery of Underlying Assets
- Amendment to IFRIC 14 (2009) – Prepayments of a Minimum Funding Requirement
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

Notes to the Income Statement

(1) Revenue

As a rule, revenue is recorded when the services or goods have been delivered and the risks have been transferred to the customer.

To improve the presentation of business development, we report revenue generated by energy trading operations as net figures, reflecting realised gross margins. By contrast, we state electricity, gas, coal and oil transactions that are subject to physical settlement as gross figures. Energy trading revenue is generated by the segment Trading/Gas Midstream. In fiscal 2010, gross revenue (including energy trading) totalled €114,682 million (previous year: €98,013 million).

A breakdown of revenue by division and geographical region is contained in the segment reporting on pages 219 to 222. Revenue increased by a net total of €5,016 million as a result of first-time consolidations and deconsolidations.

The item natural gas tax/electricity tax comprises the taxes paid directly by Group companies. Changes in the scope of consolidation resulted in an increase of €775 million in this item.

(2) Other operating income

Other operating income € million	2010	2009
Release of provisions	97	826
Cost allocations/refunds	218	95
Disposal and write-back of current assets excluding marketable securities	51	22
Disposal and write-back of non-current assets including income from deconsolidation	139	135
Income from derivative financial instruments	322	
Compensation for damage/insurance benefits	10	35
Rent and lease	28	27
Miscellaneous	411	470
	1,276	**1,610**

Income from the disposal of non-current financial assets and loans is disclosed under income from investments if it relates to investments; otherwise it is recorded as part of the financial result as is the income from the disposal of current marketable securities.

An increase of €134 million in other operating income is attributable to changes in the scope of consolidation.

(3) Cost of materials

Cost of materials € million	2010	2009
Cost of raw materials and of goods for resale	29,169	26,170
Cost of purchased services	4,007	3,668
	33,176	**29,838**

The cost of raw materials also includes expenses for the use and disposal of spent nuclear fuel assemblies.

Cost of materials in exploration activities amounted to €85 million in the reporting period (previous year: €133 million).

A total of €61,362 million in energy trading revenue (previous year: €50,272 million) was netted out against cost of materials. Changes in the scope of consolidation resulted in an increase of €2,863 million in the cost of materials.

(4) Staff costs

Staff costs € million	2010	2009
Wages and salaries	3,946	3,761
Cost of social security, pensions and other benefits	927	849
	4,873	**4,610**

The RWE Group's average personnel headcount amounted to 71,001 (previous year: 68,828 excluding American Water). This figure is arrived at by conversion to full-time positions, meaning that part-time and fixed-term employment relationships are included in accordance with the ratio of the part-time work or the duration of the employment to the annual employment time. Of the total average personnel headcount, 55,224 were staff covered by collective or other agreements (previous year: 54,107) and 15,777 were staff who were not covered by collective agreements (previous year: 14,721). In addition, 2,800 trainees were employed on average (previous year: 2,756). Trainees are not included in the personnel headcount.

An increase of €278 million in staff costs is attributable to changes in the scope of consolidation.

(5) Depreciation, amortisation and impairment losses

Depreciation and impairment losses on property, plant and equipment amounted to €2,600 million (previous year: €1,900 million) and to €10 million (previous year: €8 million) on investment property. Intangible assets were written down by €603 million (previous year: €449 million), of which €314 million (previous year: €272 million) pertained to customer bases of acquired enterprises. Exploration activities resulted in depreciation, amortisation and impairment losses of €5 million (previous year: €1 million) on property, plant and equipment and intangible assets.

Impairment losses were recognised in the reporting period. These impairment losses amounted to €471 million (previous year: €14 million) on property, plant and equipment, €3 million (previous year: €0 million) on investment property and €37 million (previous year: €5 million) on intangible assets (without goodwill).

Depreciation, amortisation and impairment losses increased by €216 million as a result of changes in the scope of consolidation.

(6) Other operating expenses

Other operating expenses € million	2010	2009
Maintenance and renewal obligations	917	829
Additions to provisions	271	104
Concessions, licenses and other contractual obligations	515	540
Structural and adaptation measures	196	71
Legal and other consulting and data processing services	295	327
Disposal of current assets and decreases in values (excluding decreases in the value of inventories and marketable securities)	380	242
Disposal of non-current assets including expenses from deconsolidation	102	127
Insurance, commissions, freight and similar distribution costs	235	252
General administration	224	192
Advertising	241	236
Expenses from derivative financial instruments	70	159
Lease payments for plant and grids as well as rents	123	100
Postage and monetary transactions	86	82
Fees and membership dues	89	48
Exchange rate losses	52	17
Other taxes (primarily on property)	79	49
Miscellaneous	553	549
	4,428	**3,924**

Exploration activities resulted in other operating expenses of €57 million (previous year: €76 million).

An increase of €434 million in other operating expenses is attributable to changes in the scope of consolidation.

(7) Income from investments

Income from investments includes all income and expenses which have arisen in relation to operating investments. It is comprised of income from investments accounted for using the equity method and other income from investments.

Income from investments € million	2010	2009
Income from investments accounted for using the equity method	**310**	**131**
of which: additions/amortisation/impairment losses on investments accounted for using the equity method	(24)	(–111)
Income from non-consolidated subsidiaries	–1	29
of which: amortisation/impairment losses on non-consolidated subsidiaries		(–2)
Income from other investments	53	51
of which: impairment of shares in other investments	(–3)	(–2)
Income from the disposal of investments	34	97
Expenses from the disposal of investments		64
Income from loans to investments	27	53
Expenses from loans to investments	16	35
Other income from investments	**97**	**131**
	407	**262**

Income from investments includes impairment losses on other financial assets in the amount of €3 million (previous year: €4 million) and impairment losses on loans to investments amounting to €16 million (previous year: €16 million).

During the year under review, additions of €71 million were recognised in relation to Kärntner Energieholding Beteiligungs GmbH, Austria, and Stadtwerke Duisburg AG, both investments accounted for using the equity method, based on increases in company value, while an impairment of €40 million was recognised on Fri-El S.p.A., Italy, an investment accounted for using the equity method, due to slower-than-anticipated development of the company's projects. In light of the difficult conditions on the liquefied natural gas (LNG) market, an impairment of €105 million was recognised in the previous year on Excelerate Energy LP, USA, an investment accounted for using the equity method.

(8) Financial result

Financial result € million	2010	2009
Interest and similar income	448	589
Other financial income	800	1,110
Financial income	**1,248**	**1,699**
Interest and similar expenses	1,258	1,224
Interest accretion to		
Provisions for pensions and similar obligations (including capitalised surplus of plan assets)	147	176
Provisions for nuclear waste management as well as to mining provisions	623	567
Other provisions	170	214
Other finance costs	986	1,508
Finance costs	**3,184**	**3,689**
	–1,936	**–1,990**

The financial result breaks down into net interest, interest accretion to provisions, other financial income and other finance costs.

Interest accretion to provisions contains the reversal allocable to the current year of the discounting of non-current provisions from the annual update of the present value calculation. It is reduced by the projected income on plan assets for the coverage of pension obligations.

Net interest essentially includes interest income from interest-bearing securities and loans, income and expenses relating to marketable securities, and interest expenses.

Net interest € million	2010	2009
Interest and similar income	448	589
Interest and similar expenses	1,258	1,224
	–810	**–635**

Net interest stems from financial assets and liabilities, which are allocated to the following categories:

Interest result by category € million	2010	2009
Loans and receivables	359	357
Financial assets available for sale	89	232
Financial liabilities carried at (amortised) cost	–1,258	–1,224
	–810	**–635**

The financial result also contains all other financial income and finance costs which cannot be allocated to net interest or to interest accretion to provisions.

Other financial income includes €161 million in gains realised from the disposal of marketable securities (previous year: €292 million). Other finance costs include €0 million (previous year: €51 million) in write-downs of marketable securities due to decreases in their fair value and €44 million (previous year: €441 million) in realised losses from the disposal of marketable securities.

(9) Taxes on income

Taxes on income € million	2010	2009
Current taxes on income	2,056	1,761
Deferred taxes	–680	97
	1,376	**1,858**

Of the deferred taxes, –€586 million is related to temporary differences (previous year: €5 million).

Current taxes on income contain €26 million in net tax expenses (previous year: €130 million) relating to prior periods.

Due to the utilisation of tax loss carryforwards unrecognised in prior years, current taxes on income were reduced by €32 million (previous year: €4 million).

During the period under review, equity increased by €8 million (previous year: €251 million) by offsetting deferred taxes with other comprehensive income, as follows:

Income taxes recognised in other comprehensive income € million	2010	2009
Fair valuation of financial instruments available for sale	34	–9
Fair valuation of financial instruments used for hedging purposes	6	–58
Actuarial gains and losses of defined benefit pension plans and similar obligations	–32	318
Income	**8**	**251**

Furthermore, taxes in the amount of €9 million were offset directly against equity in relation to hybrid capital.

Tax reconciliation € million	2010	2009
Income from continuing operations before tax	**4,978**	**5,598**
Theoretical tax expense	**1,555**	**1,729**
Differences from foreign tax rates	–142	–169
Tax effects on		
Tax-free domestic dividend income	–76	–95
Tax-free foreign dividend income	–28	–32
Other tax-free income	–11	–14
Expenses not deductible for tax purposes	132	72
Accounting for associates using the equity method (including impairment losses on associates' goodwill)	16	69
Unutilisable loss carryforwards / utilisation of unrecognised loss carryforwards / write-downs on loss carryforwards / recognition of loss carryforwards	–122	55
Income on the disposal of investments	–12	–36
Changes in domestic tax rates	–10	
Changes in foreign tax rates	–56	
Other	130	279
Effective tax expense	**1,376**	**1,858**
Effective tax rate in %	27.6	33.2

Notes to the Balance Sheet

(10) Intangible assets

Intangible assets € million	Development costs	Concessions, patent rights, licenses and similar rights	Customer relationships and similar assets	Goodwill	Prepayments	Total
Cost						
Balance at 1 Jan 2010	475	3,734	2,790	13,258	2	20,259
Additions/disposals due to changes in the scope of consolidation	16	1	2	130		149
Additions	112	165			1	278
Transfers	2	1			–1	2
Currency translation adjustments	11	21	74	192		298
Disposals	9	93		2		104
Balance at 31 Dec 2010	607	3,829	2,866	13,578	2	20,882
Accumulated amortisation/impairment losses						
Balance at 1 Jan 2010	223	968	1,742	6		2,939
Additions/disposals due to changes in the scope of consolidation	7	10	–1			16
Amortisation/impairment losses in the reporting period	69	220	314			603
Transfers	1					1
Currency translation adjustments	6	7	52			65
Disposals	9	83				92
Balance at 31 Dec 2010	297	1,122	2,107	6		3,532
Carrying amounts						
Balance at 31 Dec 2010	310	2,707	759	13,572	2	17,350

Cost						
Balance at 1 Jan 2009	316	1,999	2,164	9,152	4	13,635
Additions/disposals due to changes in the scope of consolidation	55	1,297	470	3,871	–2	5,691
Additions	104	499			1	604
Currency translation adjustments	19	19	156	235	–1	428
Disposals	19	80				99
Balance at 31 Dec 2009	475	3,734	2,790	13,258	2	20,259
Accumulated amortisation/impairment losses						
Balance at 1 Jan 2009	169	898	1,360	6		2,433
Additions/disposals due to changes in the scope of consolidation	–1	–22	12			–11
Amortisation/impairment losses in the reporting period	48	129	272			449
Currency translation adjustments	9	7	98			114
Disposals	2	44				46
Balance at 31 Dec 2009	223	968	1,742	6		2,939
Carrying amounts						
Balance at 31 Dec 2009	252	2,766	1,048	13,252	2	17,320

In the reporting period, the RWE Group's total expenditures on research and development amounted to €149 million (previous year: €110 million). Development costs of €112 million were capitalised (previous year: €104 million).

As of the balance-sheet date, the carrying amount of intangible assets related to exploration activities amounted to €374 million (previous year: €415 million).

Goodwill breaks down as follows:

Goodwill € million	31 Dec 2010	31 Dec 2009
Germany	4,186	3,937
Power Generation	(404)	(404)
Sales and Distribution Networks	(3,782)	(3,533)
Netherlands/Belgium	2,665	3,504
United Kingdom	2,968	2,877
Central Eastern and South Eastern Europe	2,048	1,956
Renewables	736	441
Upstream Gas & Oil	25	26
Trading/Gas Midstream	944	434
Others		77
	13,572	**13,252**

In the reporting period, goodwill increased by €130 million. An increase in current redemption liabilities from put options resulted in an adjustment without an effect on income of €213 million to the goodwill of the segment Sales and Distribution Networks. Declines in goodwill primarily resulted from the reporting of Thyssengas as "Assets and liabilities held for sale" (€77 million). In respect of additions to goodwill in the previous year (€3,871 million), €3,435 million resulted from the acquisition of Essent. With the assignment of Essent's trading activities and wind power generation to the segments Trading/Gas Midstream and Renewables, goodwill of €510 million and €285 million, respectively, was allocated to these segments. Goodwill of €43 million was allocated to the segment Sales and Distribution Networks, based on the assignment of Essent's gas storage activities.

In the third quarter of each fiscal year, the regular impairment test is performed to determine if there is any need to write down goodwill. In order to carry out this impairment test, goodwill is allocated to the cash-generating units at the segment level. The impairment test involves determining the recoverable amount of the cash-generating units, which is defined as the higher of fair value less costs to sell or value in use. The fair value reflects the best estimate of the price that an independent third party would pay to purchase the cash-generating unit as of the balance-sheet date. Value in use is the present value of the future cash flows which are expected to be generated with a cash-generating unit.

Fair value is assessed from an external perspective and value in use from a company-internal perspective. We determine both variables using a business valuation model, taking into account planned future cash flows. These cash flows, in turn, are based on the business plan, as approved by the Executive Board and valid at the time of the impairment test, and pertain to a detailed planning period of up to five years. In certain justifiable cases, a longer detailed planning period is taken as a basis, insofar as this is necessary due to economic or regulatory conditions. The cash flow plans are based on experience as well as on expected market trends in the future. If available, market transactions in the same sector or third-party valuations are taken as a basis for determining fair value.

Mid-term business plans are based on country-specific assumptions regarding the development of key economic indicators such as gross domestic product, consumer prices, interest rate levels and nominal wages. These estimates are, amongst others, derived from macroeconomic and financial studies.

The key planning assumptions for the business segments active in Europe's electricity and gas markets are estimates relating to the development of wholesale prices for electricity, crude oil, natural gas, coal and CO_2 emission allowances, retail prices for electricity and gas, and the development of market shares and regulatory framework conditions.

The discount rates used for business valuations are determined on the basis of market data. With regard to cash-generating units, during the period under review they ranged from 6.25% to 9.00% after tax (previous year: 6.5% to 9.0%) and from 8.0% to 16.5% before tax (previous year: 8.8% to 15.6%).

For the extrapolation of future cash flows going beyond the detailed planning horizon, we assumed constant growth rates of 0.0% to 1.0% (previous year: 0.0% to 1.0%). These figures are derived from experience and future expectations for the individual divisions and do not exceed the long-term average growth rates in the markets in which the Group companies are active. In calculating cash flow growth rates, the capital expenditures required to achieve the assumed cash flow growth are subtracted.

As of the balance-sheet date, both the fair values less costs to sell and the values in use were higher than the carrying amounts of the cash-generating units. These surpluses react very sensitively to changes in the discount rate, the growth rate and the operating result after taxes in terminal value as key measurement parameters.

Of all the segments, United Kingdom and Netherlands/Belgium exhibited the smallest surpluses of recoverable amount over carrying amount.

The goodwill allocated to the segment United Kingdom amounted to €2,968 million as of 31 December 2010. The impairment test showed a recoverable amount which exceeded the carrying amount by £1.1 billion. Valuation of the segment United Kingdom was calculated using a discount rate of 6.75% and a growth rate of 1.0%. An increase in the discount rate by more than 1.21 percentage points to above 7.96%, the assumption of a negative growth rate higher than 1.53% or a decrease of more than £85 million in the operating result after taxes in terminal value would result in the recoverable amount being lower than the carrying amount of the cash-generating unit United Kingdom.

The goodwill allocated to the segment Netherlands/Belgium amounted to €2,665 million. The recoverable amount exceeded the carrying amount by €0.9 billion. Impairment would have been necessary if the calculations had used a discount rate increased by more than 0.42 percentage points to above 6.67%, a growth rate decreased by more than 0.69 percentage points to below 0.31% or an operating result reduced by more than €61 million in terminal value.

(11) Property, plant and equipment

Property, plant and equipment € million	Land, land rights and buildings incl. buildings on third-party land	Technical plant and machinery	Other equipment, factory and office equipment	Prepay-ments	Plants under con-struction	Total
Cost						
Balance at 1 Jan 2010	6,959	64,004	2,079	1,869	4,593	79,504
Additions/disposals due to changes in the scope of consolidation	–39	–729	1	112	–60	–715
Additions	285	1,908	171	681	3,198	6,243
Transfers	73	1,737	52	–7	–1,914	–59
Currency translation adjustments	32	380	18	–3	60	487
Disposals	77	704	133		54	968
Balance at 31 Dec 2010	7,233	66,596	2,188	2,652	5,823	84,492
Accumulated depreciation/impairment losses						
Balance at 1 Jan 2010	3,566	45,747	1,559		5	50,877
Additions/disposals due to changes in the scope of consolidation	–20	–601	–2			–623
Depreciation/impairment losses in the reporting period	208	2,195	162		35	2,600
Transfers	–40					–40
Currency translation adjustments	13	204	13			230
Disposals	44	609	129			782
Write-backs	5	2				7
Balance at 31 Dec 2010	3,678	46,934	1,603		40	52,255
Carrying amounts						
Balance at 31 Dec 2010	3,555	19,662	585	2,652	5,783	32,237

Cost						
Balance at 1 Jan 2009	6,612	58,519	1,942	1,024	2,953	71,050
Additions/disposals due to changes in the scope of consolidation	89	2,291	36	–1	789	3,204
Additions	164	1,951	161	859	2,317	5,452
Transfers	129	1,360	28	–13	–1,535	–31
Currency translation adjustments	26	376	22		93	517
Disposals	61	493	110		24	688
Balance at 31 Dec 2009	6,959	64,004	2,079	1,869	4,593	79,504
Accumulated depreciation/impairment losses						
Balance at 1 Jan 2009	3,441	44,342	1,501	1	3	49,288
Additions/disposals due to changes in the scope of consolidation	10	14	–1	–1		22
Depreciation/impairment losses in the reporting period	167	1,582	149		2	1,900
Transfers	–14					–14
Currency translation adjustments	8	209	16			233
Disposals	35	400	106			541
Write-backs	11					11
Balance at 31 Dec 2009	3,566	45,747	1,559		5	50,877
Carrying amounts						
Balance at 31 Dec 2009	3,393	18,257	520	1,869	4,588	28,627

Of the additions/disposals due to changes in the scope of consolidation, €2,947 million was related to Essent in the previous year.

The carrying amount of property, plant, and equipment for exploration activities was €346 million (previous year: €354 million).

Property, plant and equipment were subject to restrictions in the amount of €1,026 million (previous year: 1,137 million) in the form of land charges and chattel mortgages. Of the carrying amount of property, plant and equipment, €136 million (previous year: €74 million) was attributable to assets leased under finance leases. These assets were principally comprised of technical plant and equipment with a total value of €127 million (previous year: €64 million). Disposal of property, plant and equipment resulted from the sale or decommissioning of plants.

(12) Investment property

Investment property € million	
Cost	
Balance at 1 Jan 2010	378
Additions/disposals due to changes in the scope of consolidation	
Transfers	40
Currency adjustments	
Disposals	17
Balance at 31 Dec 2010	401
Accumulated depreciation/impairment losses	
Balance at 1 Jan 2010	196
Depreciation/impairment losses in the reporting period	10
Transfers	40
Disposals	7
Balance at 31 Dec 2010	239
Carrying amounts	
Balance at 31 Dec 2010	162

Investment property € million	
Cost	
Balance at 1 Jan 2009	366
Additions/disposals due to changes in the scope of consolidation	−1
Transfers	31
Currency adjustments	1
Disposals	19
Balance at 31 Dec 2009	378
Accumulated depreciation/impairment losses	
Balance at 1 Jan 2009	186
Depreciation/impairment losses in the reporting period	8
Transfers	14
Disposals	12
Balance at 31 Dec 2009	196
Carrying amounts	
Balance at 31 Dec 2009	182

As of 31 December 2010, the fair value of investment property amounted to €257 million (previous year: €254 million). Of this, €85 million (previous year: €80 million) is based on valuations by independent appraisers. Rental income in the reporting period amounted to €23 million (previous year: €23 million). Direct operating expenses totalled €14 million (previous year: €11 million).

(13) Investments accounted for using the equity method

The following summaries present the key items from the balance sheets and income statements of companies accounted for using the equity method:

Investments accounted for using the equity method	31 Dec 2010		31 Dec 2009	
€ million	Total	Of which: joint ventures	Total	Of which: joint ventures
Equity				
Assets	24,436	4,524	24,312	3,739
Liabilities	17,078	3,564	13,997	2,573
	7,358	**960**	**10,315**	**1,166**
Adjustment to RWE interest and equity method	−3,664	−477	−6,579	−583
	3,694	**483**	**3,736**	**583**

Income from investments accounted for using the equity method	2010		2009	
€ million	Total	Of which: joint ventures	Total	Of which: joint ventures
Revenue	15,814	480	18,882	253
Income	840	−207	1,277	−185
Adjustment to RWE interest and equity method	−530	105	−1,146	23
	310	**−102**	**131**	**−162**

As of 31 December 2010, the fair value of investments accounted for using the equity method for which quoted market prices exist amounted to €2 million (previous year: €2 million).

In respect of joint ventures, €4,280 million of assets (previous year: €3,457 million) and €1,831 million of liabilities (previous year: €1,569 million) were non-current.

(14) Other non-current financial assets

Other non-current financial assets € million	31 Dec 2010	31 Dec 2009
Non-consolidated subsidiaries	145	170
Other investments	356	386
Non-current securities	249	153
	750	**709**

Non-current securities primarily consist of fixed-interest marketable securities and shares of listed companies. Long-term securities amounting to €189 million (previous year: €95 million) were deposited in a trust account for RWE AG and it subsidiaries to cover credit balances stemming from the block model for pre-retirement part-time work, pursuant to Sec. 8a of the Pre-Retirement Part-Time Work Act (AltTZG).

(15) Financial receivables

Financial receivables	31 Dec 2010		31 Dec 2009	
€ million	Non-current	Current	Non-current	Current
Loans to non-consolidated subsidiaries and investments	809	994	806	487
Collateral for trading activities		674		2,022
Other financial receivables				
Accrued interest		114		127
Miscellaneous other financial receivables	233	964	312	786
	1,042	**2,746**	**1,118**	**3,422**

As of the balance-sheet date, financial receivables from associates amounted to €2,195 million (previous year: €1,470 million).

Companies of the RWE Group deposited collateral for the trading activities stated above for exchange-based and over-the-counter (OTC) transactions. These deposits ensure that the obligations from the transactions are discharged even if the development of prices is not favourable.

(16) Other receivables and other assets

Other receivables and other assets	31 Dec 2010		31 Dec 2009	
€ million	Non-current	Current	Non-current	Current
Derivatives	1,696	7,222	1,769	10,433
Surplus of plan assets over benefit obligations	56		79	
Prepayments for items other than inventories		769		714
CO_2 emission allowances		983		1,117
Prepaid expenses		178		162
Miscellaneous other assets	461	1,332	640	1,358
	2,213	**10,484**	**2,488**	**13,784**

With the exception of derivatives, the financial instruments reported under other receivables and other assets are measured at amortised cost. Derivative financial instruments are stated at fair value.

The carrying values of exchange-traded derivatives with netting agreements are offset.

Changes in the scope of consolidation increased other receivables and other assets by €13 million.

(17) Deferred taxes

Deferred tax assets and liabilities principally stem from the fact that measurements in the IFRS statements differ from measurements in the tax bases, as a result of deviations in valuations. €2,558 million and €2,496 million of the gross deferred tax assets and liabilities, respectively, will be realised within twelve months (previous year: €2,473 million and €2,603 million).

The following is a breakdown of deferred tax assets and liabilities by item:

Deferred taxes	31 Dec 2010		31 Dec 2009	
€ million	Assets	Liabilities	Assets	Liabilities
Non-current assets	412	2,856	517	2,678
Current assets	267	1,756	381	2,009
Exceptional tax items		239		267
Non-current liabilities				
Provisions for pensions	641	24	581	114
Other non-current provisions	2,079	17	1,752	168
Current liabilities	2,291	740	2,092	594
	5,690	**5,632**	**5,323**	**5,830**
Tax loss carryforwards				
Corporate income tax (or comparable foreign income tax)	142		47	
Trade tax	6		9	
Gross total	**5,838**	**5,632**	**5,379**	**5,830**
Netting	-3,447	-3,447	-3,503	-3,503
Net total	**2,391**	**2,185**	**1,876**	**2,327**

The capitalised tax reduction claims from loss carryforwards result from the expected utilisation of previously unused tax loss carryforwards in subsequent years.

Realisation of these tax carryforwards is guaranteed with sufficient certainty. At the end of the reporting period, corporate income tax loss carryforwards and trade tax loss carryforwards for which no deferred tax claims have been recognised amounted to €660 million and €266 million, respectively (previous year: €372 million and €187 million). €25 million of these income tax loss carryforwards apply to the next five years.

The other loss carryforwards can essentially be used for an unlimited period.

In the year under review, deferred tax expenses of €37 million arising from the translation of foreign financial statements were offset against equity (previous year: €63 million).

(18) Inventories

Inventories € million	31 Dec 2010	31 Dec 2009
Raw materials, incl. nuclear fuel assemblies and earth excavated for lignite mining	2,373	2,125
Work in progress - goods	25	27
Work in progress - services	88	82
Finished goods and goods for resale	788	857
Prepayments	19	24
	3,293	**3,115**

Inventories were not subject to any restrictions on disposal and there were no further obligations.

The carrying amount of inventories acquired for resale purposes was €627 million (previous year: €245 million).

Changes in the scope of consolidation resulted in a decrease of €12 million in inventories.

(19) Trade accounts receivable

As of the balance-sheet date, trade accounts receivable from associates amounted to €241 million (previous year: €292 million).

Trade accounts receivable decreased by €76 million due to changes in the scope of consolidation.

(20) Marketable securities

The total value of current marketable securities was €3,196 million (previous year: €3,290 million), consisting of fixed-interest marketable securities of €2,670 million (previous year: €2,642 million) with a maturity of more than three months from the date of acquisition, and stocks and profit-participation certificates of €526 million (previous year: €648 million). Marketable securities are stated at fair value. As of 31 December 2010, the average return on fixed-interest securities was 2.1 % (previous year: 2.1 %). Securities in the amount of €812 million (previous year: €649 million) were deposited with clearing banks as collateral.

(21) Cash and cash equivalents

Cash and cash equivalents € million	31 Dec 2010	31 Dec 2009
Cash and demand deposits	2,317	2,113
Marketable securities and other cash investments (maturity less than three months from the date of acquisition)	159	961
	2,476	**3,074**

RWE keeps demand deposits exclusively for short-term cash positions and only at banks with a minimum credit rating of A-/A3 from one of the two renowned rating agencies, Moody's or Standard & Poor's. As in the previous year, interest rates are maintained at market levels.

(22) Equity

A breakdown of equity is shown on page 166.

The subscribed capital of RWE AG is structured as follows:

Subscribed capital	31 Dec 2010 Number of shares		31 Dec 2009 Number of shares		31 Dec 2010 Carrying amount	31 Dec 2009 Carrying amount
	in '000	in %	in '000	in %	€ million	€ million
Common shares	523,405	93.1	523,405	93.1	1,340	1,340
Preferred shares	39,000	6.9	39,000	6.9	100	100
	562,405	**100.0**	**562,405**	**100.0**	**1,440**	**1,440**

Common and preferred shares are no-par-value bearer share certificates. Preferred shares have no voting rights. Under certain conditions, preferred shares are entitled to payment of a preference dividend of €0.13 per share, upon allocation of the company's profits.

Pursuant to a resolution passed by the Annual General Meeting on 17 April 2008, the Executive Board of RWE AG was authorised to increase the company's capital stock, subject to the Supervisory Board's approval, by up to €287,951,360.00 until 16 April 2013, through the issuance of new, bearer common shares in return for contributions in cash or in kind (authorised capital). In certain cases, the subscription rights of shareholders can be waived, with the approval of the Supervisory Board.

Pursuant to a resolution passed by the Annual General Meeting on 22 April 2009, the Executive Board was further authorised to issue option or convertible bonds until 21 April 2014. The total nominal value of the bonds is limited to €6,000 million. Shareholders' subscription rights may be waived under certain conditions. The Annual General Meeting decided to establish €143,975,680 in conditional capital divided into 56,240,500 bearer common shares, in order to redeem the bonds. Shares from the authorised capital are to be deducted from the shares from the conditional capital, insofar as they are both issued with a waiver of shareholders' subscription rights. Accordingly, the share capital may not be increased by more than 20% by the issue of new shares.

Pursuant to a resolution passed by the Annual General Meeting on 22 April 2010, the company was authorised to purchase shares of any class in RWE totalling up to 10% of the company's capital stock until 21 October 2011. Share buy-backs may also be conducted with put or call options. Furthermore, the resolution also authorises the Executive Board to withdraw own shares, without requiring an additional resolution by the Annual General Meeting or – under certain conditions and waiver of shareholders' subscription rights – to sell them to third parties.

On 31 December 2010, RWE AG held 28,846,473 no-par-value common shares in RWE AG (31 December 2009: 28,846,473). The acquisition costs of own shares amounting to €2,272 million were deducted from the carrying amount of equity (31 December 2009: €2,272 million). As of the balance-sheet date, they accounted for €73,846,970.88 of the company's share capital. This is equivalent to 5.13% of subscribed capital.

In September 2010, RWE AG issued a hybrid bond with a nominal volume of €1.75 billion. The bond, which is subordinated to all other creditor securities, is a perpetual and may be called only by RWE AG on specific, contractually agreed call dates or occasions. It bears an interest rate of 4.625% p.a. until the first call date, which is in 2015. If the bond is not called as of this date, its interest rate until the next call date, which is in 2020, will be the sum of the then applicable five-year interbank rate and a credit spread of 265 basis points. If it is not called as of that date, either, it will be converted into a variable-interest bond with an annual call right and an interest rate equalling the 12-month EURIBOR plus 365 basis points. Interest payments may be deferred under certain conditions, especially if the Executive and Supervisory Boards propose to the Annual General Meeting that a dividend not be paid. Deferred interest payments must be made up for when payment of a dividend is proposed again. After ten years, the hybrid bond may only be redeemed by issuing equity or equity-like financial instruments, for example new hybrid bonds. At the first call date, which is after five years, the hybrid bond may be redeemed without restrictions with respect to the follow-up financing.

Pursuant to IAS 32, the issued hybrid bond must be classified as equity. Proceeds from the bond issue were reduced by the capital procurement costs and added to equity, taking account of taxes. Interest due to bondholders will be booked directly against equity, after deduction of taxes. The first interest payment comes due on 28 September 2011.

Accumulated other comprehensive income reflects changes in the fair values of financial instruments available for sale, cash flow hedges and hedges of the net investment in foreign entities, as well as changes stemming from foreign currency translation adjustments from foreign financial statements.

Dividend proposal

We propose to the Annual General Meeting that RWE AG's distributable profit for fiscal 2010 be appropriated as follows:

Distribution of a dividend of €3.50 per individual dividend-bearing share:

Dividend	€1,867,454,844.50
Profit carryforward	€38,966.69
Distributable profit	€1,867,493,811.19

The dividend proposal takes into account the non-dividend-bearing shares held by the company as of 31 December 2010. The number of dividend-bearing shares may decline before the Annual General Meeting if further own shares are purchased. Conversely, the number of dividend-bearing shares may rise if own shares are sold prior to the Annual General Meeting. In these cases, based on an unchanged dividend per dividend-bearing share, an adjusted proposal for the appropriation of the distributable profit will be made to the Annual General Meeting, in which the total amount of the appropriation is reduced by the partial amount that would be distributable for the own shares additionally purchased between 1 January 2011 and the date of the proposal for the appropriation of distributable profit and is increased by the partial amount that is distributable for the own shares sold between 1 January 2011 and the date of the proposal for the appropriation of distributable profit. The profit carryforward will increase or decline by these partial amounts.

Based on a resolution of RWE AG's Annual General Meeting on 22 April 2010, the dividend for fiscal 2009 amounted to €3.50 per dividend-bearing common and preferred share. The dividend payment to shareholders of RWE AG totalled €1,867 million.

Minority interest

The share ownership of third parties in Group entities is presented in this item.

Significant minority interests are essentially held in the Hungarian energy utilities and in the Czech gas companies.

(23) Share-based payment

In the year under review, the groupwide share-based payment systems for executives of RWE AG and subordinate affiliates consisted of the following: Beat 2005 and Beat 2010. If the persons holding notional stocks are not employed by RWE AG, the expenses associated with the exercise of the performance shares are borne by the respective Group company.

	Beat 2005		
	2007 tranche	2008 tranche	2009 tranche
Grant date	1 Jan 2007	1 Jan 2008	1 Jan 2009
Number of conditionally granted performance shares	1,468,132	1,668,836	3,251,625
Term	3 years	3 years	3 years
Pay-out conditions	Automatic pay-out, if – following a waiting period of three years – an outperformance compared to 25% of the peer group of the Dow Jones STOXX Utilities Index has been achieved, measured in terms of their index weighting as of the inception of the programme. Measurement of outperformance is carried out using Total Shareholder Return (TSR), which takes into account both the development of the share price together with reinvested dividends.		
Determination of payment	1. Determination of the index weighting of the peer group companies which exhibit a lower TSR than RWE at the end of the term. 2. Performance factor is calculated by squaring this percentage rate and multiplying it by 1.25. 3. Total number of performance shares which can be paid out is calculated by multiplying the performance shares conditionally granted by the performance factor. 4. Payment corresponds to the final number of performance shares valued at the average RWE share price during the last 20 exchange trading days prior to expiration of the programme. The payment is limited to twice the value of the performance shares as of the grant date.		
Change in corporate control/merger	▪ If during the waiting period there is a change in corporate control, a compensatory payment is made. This is calculated by multiplying the price paid in the acquisition of the RWE shares by the final number of performance shares. The latter shall be determined as per the plan conditions with regard to the time when the bid for corporate control is submitted. ▪ In the event of merger with another company, the compensatory payment shall be calculated on the basis of the fair value of the performance shares at the time of the merger multiplied by the prorated number of performance shares corresponding to the ratio between the total waiting period and the waiting period until the merger takes place.		
Form of settlement	Cash settlement		

	Beat 2010	
	2010 tranche; Waiting period: 3 years	2010 tranche; Waiting period: 4 years
Grant date	1 Jan 2010	1 Jan 2010
Number of conditionally granted performance shares	784,421	1,012,331
Term	3 years	5 years
Pay-out conditions	Automatic pay-out, if – following a waiting period of three years (valuation date: Dec 31 of the third year) – an outperformance compared to at least 25% of the peer group of the Dow Jones STOXX Utilities Index has been achieved, measured in terms of their index weighting as of the issue of the tranche. Measurement of outperformance is carried out using Total Shareholder Return (TSR), which takes into account both the development of the share price together with reinvested dividends.	Possible pay-out on three exercise dates (valuation dates: Dec 31 of the fourth year, June 30 and Dec 31 of the fifth year) if – as of the valuation date – an outperformance compared to at least 25% of the peer group of the Dow Jones STOXX Utilities Index has been achieved, measured in terms of their index weighting as of the issue of the tranche. Measurement of outperformance is carried out using Total Shareholder Return (TSR), which takes into account both the development of the share price together with reinvested dividends. Automatic pay-out occurs on the third valuation date; the number of performance shares available for pay-out can be freely chosen on the first and second valuation date.
Determination of payment	1. Determination of the index weighting of the peer group companies which exhibit a lower TSR than RWE at the valuation date. 2. The total number of performance shares which can be paid out is determined on the basis of a linear payment curve. If the index weighting of 25% is outperformed, 7.5% of the conditionally-granted performance shares can be paid out. Another 1.5% of the performance shares granted can be paid out for each further percentage point above and beyond the index weighting of 25%. 3. Payment corresponds to the number of payable performance shares valued at the average RWE share price during the last 60 exchange trading days prior to the valuation date. The payment is limited to twice the value of the performance shares as of the grant date.	
Change in corporate control/merger	▪ If during the waiting period there is a change in corporate control, a compensatory payment is made. This is calculated by multiplying the price paid in the acquisition of the RWE shares by the final number of performance shares which have not been used. The latter shall be determined as per the plan conditions with regard to the time when the bid for corporate control is submitted. ▪ In the event of merger of RWE AG with another company, the performance shares shall expire and a compensatory payment shall be made. First, the fair value of the performance shares as of the time of merger shall be calculated. This fair value is then multiplied by the number of performance shares granted, reduced pro-rata. The reduction factor is calculated as the ratio of the time from the beginning of the total waiting period until the merger takes place to the entire waiting period of the programme, multiplied by the ratio of the performance shares not yet used as of the time of the merger to the total number of performance shares granted at the beginning of the programme.	
Personal investment	As a prerequisite for participation, plan participants must demonstrably invest one sixth of the gross grant value of the performance shares before taxes in RWE common shares and hold such investment for the waiting period of the tranche in question.	
Form of settlement	Cash settlement	

The fair value of the performance shares conditionally granted in the Beat programme amounted to €25.96 per share as of the grant date for the 2010 tranche (four-year waiting period), €28.80 per share for the 2010 tranche (three-year waiting period), €11.93 per share for the 2009 tranche, and €22.25 per share for the 2008 tranche. These values were calculated externally using a stochastic, multivariate Black-Scholes standard model via Monte Carlo simulations on the basis of one million scenarios each. In the calculations, due consideration was taken of the maximum payment stipulated in the programme's conditions for each conditionally granted performance share, the remaining term, the discount rates for the remaining term, the current prices of the underlying shares, the related volatilities and correlations, and the expected dividends of RWE AG and of peer companies.

In the year under review, the number of performance shares developed as follows:

Performance Shares from Beat 2005	2007 tranche	2008 tranche	2009 tranche
Outstanding at the start of the fiscal year	1,447,103	1,662,036	3,243,641
Granted			
Change (granted/expired)		−10,011	−16,832
Paid out	-1,447,103		
Outstanding at the end of the fiscal year	0	1,652,025	3,226,809
Payable at the end of the fiscal year	0	1,652,025	0

Performance Shares from Beat 2010	2010 tranche; Waiting period: 3 years	2010 tranche; Waiting period: 4 years
Outstanding at the start of the fiscal year		
Granted	784,421	1,012,331
Change (granted/expired)	−11,934	−13,439
Paid out		
Outstanding at the end of the fiscal year	772,487	998,892
Payable at the end of the fiscal year	0	0

The remaining contractual term amounted to four years for the 2010 tranche with four-year waiting period, two years for the 2010 tranche with three-year waiting period and one year for the 2009 tranche. The contractual term for the 2008 tranche ended upon completion of the year under review; the payment amount is €16.70 per performance share.

In addition to the above, there were the following share-based payment systems with equity settlement for executives and employees at RWE Npower plc., RWE Supply & Trading GmbH, RWE IT UK Ltd. und RWE Npower Renewables Ltd. (Sharesave Scheme):

RWE Npower plc./RWE Supply & Trading GmbH/ RWE IT UK Ltd./RWE Npower Renewables Ltd.	Sharesave Scheme
Tranches	2006 – 2010
Number of options granted per tranche	247,119 – 404,796
Term	3 years
Waiting period	3 years
Exercise price	£36.47 – 50.24
Form of settlement	Existing shares

In the year under review, the number of outstanding options from the Sharesave Scheme developed as follows:

Options from the Sharesave Scheme	Tranches 2006 to 2010
Outstanding at the start of the fiscal year	745,672
Granted	404,796
Exercised	−141,014
Expired	−93,755
Outstanding at the end of the fiscal year	915,699
Exercisable at the end of the fiscal year	88,874

In fiscal 2010, the total income for the groupwide share-based payment systems amounted to €7 million (previous year: total expense of €46 million). As in the previous year, the claims were settled in cash only. As of the balance-sheet date, provisions for cash-settled share-based payment programmes amounted to €44 million (previous year: €79 million). The intrinsic value of the cash-settled share-based payment transactions exercisable or payable as of the balance-sheet date amounted to €28 million (previous year: €28 million).

(24) Provisions

Provisions	31 Dec 2010			31 Dec 2009		
€ million	Non-current	Current	Total	Non-current	Current	Total
Provisions for pensions and similar obligations	3,318		3,318	3,281		3,281
Provisions for taxes	3,194	407	3,601	2,796	316	3,112
Provisions for nuclear waste management	9,686	324	10,010	9,250	241	9,491
Provisions for mining damage	2,822	98	2,920	2,618	94	2,712
	19,020	**829**	**19,849**	**17,945**	**651**	**18,596**
Other provisions						
Staff-related obligations (excluding restructuring)	901	747	1,648	793	850	1,643
Restructuring obligations	456	139	595	386	142	528
Purchase and sales obligations	820	867	1,687	1,210	887	2,097
Uncertain obligations in the electricity business	451	337	788	449	389	838
Environmental protection obligations	133	49	182	127	26	153
Interest payment obligations	714	27	741	564	24	588
Obligations to deliver CO_2 emission allowances/ certificates for renewable energies		972	972		1,242	1,242
Miscellaneous other provisions	990	1,605	2,595	841	1,618	2,459
	4,465	**4,743**	**9,208**	**4,370**	**5,178**	**9,548**
	23,485	**5,572**	**29,057**	**22,315**	**5,829**	**28,144**

Provisions for pensions and similar obligations. The company pension plan consists of defined contribution and defined benefit plans.

In the reporting period, €50 million (previous year: €24 million) was paid into defined contribution plans. This sum includes payments made by RWE for a benefit plan in the Netherlands which covers the commitments of various employers. This fund does not provide the participating companies with information allowing for the pro-rata allocation of commitments, plan assets and service cost. In RWE's consolidated financial statements, the contributions are recognised analogously to a defined contribution plan.

Provisions for defined benefit plans are determined using actuarial methods. The following assumptions are applied:

Calculation assumptions	31 Dec 2010		31 Dec 2009	
in %	Germany	Foreign[1]	Germany	Foreign[1]
Discount factor	5.25	5.30	5.25	5.70
Compensation increase	2.75	4.90	2.75	5.20
Pension increase	1.00 –1.50	3.30	1.00 –1.50	3.50
Expected return on plan assets	5.75	5.50	5.75	5.25

1 Pertains to benefit commitments to employees of the RWE Group in the UK.

The expected return on plan assets was determined depending on the specific asset categories. The expected return on equity investments is based on the long-term average performance observed for the industries and geographical markets involved, taking into account the current composition of the equity portfolio. For fixed-interest securities, the expected return was derived from appropriately selected trading prices and indices, in accordance with accepted methods. The expected return on real estate was calculated taking into consideration the marketing possibilities, which are determined by contractual obligations and local market conditions.

Provisions for pensions are broken down as follows:

Provisions for pensions and similar obligations (funded and unfunded plans) € million	31 Dec 2010	31 Dec 2009
Present value of funded benefit obligations	15,170	14,588
Fair value of plan assets	13,833	13,139
Net balance for funded plans	**1,337**	**1,449**
Capitalised surplus of plan assets over benefit obligations	56	79
Provision recognised for funded plans	**1,393**	**1,528**
Provision recognised for unfunded plans	**1,925**	**1,753**
	3,318	**3,281**

Excluding taxes, as of 31 December 2010 cumulative actuarial gains/losses amounted to –€6,254 million (31 December 2009: –€6,287 million).

Development of plan assets	Fair value	
€ million	2010	2009
Balance at 1 Jan	13,139	11,030
Expected return on plan assets	730	660
Employer contributions to funded plans	166	826
Employee contributions to funded plans	16	13
Benefits paid by funded plans	–871	–786
Actuarial gains (losses) of funded plans	541	1,162
Currency translation adjustments	124	234
Changes in the scope of consolidation	–12	
Balance at 31 Dec	**13,833**	**13,139**

In 2010, the actual returns on plan assets amounted to €1,271 million (previous year: €1,822 million).

Composition of plan assets (fair value)	31 Dec 2010			31 Dec 2009		
€ million	Germany[1]	Foreign[2]	Total	Germany[1]	Foreign[2]	Total
Equity instruments	2,783	781	3,564	3,042	270	3,312
Interest-bearing instruments	4,537	2,856	7,393	5,208	3,052	8,260
Real estate	166	196	362	78	80	158
Mixed funds[3]	947		947			
Alternative investments	918	439	1,357	742	360	1,102
Other[4]	155	55	210	135	172	307
	9,506	**4,327**	**13,833**	**9,205**	**3,934**	**13,139**

1 Plan assets in Germany primarily pertain to assets of RWE AG and of various Group companies which are managed by RWE Pensionstreuhand e.V. as a trust, as well as to assets of RWE Pensionsfonds AG.
2 Foreign plan assets pertain to the assets of a UK pension fund for covering benefit commitments to employees of the RWE Group in the UK.
3 Containing dividend- and interest-bearing instruments.
4 Includes reinsurance claims against insurance companies and other fund assets of provident funds.

Composition of plan assets (targeted investment structure)	31 Dec 2010		31 Dec 2009	
in %	Germany[1]	Foreign[2]	Germany[1]	Foreign[2]
Equity instruments	23.4	17.5	28.4	6.9
Interest-bearing instruments	54.3	67.5	59.3	77.6
Real estate	2.3	5.0	2.3	2.0
Mixed funds[3]	10.0			
Alternative investments	10.0	10.0	10.0	9.1
Other[4]				4.4
	100.0	**100.0**	**100.0**	**100.0**

1 Plan assets in Germany primarily pertain to assets of RWE AG and of various Group companies which are managed by RWE Pensionstreuhand e.V. as a trust, as well as to assets of RWE Pensionsfonds AG.
2 Foreign plan assets pertain to the assets of a UK pension fund for covering benefit commitments to employees of the RWE Group in the UK.
3 Containing dividend- and interest-bearing instruments.
4 Does not include reinsurance claims against insurance companies and other fund assets of provident funds, as such do not fall under the scope of portfolio management as a whole.

Development of pension claims	Present value	
€ million	2010	2009
Balance at 1 Jan	16,341	13,768
Current service cost	201	143
Interest cost	877	836
Contributions by employees	16	13
Actuarial gains (losses)	508	2,268
Benefits paid	−979	−908
Past service cost	7	−36
Currency translation adjustments	145	252
Changes in the scope of consolidation	−21	5
Balance at 31 Dec	**17,095**	**16,341**

In fiscal 2010, past service costs contained increased benefit commitments in the United Kingdom (€22 million) and corresponding reductions in Germany. In the previous year, such costs consisted mainly of plan curtailments.

Expenses for pension provisions € million	2010	2009
Service cost	201	143
Interest cost	877	836
Expected return on plan assets	–730	–660
Amortisation of past service cost	7	–36
	355	**283**

The present value of pension claims, less the fair value of the plan assets, equals the net amount of funded and unfunded pension plans. The following developments have been seen over the last five years:

Net amount of funded and unfunded pension plans € million	2010	2009	2008	2007	2006
Present value of pension claims	17,095	16,341	13,768	15,733	17,955
Fair value of plan assets	13,833	13,139	11,030	12,675	6,119
Balance	**3,262**	**3,202**	**2,738**	**3,058**	**11,836**

For the same period, the following experience adjustments were made to the present values of the pension claims and the fair values of the plan assets:

Experience adjustments € million	2010	2009	2008	2007	2006
Present value of pension claims	–199	–451	–40	367	38
Fair value of plan assets	541	1,162	–2,107	–494	–69

If the experience adjustments pertain to the present values of pension claims, then they are part of the actuarial gains or losses on the pension claims for the year in question. If they pertain to the fair values of plan assets, then they are to be equated with the actuarial gains or losses arising on the plan assets for the year in question.

Payments for defined benefit plans are expected to amount to €309 million in fiscal 2011.

Roll-forward of provisions € million	Balance at 1 Jan 2010	Additions	Unused amounts released	Interest accretion/ change in discount rate	Changes in the scope of consolidation, currency adjustments, transfers	Amounts used	Balance at 31 Dec 2010
Provisions for pensions	3,281	203		151	–51[1]	–266	3,318
Provisions for taxes	3,112	1,133	–22		–54	–568	3,601
Provisions for nuclear waste management	9,491	180		472	–1	–132	10,010
Provisions for mining damage	2,712	117	–61	151	64	–63	2,920
	18,596	**1,633**	**–83**	**774**	**–42**	**–1,029**	**19,849**
Other provisions							
Staff-related obligations (excluding restructuring)	1,643	845	–197	34	23	–700	1,648
Restructuring obligations	528	161	–21	47	8	–128	595
Purchase and sales obligations	2,097	612	–401	40	–81	–580	1,687
Uncertain obligations in the electricity business	838	114	–18	16	–134	–28	788
Environmental protection obligations	153	41	–1	2	–1	–12	182
Interest payment obligations	588	180	–8	2	–17	–4	741
Obligations to deliver CO_2 emission allowances/certificates for renewable energies	1,242	1,028	–31		–10	–1,257	972
Miscellaneous other provisions	2,459	647	–356	29	89	–273	2,595
	9,548	**3,628**	**–1,033**	**170**	**–123**	**–2,982**	**9,208**
Provisions	**28,144**	**5,261**	**–1,116**	**944**	**–165**	**–4,011**	**29,057**
of which: changes in the scope of consolidation							(–61)

1 Incl. treatment of actuarial gains and losses as per IAS 19.93A.

Provisions for nuclear waste management are almost exclusively recognised as non-current provisions, and their settlement amount is discounted to the balance-sheet date. From the current perspective, the majority of utilisation is anticipated to occur in the years 2020 to 2050. As in the previous year, the discount factor was 5.0%. Volume-based increases in the provisions are measured at their present value. In the reporting period, they amounted to €92 million (previous year: €122 million). Further additions of €88 million in provisions (previous year: release of €388 million) stem from the fact that current estimates project a net increase in anticipated waste disposal costs (previous year: decrease). Additions to provisions for nuclear waste management primarily consist of an interest accretion of €472 million (previous year: €446 million). €833 million in prepayments, primarily to foreign reprocessing companies and to the German Federal Office for Radiation Protection (BfS) for the construction of final storage facilities, were deducted from these provisions (previous year: €796 million).

In terms of their contractual definition, provisions for nuclear waste management break down as follows:

Provisions for nuclear waste management € million	31 Dec 2010	31 Dec 2009
Provisions for nuclear obligations, not yet contractually defined	7,977	7,557
Provisions for nuclear obligations, contractually defined	2,033	1,934
	10,010	**9,491**

In respect of the disposal of spent nuclear fuel assemblies, the provisions for obligations which are not yet contractually defined cover the estimated long-term costs of direct final storage of fuel assemblies, which is currently the only possible disposal method in Germany, as well as the costs for the disposal of radioactive waste from reprocessing, which essentially consist of costs for transport from centralised storage facilities and the plants' intermediate storage facilities to reprocessing plants and final storage as well as conditioning for final storage and containers. These estimates are mainly based on studies by internal and external experts, in particular by GNS Gesellschaft für Nuklear-Service mbH in Essen, Germany. With regard to the decommissioning of nuclear power plants, the costs for the post-operational phase and dismantling are taken into consideration, on the basis of data from external expert opinions prepared by NIS Ingenieurgesellschaft mbH, Alzenau, Germany, which are generally accepted throughout the industry and are updated continuously. Finally, this item also covers all of the costs of final storage for all radioactive waste, based on data provided by BfS.

Provisions for contractually defined nuclear obligations are related to all nuclear obligations for the disposal of fuel assemblies and radioactive waste as well as for the decommissioning of nuclear power plants, insofar as the value of said obligations is specified in contracts under civil law. They include the anticipated residual costs of reprocessing, return (transport, containers) and intermediate storage of the resulting radioactive waste, as well as the additional costs of the utilisation of uranium and plutonium from reprocessing activities. These costs are based on existing contracts with foreign reprocessing companies and with GNS. Moreover, these provisions also take into account the costs for transport and intermediate storage of spent fuel assemblies within the framework of final direct storage. The power plants' intermediate storage facilities are licensed for an operational period of 40 years. These facilities commenced operations between 2002 and 2006. Furthermore, the amounts are also stated for the conditioning and intermediate storage of radioactive operational waste, which is primarily performed by GNS.

With due consideration of the German Atomic Energy Act (AtG), in particular to Sec. 9a of AtG, the provision for nuclear waste management breaks down as follows:

Provisions for nuclear waste management € million	31 Dec 2010	31 Dec 2009
Decommissioning of nuclear facilities	4,490	4,626
Disposal of nuclear fuel assemblies	4,831	4,303
Disposal of radioactive operational waste	689	562
	10,010	**9,491**

Provisions for mining damage also consist almost entirely of non-current provisions. They are reported at the settlement amount discounted to the balance-sheet date. As in the previous year, we use a discount factor of 5.0%. In the reporting period, additions to provisions for mining damage amounted to €117 million (previous year: €165 million). Of this, an increase of €67 million (previous year: €84 million) was capitalised under property, plant and equipment. The interest accretion of the additions to provisions for mining damage amounted to €151 million (previous year: €121 million).

Provisions for restructuring pertain mainly to measures for socially acceptable payroll downsizing from previous years.

(25) Financial liabilities

Financial liabilities	31 Dec 2010		31 Dec 2009	
€ million	Non-current	Current	Non-current	Current
Bonds payable (incl. other notes payable)	14,864	1,496	15,904	640
Commercial paper		493		238
Bank debt	293	426	411	514
Other financial liabilities				
Collateral for trading activities		567		945
Miscellaneous other liabilities	751	920	704	790
	15,908	**3,902**	**17,019**	**3,127**

Financial liabilities to associates totalled €187 million (previous year: €186 million).

€15,679 million of the non-current financial liabilities were interest-bearing liabilities (previous year: €16,802 million). Bank debt mainly stemmed from the former activities of acquired companies.

Changes in the scope of consolidation caused financial liabilities to decline by €3 million.

The outstanding bonds payable were issued by RWE AG or RWE Finance B.V.

The following overview shows the key data on the major bonds payable as of 31 December 2010:

Bonds payable Issuer	Outstanding amount	Carrying amount	Coupon in %	Maturity
RWE Finance B.V.	€1,500 million	€1,496 million	2.5	September 2011
RWE Finance B.V.	€1,808 million	€1,823 million	6.125	October 2012
RWE Finance B.V.	US$ 250 million	€187 million	2.0	February 2013
RWE Finance B.V.	£630 million	€731 million	6.375	June 2013
RWE Finance B.V.	€1,000 million	€996 million	5.75	November 2013
RWE Finance B.V.	€530 million	€529 million	4.625	July 2014
RWE Finance B.V.	€2,000 million	€1,986 million	5.0	February 2015
RWE Finance B.V.	€850 million	€853 million	6.25	April 2016
RWE AG	€100 million	€100 million	Variable[1]	November 2017
RWE Finance B.V.	€980 million	€979 million	5.125	July 2018
RWE Finance B.V.	€1,000 million	€991 million	6.625	January 2019
RWE Finance B.V.	£570 million	€665 million	6.5	April 2021
RWE Finance B.V.	€1,000 million	€997 million	6.5	August 2021
RWE Finance B.V.	£500 million	€575 million	5.5	July 2022
RWE Finance B.V.	£488 million	€564 million	5.625	December 2023
RWE Finance B.V.	£760 million	€885 million	6.25	June 2030
RWE AG	€600 million	€594 million	5.75	February 2033
RWE Finance B.V.	£1,000 million	€1,143 million	6.125	July 2039
RWE AG	€160 million[2]	€156 million	4.76[2]	February 2040
Other (incl. other notes payable)	Various	€110 million	Various	Various
Bonds payable (incl. other notes payable)		**€16,360 million**		

1 Interest payment dates: 15 May/15 Nov.
2 After swap into euro.

During the reporting period, smaller issues were placed on the European capital market, within the framework of our commercial paper programme. Up to €0.5 billion was raised within the framework of this programme (previous year: €2.1 billion). The interest rates on the instruments ranged between 0.4% and 1.3% (previous year: 0.8% and 3.1%).

Other financial liabilities contain finance lease liabilities. Lease agreements principally relate to capital goods in the electricity business.

Liabilities arising from finance lease agreements have the following maturities:

Liabilities from finance lease agreements	Maturities of minimum lease payments					
	31 Dec 2010			31 Dec 2009		
€ million	Nominal value	Discount	Present value	Nominal value	Discount	Present value
Due in the following year	8		8	9		9
Due after 1 to 5 years	29	1	28	30	1	29
Due after 5 years	101	2	99	43	2	41
	138	**3**	**135**	**82**	**3**	**79**

Above and beyond this, other financial liabilities include collateral for trading activities.

€47 million (previous year: €199 million) of the financial liabilities are secured by mortgages, and €107 million (previous year: €19 million) by similar rights.

(26) Trade accounts payable

Accounts payable to associates amounted to €115 million (previous year: €55 million).

Exploration activities accounted for liabilities of €21 million (previous year: €84 million).

Changes in the scope of consolidation resulted in a €5 million decline in trade accounts payable.

(27) Other liabilities

Other liabilities	31 Dec 2010		31 Dec 2009	
€ million	Non-current	Current	Non-current	Current
Tax liabilities		1,055		988
Social security liabilities	44	45	55	56
Restructuring liabilities	98	42	129	61
Derivatives	910	7,036	1,360	9,852
Deferred income	1,894	299	1,911	268
Miscellaneous other liabilities	638	3,899	517	3,992
	3,584	**12,376**	**3,972**	**15,217**

The principal component of social security liabilities are the amounts payable to social security institutions.

Changes in the scope of consolidation decreased other liabilities by €6 million.

Deferred income	31 Dec 2010		31 Dec 2009	
€ million	Non-current	Current	Non-current	Current
Advances and contributions in aid of construction and building connection	1,614	160	1,709	168
Government grants for non-current assets				
Taxable	10	2	12	1
Non-taxable	1		1	
Other	269	137	189	99
	1,894	**299**	**1,911**	**268**

Miscellaneous other liabilities include €1,775 million (previous year: €1,562 million) in current redemption liabilities from put options on minority interests.

Other information

(28) Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income attributable to the shares by the average number of shares outstanding; own shares are not taken into account in this calculation. The earnings per share are the same for both common and preferred shares.

Earnings per share		2010	2009
Net income attributable to RWE AG shareholders	€ million	3,308	3,571
Number of shares outstanding (weighted average)	thousands	533,559	533,132
Basic and diluted earnings per common and preferred share	€	6.20	6.70
Dividend per share	€	3.50[1]	3.50

1 Proposal for fiscal 2010.

(29) 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 category "Available for sale" 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 maximum default risk corresponds to the carrying amount of the financial assets. If default risks associated with financial assets are identified, they are recognised through impairment.

Fair values are derived from the relevant stock market quotations or are measured using generally accepted valuation methods.

Prices on active markets (e.g. exchange prices) are drawn upon for the measurement of commodity derivatives. If no prices are available, for example because the market is not sufficiently liquid, the fair values are determined on the basis 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 contain all of the market factors which other market participants would take into account in the course of price determination.

Forwards, futures, options and swaps involving commodities are recognised at their fair values as of the balance-sheet date, insofar as they fall under the scope of IAS 39. Exchange-traded products are measured using the published closing prices of the relevant exchange. For non-exchange traded products, measurement is based on publicly available broker quotations or, if such quotations are not available, on generally accepted valuation methods. The fair value of certain long-term procurement or sales contracts is determined using recognised valuation models, on the basis of internal data if no market data are available.

Forward purchases and sales of shares of listed companies are measured on the basis of the spot prices of the underlying shares, adjusted for the relevant time component.

For derivative financial instruments which we use to hedge interest risks, the future payment flows are discounted using the current market interest rates corresponding to the remaining maturity, in order to determine the fair value of the hedging instruments as of the balance-sheet date.

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

The following overview presents the main parameters for the measurement of financial instruments measured at fair value in the fair value hierarchy prescribed by IFRS 7. In accordance with IFRS 7, the individual levels of the fair value hierarchy are defined as follows:
Level 1: Measurement using (unadjusted) prices of identical financial instruments quoted on active markets;
Level 2: Measurement on the basis of input parameters which are not the quoted prices from Level 1, but which can be observed for the financial instrument either directly (i.e. as price) or indirectly (i.e. derived from prices);
Level 3: Measurement using factors which cannot be observed on the basis of market data.

Fair value hierarchy € million	Total 2010	Level 1	Level 2	Level 3	Total 2009	Level 1	Level 2	Level 3
Other financial assets	750	67	237	446	709	42	145	522
Derivatives (assets)	8,918		8,304	614	12,202		11,744	458
Securities	3,196	992	2,204		3,290	1,102	2,188	
Derivatives (liabilities)	7,946		7,748	198	11,212		10,941	271
Redemption liabilities from put options	1,775			1,775	1,562			1,562

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

Level 3 financial instruments: Development in 2010 € million	Balance at 1 Jan 2010	Changes in the scope of consolidation, currency adjustments and other	Changes			Balance at 31 Dec 2010
			Recognised in profit or loss	Not recognised in profit or loss (OCI)	With a cash effect	
Other financial assets	522	–141			65	446
Derivatives (assets)	458		69	40	47	614
Derivatives (liabilities)	271	646	–65	–108	–546	198
Redemption liabilities from put options	1,562	213				1,775

The other change in derivatives (liabilities) amounting to €646 million mainly stems from the first-time fair value measurement of gas supply contracts which were previously classified as own-use contracts.

Level 3 financial instruments: Development in 2009 € million	Balance at 1 Jan 2009	Changes in the scope of consolidation, currency adjustments and other	Changes			Balance at 31 Dec 2009
			Recognised in profit or loss	Not recognised in profit or loss (OCI)	With a cash effect	
Other financial assets	345		–1		178	522
Derivatives (assets)	363	456	–177	–35	–149	458
Derivatives (liabilities)	67	278	–18	–9	–47	271
Redemption liabilities from put options	1,294	268				1,562

Level 3 financial instruments: Amounts recognised in profit or loss € million	Total 2010	Of which: attributable to financial instruments held at the balance-sheet date	Total 2009	Of which: attributable to financial instruments held at the balance-sheet date
Revenue	210	210	58	58
Cost of materials	–16	–13	–217	–217
Other operating expenses	–60	–60		
Income from investments			–1	
	134	**137**	**–160**	**–159**

The following impairments were recognised on financial assets which fall under the scope of IFRS 7 and are reported under the balance-sheet items stated below:

Impairments on financial assets in 2010 € million	Other non-current financial assets	Financial receivables	Trade accounts receivable	Other receivables and other assets	Total
Balance at 1 Jan 2010	123	344	531	4	1,002
Additions	3	18	259	2	282
Transfers	33	–1	–2	5	35
Currency translation adjustments			11		11
Disposals	13	83	456	5	557
Balance at 31 Dec 2010	**146**	**278**	**343**	**6**	**773**

Impairments on financial assets in 2009 € million	Other non-current financial assets	Financial receivables	Trade accounts receivable	Other receivables and other assets	Total
Balance at 1 Jan 2009	257	178	510	2	947
Additions	19	27	143	2	191
Transfers	–149	157	–8		
Currency translation adjustments			19		19
Disposals	4	18	133		155
Balance at 31 Dec 2009	**123**	**344**	**531**	**4**	**1,002**

As of the cut-off date, there were unimpaired, past due receivables falling under the scope of IFRS 7 in the following amounts:

Receivables, past due and not impaired € million	Gross amount as of 31 Dec 2010	Receivables, past due, impaired	Receivables not impaired, past due by:				
			less than 30 days	31 to 60 days	61 to 90 days	91 to 120 days	over 120 days
Financial receivables	4,065	53					5
Trade accounts receivable	9,829	1,160	785	94	53	39	120
Other receivables and other assets	9,731	5	1			1	3
	23,625	**1,218**	**786**	**94**	**53**	**40**	**128**

Receivables, past due and not impaired € million	Gross amount as of 31 Dec 2009	Receivables, past due, impaired	Receivables not impaired, past due by:				
			less than 30 days	31 to 60 days	61 to 90 days	91 to 120 days	over 120 days
Financial receivables	4,883	48	11				5
Trade accounts receivable	10,060	921	724	77	49	40	154
Other receivables and other assets	13,215	5	1	1			1
	28,158	**974**	**736**	**78**	**49**	**40**	**160**

Financial assets and liabilities can be broken down into categories with the following carrying amounts:

Carrying amounts by category € million	31 Dec 2010	31 Dec 2009
Financial assets recognised at fair value through profit or loss	6,040	9,502
of which: held for trading	(6,040)	(9,502)
Financial assets available for sale	3,947	3,998
Loans and receivables	16,553	18,150
Financial liabilities recognised at fair value through profit or loss	6,503	8,574
of which: held for trading	(6,503)	(8,574)
Financial liabilities carried at (amortised) cost	28,019	29,380

The carrying amounts of financial assets and liabilities within the scope of IFRS 7 basically correspond to their fair values. The only deviation is for bonds, commercial paper and other financial liabilities, where the carrying amount of €19,810 million (previous year: €20,146 million) deviates from the fair value of €21,444 million (previous year: €21,605 million).

The following net results from financial instruments as per IFRS 7 were recognised in the income statement:

Net gain/loss on financial instruments as per IFRS 7 € million	2010	2009
Financial assets and liabilities recognised at fair value through profit or loss	−813	−17
of which: held for trading	(−813)	(−17)
Financial assets available for sale	292	169
Loans and receivables	286	423
Financial liabilities carried at (amortised) cost	−1,741	−1,327

The net result as per IFRS 7 essentially includes interest, dividends and results from the measurement of financial instruments at fair value.

In fiscal 2010, changes of €91 million after taxes in the value of financial assets available for sale were recognised in accumulated other comprehensive income without an effect on income (previous year: €193 million). Above and beyond this, €89 million in changes in the value of financial instruments available for sale which had originally been recognised without an effect on income were realised as income (previous year: expense of €190 million).

As a utility enterprise with international operations, the RWE Group is exposed to credit, liquidity and market risks in its ordinary business activity. In particular, market risks stem from changes in commodity prices, exchange rates, interest rates and share prices.

We limit these risks via systematic, groupwide risk management. The key instruments include hedging transactions. The range of action, responsibilities and controls are defined in binding internal directives.

Derivative financial instruments are used to hedge currency, commodity and interest rate risks from operations as well as risks from cash investments and financing transactions. The instruments most commonly used are foreign exchange forwards and options, interest rate swaps, interest rate currency swaps, and commodity forwards, options, futures and swaps. Additionally, derivatives may be used for proprietary trading purposes within defined limits.

Detailed information on the risks of the RWE Group and on the objectives and procedures of the risk management is presented in the chapter "Development of risks and opportunities" in the review of operations.

Hedge accounting pursuant to IAS 39 is applied primarily for hedges of currency risks from net investments in foreign entities with foreign functional currencies, for foreign-currency items and interest rate risks from non-current liabilities, as well as for price risks from sales and purchase transactions.

Fair value hedges are mainly used to hedge fixed-interest loans and liabilities against market price risks. The objective of the hedge is to transform fixed-interest instruments into variable-rate instruments, thereby hedging their fair value. Instruments used are interest rate swaps and interest rate currency swaps. In the case of fair value hedges, both the derivative as well as the underlying hedged transaction are measured at fair value with an effect on income. As of the reporting date, the fair value of instruments used as fair value hedges amounted to €99 million (previous year: €74 million).

In the year under review, losses of €26 million (previous year: €27 million) were recognised from adjustment of the carrying amounts of the underlying transactions, while a gain of €24 million (previous year: €24 million) stemming from changes in the fair value of the hedges was recognised. Both of these are reported in the financial result.

Cash flow hedges are primarily used to hedge against foreign currency and price risks from future sales and purchase transactions. Hedging instruments consist of foreign exchange forwards and options, and commodity forwards, options, futures and swaps. The effective portion of changes in the fair value of the hedge instruments is disclosed under other comprehensive income until the underlying transaction is realised. Ineffective changes in value are recognised in profit or loss. The hedge's contribution to income from accumulated other comprehensive income is recognised in the income statement when the underlying transaction is realised. As of the reporting date, the recognised fair value of instruments used as cash flow hedges amounted to €61 million (previous year: –€269 million).

The future sales and purchase transactions hedged with cash flow hedges are expected to be realised in the following 15 years and recognised in profit or loss.

In the year under review, changes of €1,310 million after taxes in the fair values of instruments used for cash flow hedges (previous year: €1,214 million) were disclosed under accumulated other comprehensive income without an effect on income. These changes in value reflect the effective portion of the hedges.

An expense of €2 million was recognised with an effect on income in relation to the ineffective portions of cash flow hedges (previous year: €15 million).

Above and beyond this, changes of €1,152 million after taxes in the value of cash flow hedges which had originally been recognised without an effect on income were realised as income (previous year: €1,111 million) during the reporting period.

Furthermore, in the period under review the cost of non-financial assets was increased by €188 million (previous year: increase of €128 million) by changes in the value of cash flow hedges reported in other comprehensive income and not recognised in profit or loss.

Hedges of net investment in a foreign entity are used to hedge the foreign currency risks of net investment in foreign entities with foreign functional currencies. We use bonds with various terms in the appropriate currencies and interest rate currency swaps as hedging instruments. Exchange rate changes on bonds used for hedging purposes and changes in the fair value of interest rate currency swaps are recognised under foreign currency translation adjustments in other comprehensive income. As of the reporting date, the negative fair value of the bonds amounted to €2,103 million (previous year: €2,038 million) and the positive fair value of the swaps amounted to €284 million (previous year: €226 million).

During the year under review, an expense of €1 million (previous year: €4 million) was recognised with an effect on income in relation to the ineffective portions of hedges of net investment in foreign entities.

Market risks stem from fluctuations in prices on financial markets. Changes in exchange rates, interest rates and share prices can have an influence on the Group's results. Due to the RWE Group's international profile, exchange rate management is a key issue. Sterling and US dollar are two important currencies for the RWE Group. Fuels are traded in these two currencies, and RWE also does business in the UK currency area. Group companies are required to hedge all currency risks via RWE AG. The net financial position for each currency is determinded by RWE AG and hedged with external market partners if necessary.

Interest rate risks stem primarily from financial debt and the Group's interest-bearing investments. We hedge against negative changes in value caused by unexpected interest-rate movements using non-derivative and derivative financial instruments.

Opportunities and risks from changes in the values of securities are controlled by a professional fund management system. The Group's financial transactions are recorded using centralised risk management software and monitored by RWE AG. This enables the balancing of risks across the individual companies.

Group risk management has established directives for commodity operations. These regulations stipulate that derivatives may be used to hedge price risks, optimise power plant schedules and increase margins. Furthermore, commodity derivatives may be traded, subject to limits defined by independent organisational units. Compliance with limits is monitored daily.

All derivative financial instruments are recognised as assets or liabilities and are measured at fair value. When interpreting their positive and negative fair values, it should be taken into account that, with the exception of proprietary trading in commodities, these financial instruments are generally matched with underlying transactions that carry offsetting risks.

Maturities of derivatives related to interest rates, currencies, equities, indices and commodities are based on the maturities of the underlying transactions and are thus primarily short-term and medium-term in nature. Maturities of up to 30 years have been agreed upon to hedge foreign currency risks of foreign investments.

Share price, interest rate and foreign currency risks of financial instruments as well as commodity price risks are measured at RWE using the Value-at-Risk method, in line with the international banking standard. In addition, for the management of interest rate risk, a Cash Flow at Risk is determined.

With the Value-at-Risk method, the maximum expected loss arising from changes in market prices during specific periods is calculated on the basis of historical market volatility and is monitored continuously. With the exception of the Cash Flow-at-Risk data, all Value-at-Risk figures are based on a confidence interval of 95% and a holding period of one day. For Cash Flow at Risk, a confidence interval of 95% and a holding period of one year is taken as a basis. Aggregation of the individual Value-at-Risk items into a single Value-at-Risk indicator is not expedient, primarily due to mutual dependencies.

In its management of groupwide interest rate risk, RWE distinguishes between interest rate risk from interest-bearing financial investments recognised on the balance sheet and interest rate risk from the financing portfolio, which primarily consists of debt on the capital market. With regard to the interest-bearing financial investments recognised on the balance sheet, Value at Risk is determined, which reflects the fair value risk of these investments. As of 31 December 2010, this amounted to €7.1 million (previous year: €9.3 million). Since fiscal 2010, Cash Flow at Risk is calculated for the financing portfolio, which represents a measurement of the sensitivity of interest expenses to increases in market interest rates. As of 31 December 2010 this amounted to €4.9 million.

Within the RWE Group, all companies are required to hedge their foreign currency risks via RWE AG. Only RWE AG may maintain open foreign currency positions, subject to predefined limits. As of 31 December 2010, the Value at Risk for these foreign currency positions was less than €1 million (previous year: €38.1 million). The figures for 2009 and 2010 are not suitable for comparison as we now report the Value at Risk which is also used for internal management purposes. The figure used internally also includes the underlying transactions for cash flow hedges. In contrast to the currently reported Value-at-Risk figure, the Value at Risk for 2009 only includes external foreign currency derivatives. The related underlying transactions were not included in the past.

Risks related to the share portfolio are also monitored using the Value-at-Risk method. As of 31 December 2010, the Value at Risk was €7.7 million (previous year: €11.7 million).

As of 31 December 2010, Value at Risk for the commodity positions of the trading business of RWE Supply & Trading amounted to €10.0 million (previous year: €46.5 million). The figures for 2009 and 2010 are not suitable for comparison as we now report the Value-at-Risk figures based on the management approach. Thus, the figures which are actually used for management purposes are stated. In the past, figures calculated specifically for external reporting purposes were reported. These only included on-balance sheet financial instruments and did not take into consideration own-use contracts.

In addition to Commodity Value at Risk, stress tests are continuously carried out to manage commodity risks, in order to model the impacts on liquidity and earnings conditions and take risk-mitigating measures if necessary. Within the framework of these stress tests, individual groups of market price curves are modified, and revaluation of the commodity position is then undertaken on the basis of these curves. The scenarios include both historical scenarios of extreme prices and realistic, fictitious price scenarios. Above and beyond this, possible extreme scenarios for the major trading desks are assessed on a monthly basis. In the event that the stress tests exceed internal thresholds, these scenarios are then analysed in detail in relation to their impact and probability, and – if necessary – risk-mitigating measures are considered.

If market liquidity is available commodity risks at the Group's power generation companies are transferred – in accordance with Group guidelines – at market prices to the segment Trading/Gas Midstream, where they are hedged. In accordance with the approach for long-term investments for example, it is not possible to manage commodity risks from long-term positions or positions which cannot be hedged due to their size and the prevailing market liquidity using the Value-at-Risk concept. As a result, these positions are not included in the aforementioned Value-at-Risk figure. Above and beyond open production positions which have not yet been transferred, Group companies are not allowed to maintain significant risk positions, according to Group guidelines.

Credit risks. In financial and trading operations, we primarily have credit relationships with banks and other trading partners with good creditworthiness. Credit risks associated with contractual partners are reviewed upon conclusion of the contract and constantly monitored. We also limit credit risk by the definition of limits for trading with contractual partners and by requiring cash collateral. Credit risk in trading operations is monitored on a daily basis, and on a weekly basis for financial operations.

We are exposed to credit risks in our retail business, because it is possible that customers will fail to meet their financial obligations. With regular analysis of the creditworthiness of our major customers, we are able to identify such risks and react accordingly.

We also employ credit insurance, financial guarantees, bank guarantees and other forms of security to protect against credit risks in financial and trading activities, and retail business.

The maximum balance-sheet default risk is expressed by the carrying value of the receivables stated in the balance sheet. The default risks for derivatives correspond to their positive fair values. Additional credit risks can stem from financial guarantees and loan commitments for external creditors. As of 31 December 2010, these obligations amounted to €709 million (previous year: €804 million). There were no material defaults in 2010 and 2009.

Liquidity risks. As a rule, RWE Group companies centrally refinance with RWE AG. In this regard, there is a risk that liquidity reserves will prove to be insufficient to meet financial obligations in a timely manner. In 2011, capital market debt with a nominal volume of approximately €1.5 billion (previous year: €0.6 billion) and bank debt of €0.4 billion (previous year: €0.5 billion) are due. Additionally, short-term debt must also be repaid.

As of 31 December 2010, liquidity needs are covered with cash and cash equivalents, and current marketable securities totalling €5,672 million (previous year: €6,364 million). Above and beyond this, as of the balance-sheet date, RWE AG had a fully committed, unused syndicated credit line of €4 billion (previous year: €4 billion) at its disposal. As of the balance-sheet date, €494 million (previous year: €238 million) had been raised from the US$5 billion commercial paper programme (previous year: US$5 billion) and €16.3 billion from the €30 billion debt issuance programme (previous year: €16.4 billion). Accordingly, liquidity risk is extremely low.

Financial liabilities falling under the scope of IFRS 7 are expected to result in the following (undiscounted) payments in the coming years:

Redemption and interest payments on financial liabilities € million	Carrying amount 31 Dec 2010	Redemption payments			Interest payments		
		2011	2012 to 2015	From 2016	2011	2012 to 2015	From 2016
Bonds payable (incl. other notes payable)	16,360	1,561	6,263	8,590	967	3,148	4,804
Commercial paper	493	493					
Bank debt	719	432	170	117	8	24	6
Liabilities arising from finance lease agreements	135	8	29	101			
Other financial liabilities	1,536	941	191	445	28	102	81
Derivative financial liabilities	7,946	7,013	779	40	–35	–88	245
Collateral for trading activities	567	567					
Redemption liabilities from put options	1,775	1,775					
Miscellaneous other financial liabilities	10,447	10,390	61	73			

Redemption and interest payments on financial liabilities € million	Carrying amount 31 Dec 2009	Redemption payments			Interest payments		
		2010	2011 to 2014	From 2015	2010	2011 to 2014	From 2015
Bonds payable (incl. other notes payable)	16,544	640	5,599	10,376	919	3,072	5,271
Commercial paper	238	238					
Bank debt	925	596	177	156	12	42	21
Liabilities arising from finance lease agreements	79	9	30	43			
Other financial liabilities	1,415	893	236	332	18	58	50
Derivative financial liabilities	11,212	10,116	1,005	37	–18	–28	70
Collateral for trading activities	945	945					
Redemption liabilities from put options	1,562	1,562					
Miscellaneous other financial liabilities	11,351	10,444	873	89			

Above and beyond this, as of 31 December 2010, there were financial guarantees in the amount of €524 million (previous year: €804 million) for external creditors, which are to be allocated to the first year of repayment. Additionally, Group companies have provided loan commitments to third-party companies amounting to €185 million. Of this amount, €181 million is callable in 2011 and €4 million in the years 2012 to 2015.

(30) Contingent liabilities and financial commitments

As of 31 December 2010, the Group had €5,609 million in capital commitments (previous year: €5,192 million).

Within the framework of the Essent acquisition, we undertook to acquire the shares in Energy Resources Holding B.V., Netherlands (formerly Essent Business Development B.V., Netherlands) from the previous owners (put option), pending a positive decision by the courts.

Commitments from operating leases refer largely to long-term rental arrangements for power generation and supply plants as well as rent and lease contracts for storage and administration buildings. Minimum lease payments have the following maturity structure:

Commitments from operating leases	Nominal value	
€ million	31 Dec 2010	31 Dec 2009
Due within 1 year	145	101
Due within 1 to 5 years	398	256
Due after 5 years	389	185
	932	**542**

Long-term contractual purchase commitments exist for supplies of fossil fuels, including natural gas and hard coal in particular. Payment obligations stemming from the major purchase contracts amounted to €90.8 billion as of 31 December 2010, of which €6.7 billion was due within one year.

Gas purchases generally occur within the framework of take-or-pay contracts. The conditions in these long-term contracts, which have terms up to 2035, are renegotiated by the contractual partners at certain intervals, which may result in changes in the reported payment obligations. Calculation of the payment obligations resulting from the purchase contracts is based on parameters from the internal planning.

Furthermore, long-term financial commitments exist for purchases of electricity. As of 31 December 2010, the minimum payment obligations stemming from the major purchase contracts totalled €14.6 billion, of which €0.9 billion was due within one year. Above and beyond this, there are also long-term purchase and service contracts for uranium, conversion, enrichment and fabrication.

Essent group entities (and/or their predecessors) have transferred rights of use or similar rights with respect to generating assets to foreign investors and subsequently leased them back until January 2017. These so-called cross-border leases (CBLs) are formally guaranteed by Essent. The contracts were concluded prior to Essent's acquisition by RWE. The CBLs on these assets provide Essent with the option (in January 2017, subject to certain conditions) to buy back the transferred rights for a fixed price in the amount of approximately US$920 million. Lease payments to the end of the term (totalling US$358 million) and amounts payable upon any exercise of a purchase option are funded by any proceeds from financial instruments pledged to the respective CBL counterparties and/or other arrangements made by Essent group entities.

Furthermore, prior to its acquisition by RWE, Essent had issued guarantees which relate to payment and performance obligations from CBL transactions of various former subsidiaries, which today are controlled by ENEXIS B.V., Netherlands (formerly Essent Netwerk B.V.) ("ENEXIS"). As of 31 December 2010, one transaction has yet to be completed, after ENEXIS ended another transaction with the contractual partner during 2010 by mutual agreement.

Under its CBLs and the CBL-related guarantees, Essent is liable for any payment obligations exceeding the proceeds from the pledged financial instruments and/or other relevant arrangements – if any, including the above mentioned CBL obligations of ENEXIS.

In case of mandatory early terminations, the CBLs contain clauses which might result in payment obligations including indemnity and financing costs. In certain cases the CBL counterparties may also take possession of the asset. Assuming mandatory early termination of all CBLs, the estimated aggregate cost would amount to approximately US$140 million (as at 31 December 2010). Of this, US$130 million relate to generating facilities of Essent and roughly US$10 million to network assets of ENEXIS. This amount is derived from the sum of the aggregate termination values (US$1,045 million) less the expected value of the financial instruments and/or other agreements, plus various costs, particularly indemnities.

Upon conclusion of the Essent acquisition, the CBL-related liabilities were covered by the joint implementation of a fund by RWE and the vendors.

We bear legal and contractual liability from our membership in various associations which exist in connection with power plant projects, profit- and loss-pooling agreements and for the provision of liability cover for nuclear risks, amongst others.

By signing a mutual benefit agreement, RWE AG and other parent companies of German nuclear power plant operators undertook to provide approximately €2,244 million in funding to liable nuclear power plant operators to ensure that they are able to meet their payment obligations in the event of nuclear damages. RWE AG has a 25.851% contractual share in the liability, plus 5% for damage settlement costs.

The 11th Amendment of the German Atomic Energy Act (AtG), which entered into force on 14 December 2010, grants additional generation quotas for nuclear power plants. This ultimately represents an extension of the operating times. Against this background, the operators of nuclear power plants committed to make payments to a fund which will be used to promote measures for the implementation of the energy strategy of the German Federal Government. This is regulated in an agreement with the Federal Republic of Germany which was signed on 10 January 2011. According to this agreement, starting from 2017 nuclear power plant operators will pay a levy for the additional power quantities generated within the framework of the extended operating times. The levy amounts to €9/MWh and will be adjusted on an annual basis in accordance with the development of the consumer price index and the EEX electricity prices. From 2011 to 2016, the nuclear power plant operators will be making lump-sum pre-payments on the levies. These pre-payments will total €1.4 billion for the period as a whole and will be applied towards the levies in equal annual instalments for the period 2017 to 2022. RWE's share of these pre-payments will amount to a maximum of €0.4 billion.

RWE AG and its subsidiaries are involved in regulatory and antitrust proceedings, litigation and arbitration proceedings related to their operations. However, we do not expect any material negative repercussions from these proceedings on the RWE Group's economic or financial position. Additionally, companies belonging to the RWE Group are directly involved in various administrative and regulatory proceedings (including approval procedures) or are directly affected by their results.

Outside shareholders initiated several legal proceedings to examine the appropriateness of the conversion ratios and the amount of cash paid in compensation in connection with company restructurings pursuant to German company law. We are convinced that the conversion ratios and cash compensation calculated on the basis of expert opinions and verified by auditors are adequate. If a different legally enforceable conclusion is reached, all affected shareholders will be compensated, even if they are not involved in the conciliation proceedings.

The EU Commission conducted follow-up inquiries at several European power utilities in May and December of 2006. This also affected RWE Group companies in Germany. Following this, in early May 2007, the EU Commission initiated an abuse procedure against RWE, based on the suspicion that RWE and affiliated companies hindered access to the natural gas transmission system in Germany in order to attain a purportedly market-dominating position in the gas supply business. Following an agreement between RWE AG and the EU Commission in May 2008, in February 2009 RWE AG submitted a formal statement of commitment to sell its German long-distance network to a third party independent of RWE. This commitment does not constitute admission that anti-trust regulations were violated. The EU Commission approved this statement in March 2009 and in turn ended the abuse proceedings against RWE. For more information on the sale of Thyssengas, please see page 70.

The EU Commission also ended its investigations of RWE in the field of electricity in October 2009. In January 2011, the German Federal Cartel Office completed its sector inquiry in the field of power generation, which began in March 2009 and also affected RWE. This sector-wide review focused on issues related to the withholding of power plant capacities and manipulation of wholesale prices. The inquiry found no evidence of abusive behaviour by electricity producers. The Cartel Office did, however, call on the Federal Government to continue monitoring the power generation sector in the future by launching a market transparency scheme.

(31) Segment reporting

Within the RWE Group segments are defined both in accordance with functional and geographical criteria.

The segment "Power Generation" essentially consists of the power generation business and lignite production in Germany.

For the most part, the segment "Sales and Distribution Networks" encompasses sales and distribution networks in Germany.

The segment "Netherlands/Belgium" comprises the activities of the Essent Group which was acquired in 2009 as well as the Group's other electricity and gas business in this region. In fiscal 2010, the wind power generation and trading activities of the Essent Group were integrated into the segments "Renewables" and "Trading/Gas Midstream", respectively, and the gas storage activities into the segment "Sales and Distribution Networks".

The segment "United Kingdom" consists of almost all of the electricity and gas business in this region.

Central Eastern and South Eastern European power generation and the supply and the distribution activities in this region are included in the segment "Central Eastern and South Eastern Europe". During the period under review, the name of this segment was changed from "Central and Eastern Europe" to "Central Eastern and South Eastern Europe" due to the increased business activities in Turkey.

Activities for the generation of electricity and heat from renewable energy sources are bundled in RWE Innogy and presented in the segment "Renewables". Since 2010, this segment also includes the wind power generation of the Essent Group.

The segment "Upstream Gas & Oil" covers all of the Group's gas and oil production activities.

The segment "Trading/Gas Midstream" covers energy trading and the commercial optimisation of non-regulated gas activities. The latter aspect comprises procurement, transport and storage contracts in Germany, the UK and the Czech Republic, and the liquefied natural gas (LNG) business. This segment is also responsible for key account business with major German industrial and commercial customers. Since 2010, the trading and key account activities of the Essent Group are also presented in "Trading/Gas Midstream".

"Other/consolidation" covers consolidation effects, the Group Centre and the activities of other Group areas which are not presented separately. Such activities consist primarily of the cross-segment services provided by RWE Service GmbH, RWE IT GmbH, and RWE Consulting GmbH, as well as German transmission grid activities in the electricity and gas business.

Segment reporting Divisions 2010	Germany		Nether-lands/ Belgium	United Kingdom	Central Eastern and South Eastern Europe	Renew-ables	Upstream Gas & Oil	Trading/ Gas Mid-stream	Other/consolidation		RWE Group
€ million	Power Genera-tion	Sales and Distri-bution Networks							Operat-ing compa-nies	Other	
External revenue (incl. natural gas tax/electricity tax)	**1,072**	**18,456**	**6,510**	**7,759**	**5,297**	**366**	**1,353**	**7,517**	**4,936**	**54**	**53,320**
Intra-group revenue	10,378	4,426	551	11	474	203	134	21,466	1,790	−39,433	
Total revenue	11,450	22,882	7,061	7,770	5,771	569	1,487	28,983	6,726	−39,379	53,320
Operating result	**4,000**	**1,575**	**391**	**272**	**1,173**	**72**	**305**	**−21**	**178**	**−264**	**7,681**
Operating income from investments	47	373	23	−20	60	10		−119	2	−31	345
Operating income from investments accounted for using the equity method	28	294	22	−20	59	7		−118	2		274
Operating depreciation and amortisation	510	643	269	232	267	139	314	14	94	93	2,575
Total impairment losses	21	67	11	296	5	119	53			2	574
EBITDA	**4,510**	**2,218**	**660**	**504**	**1,440**	**211**	**619**	**−7**	**272**	**−171**	**10,256**
Cash flows from operating activities	**3,164**	**1,475**	**308**	**679**	**1,157**	**128**	**489**	**−1,431**	**1**	**−470**	**5,500**
Carrying amount of investments accounted for using the equity method	149	2,383	210	31	377	474		102		−32	3,694
Capital expenditure on intangible assets, property, plant and equipment and investment property	1,180	1,230	1,144	876	430	614	507	4	315	79	6,379

Regions 2010	EU			Rest of Europe	Other	RWE Group
€ million	Germany	UK	Other EU			
External revenue[1,2]	27,283	8,332	14,190	683	234	50,722
Intangible assets, property, plant and equipment and investment property	24,841	8,416	15,052	929	511	49,749

1 Excluding natural gas tax/electricity tax.
2 Broken down by the region in which the service was provided.

Segment reporting Divisions 2009 € million	Germany		Nether-lands/ Belgium	United Kingdom	Central Eastern and South Eastern Europe	Renew-ables	Upstream Gas & Oil	Trading/ Gas Mid-stream	Other/consolidation		RWE Group
	Power Genera-tion	Sales and Distri-bution Networks							Operat-ing compa-nies	Other	
External revenue (incl. natural gas tax/electricity tax)	**1,056**	**18,330**	**1,799**	**7,843**	**5,254**	**245**	**1,208**	**6,937**	**4,946**	**123**	**47,741**
Intra-group revenue	9,804	4,783	158	11	465	138	262	19,308	2,561	−37,490	
Total revenue	10,860	23,113	1,957	7,854	5,719	383	1,470	26,245	7,507	−37,367	47,741
Operating result	**3,428**	**1,352**	**180**	**247**	**1,055**	**56**	**203**	**985**	**129**	**−545**	**7,090**
Operating income from investments	47	343	8	−6	57	4	1	−93	9	−49	321
Operating income from investments accounted for using the equity method	30	277	19	−6	55	4		−89	9	−1	298
Operating depreciation and amortisation	461	570	97	198	230	70	234	1	132	82	2,075
Total impairment losses	10	1	5			4		112		3	135
EBITDA	**3,889**	**1,922**	**277**	**445**	**1,285**	**126**	**437**	**986**	**261**	**−463**	**9,165**
Cash flows from operating activities	**2,288**	**1,457**	**−15**	**387**	**888**	**27**	**319**	**580**	**338**	**−970**	**5,299**
Carrying amount of investments accounted for using the equity method	166	2,294	222	28	375	477		190	20	−36	3,736
Capital ex-penditure on intangible assets, property, plant and equipment and investment property	1,791	1,022	156	853	368	447	855	2	336	83	5,913

Regions 2009 € million	EU			Rest of Europe	Other	RWE Group
	Germany	UK	Other EU			
External revenue[1,2]	28,442	8,622	7,640	1,340	147	46,191
Intangible assets, property, plant and equipment and investment property	23,103	7,911	14,124	741	250	46,129

1 Excluding natural gas tax/electricity tax.
2 Broken down by the region in which the service was provided.

Products	RWE Group	
€ million	2010	2009
External revenue[1]	50,722	46,191
of which: electricity	(33,480)	(30,184)
of which: gas	(13,216)	(11,934)
of which: crude oil	(1,049)	(1,024)

1 Excluding natural gas tax/electricity tax.

Notes on segment data. We report revenue between the segments as RWE intra-group revenue. Internal supply of goods and services is settled at arm's length conditions.

The definition of the operating result is derived from the value management concept. This indicator is used for control purposes within the Group (cf. pages 231 et seq.). The following table presents the reconciliation of EBITDA to the operating result and to income from continuing operations before tax:

Reconciliation of income items € million	2010	2009
EBITDA	**10,256**	**9,165**
- Operating depreciation and amortisation	–2,575	–2,075
Operating result	**7,681**	**7,090**
+ Non-operating result	–767	498
+ Financial result	–1,936	–1,990
Income from continuing operations before tax	**4,978**	**5,598**

Income and expenses that are unusual from an economic perspective, or stem from exceptional events, prejudice the assessment of operating activities. They are reclassified to the non-operating result. In the event that impairment losses are recognised on the goodwill of fully consolidated companies, we report such losses in the non-operating result.

More detailed information is presented on pages 91 et seqq. in the review of operations.

RWE did not generate more than 10% of sales revenues with any single customer in the year under review and the previous year.

(32) Notes to the cash flow statement

The cash flow statement classifies cash flows according to operating, investing and financing activities. Cash and cash equivalents in the cash flow statement correspond to the amount stated in the balance sheet. Cash and cash equivalents consist of cash on hand, demand deposits and fixed-interest marketable securities with a maturity of three months or less from the date of acquisition.

Among other things, cash flows from operating activities include:

- cash flows from interest income of €460 million (previous year: €593 million) and cash flows used for interest expenses of €1,257 million (previous year: €1,231 million)
- €1,723 million (previous year: €1,949 million) in taxes on income paid (less income tax refunds)
- income from investments, corrected for items without an effect on cash flows, in particular from accounting using the equity method, amounted to €428 million (previous year: €460 million)

Flows of funds from the acquisition and sale of consolidated companies are included in cash flows from investing activities. Effects of foreign exchange rate changes are stated separately.

Cash flows from financing activities include €1,867 million (previous year: €2,401 million) which was distributed to RWE shareholders and €331 million (previous year: €191 million) which was distributed to minority shareholders.

Changes in the scope of consolidation (without consideration of "Assets held for sale") decreased cash and cash equivalents by a net amount of €2 million (previous year: increase of €589 million). Additions of €5 million (previous year: €703 million) were offset against capital expenditure on financial assets, whilst disposals of €7 million (previous year: €114 million) were deducted from proceeds from divestitures.

Exploration activities reduced cash flows from operating activities by €162 million (previous year: €188 million) and cash flows from investing activities by €170 million (previous year: €199 million).

There are no restrictions on the disposal of cash and cash equivalents.

(33) Information on concessions

In the fields of electricity, gas and water supply, there are a number of easement agreements and concession contracts between RWE Group companies and governmental authorities in the areas supplied by RWE.

Easement agreements are used in the electricity and gas business to regulate the use of public rights of way for laying and operating lines for public energy supply. These agreements are generally limited to a term of 20 years. After expiry, there is a legal obligation to transfer ownership of the local distribution facilities to the new operator, for appropriate compensation.

Water concession agreements contain provisions for the right and obligation to provide water and wastewater services, operate the associated infrastructure, such as water utility plants, as well as to implement capital expenditure. Concessions in the water business generally have terms of up to 25 years.

(34) Related party disclosures

Within the framework of their ordinary business activities, RWE AG and its subsidiaries have business relationships with numerous companies. These include associated companies which are classified as related parties. In particular, this category includes investments in municipal operations accounted for using the equity method in the segment Sales and Distribution Networks.

Business transactions were concluded with major associates, resulting in the following items in RWE's consolidated financial statements:

Key items from transactions with associates € million	2010	2009
Income	907	861
Expenses	278	169
Receivables	1,004	708
Liabilities	12	10

The receivables mainly consist of interest-bearing loans, whilst the liabilities stem exclusively from supply and service transactions with related companies. All transactions are completed at arm's length conditions and on principle do not differ from the financing conditions and conditions for supply and services with other enterprises. €414 million of the receivables (previous year: €113 million) and €6 million of the liabilities (previous year: €4 million) fall due within one year. In respect of the receivables, as in the previous year there was collateral amounting to €5 million.

Above and beyond this, as of 31 December 2010, there was an unused €29 million line of credit for the RWE-Veolia Berlinwasser Beteiligungs GmbH (previous year: €24 million).

As the CEO of RWE AG, Dr. Jürgen Großmann, is a partner in Georgsmarienhütte Holding GmbH and RGM Gebäudemanagement GmbH, the companies of the Georgsmarienhütte Group and RGM Gebäudemanagement GmbH are classified as related parties. RWE Group companies provided services and deliveries amounting to €9.9 million to these companies (previous year: €7.7 million), and received from them services and deliveries amounting to €2.4 million (previous year: €2.5 million). As of 31 December 2010, there were receivables of €0.8 million (previous year: €2.0 million) and liabilities of €0.5 million (previous year: €0.2 million). All transactions are completed at arm's length prices and on principle the business relations do not differ from those maintained with enterprises which are not related to the RWE Group.

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

The compensation model and compensation of the Executive and Supervisory Boards is presented in the compensation report, which is included in the review of operations.

In total, the compensation of the Executive Board amounted to €20,358,000 (previous year: €22,520,000), plus pension service costs of €776,000 (previous year: €439,000). The Executive Board received short-term compensation components amounting to €16,608,000 for fiscal 2010 (previous year: €18,770,000). In addition to this, long-term compensation components of the Beat programme (2010 tranche) in the amount of €3,750,000 were allocated (€3,750,000 from the 2009 Beat tranche in the previous year).

The Supervisory Board received total compensation of €3,434,000 (previous year: €3,446,000) in fiscal 2010. Supervisory Board members also received €243,000 in compensation from subsidiaries for the exercise of mandates (previous year: €296,000).

During the period under review, no loans or advances were granted to members of the Executive or Supervisory Boards, with the exception of an advance of €1,000 for travel expenses granted to an employee representative on the Supervisory Board. One employee representative on the Supervisory Board has an outstanding loan of €11,000 from the period before his membership of the Board.

Former members of the Executive Board and their surviving dependents received €14,717,000 (previous year: €18,074,000), of which €1,861,000 came from subsidiaries (previous year: €1,831,000). Of this, €1,842,000 was related to long-term incentive remuneration components (previous year: €7,000,000). As of the balance-sheet date, €129,692,000 (previous year: €124,558,000) has been accrued for defined benefit obligations to former members of the Executive Board and their surviving dependents. Of this €19,369,000 was set aside at subsidiaries (previous year: €19,737,000).

Information on the members of the Executive and Supervisory Boards in accordance with Sec. 285 No. 10 of the German Commercial Code (HGB) is presented on pages 233 to 237.

(35) Auditor's fees

RWE recognised the following fees as expenses for the services rendered by the auditors of the consolidated financial statements, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) and companies belonging to PwC's international network:

Auditor's fees	2010		2009	
€ million	Total	Of which: Germany	Total	Of which: Germany
Audit services	18.0	9.1	18.2	8.9
Other assurance services	8.5	8.3	6.4	6.1
Tax services	0.3	0.2	0.2	0.1
Other services	0.6	0.5	0.4	0.4
	27.4	**18.1**	**25.2**	**15.5**

The fees for audit services primarily contain the fees for the audit of the consolidated financial statements and for the audit of the financial statements of RWE AG and its subsidiaries. Other assurance services include fees for the review of interim reports, review of the internal controlling system, in particular the IT systems, and expenses related to statutory or court ordered requirements. In particular, the fees for tax services include compensation for consultation in relation to the preparation of tax returns and review of resolutions of the tax authorities as well as other national and international tax-related matters.

Amprion GmbH recognised fees amounting to €0.1 million (previous year: €0.1 million) in relation to services rendered by the auditor BDO Deutsche Warentreuhand AG in fiscal 2010.

In 2010, total fee expenses related to discontinued operations of consolidated subsidiaries amounted to €0 million (previous year: €1.2 million).

(36) Application of Sec. 264, Para. 3 and Sec. 264b of the German Commercial Code

In fiscal 2010, the following German subsidiaries made partial use of the exemption clause included in Sec. 264, Para. 3 and Sec. 264b of the German Commercial Code (HGB):

- BGE Beteiligungs-Gesellschaft für Energieunternehmen mbH, Essen
- eprimo GmbH, Neu-Isenburg
- GBV Dreizehnte Gesellschaft für Beteiligungsverwaltung mbH & Co. KG, Essen
- GBV Fünfte Gesellschaft für Beteiligungsverwaltung mbH, Essen
- GBV Siebte Gesellschaft für Beteiligungsverwaltung mbH, Essen
- OIE Aktiengesellschaft, Idar-Oberstein
- Rheinische Baustoffwerke GmbH, Bergheim
- rhenag Beteiligungs GmbH, Cologne
- RWE Aqua GmbH, Berlin
- RWE Aqua Holdings GmbH, Essen
- RWE Beteiligungsgesellschaft mbH, Essen
- RWE Beteiligungsverwaltung Ausland GmbH, Essen
- RWE Consulting GmbH, Essen
- RWE Dea AG, Hamburg
- RWE Dea North Africa/Middle East GmbH, Hamburg
- RWE Dea Suez GmbH, Hamburg
- RWE Deutschland Aktiengesellschaft, Essen
- RWE Effizienz GmbH, Dortmund
- RWE Gasspeicher GmbH, Dortmund
- RWE Innogy Cogen GmbH, Dortmund
- RWE Innogy GmbH, Essen
- RWER Innogy Nordwest Windparkbetriebsgesellschaft mbH, Sassnitz
- RWE Innogy Windpower Hannover GmbH, Hannover
- RWE IT GmbH, Essen
- RWE Kundenservice GmbH, Bochum
- RWE Offshore Logistics Company GmbH, Essen
- RWE Power Aktiengesellschaft, Cologne and Essen
- RWE Power Erste Gesellschaft für Beteiligungsverwaltung mbH, Essen
- RWE Rheinhessen Beteiligungs GmbH, Dortmund
- RWE Rhein-Ruhr Netzservice GmbH, Siegen
- RWE Rhein-Ruhr Verteilnetz GmbH, Wesel
- RWE RWN Beteiligungsgesellschaft Mitte mbH, Essen
- RWE Service GmbH, Dortmund
- RWE Supply & Trading GmbH, Essen
- RWE Systems Development GmbH & Co. KG, Dortmund
- RWE Technology GmbH, Essen
- RWE Vertrieb Aktiengesellschaft, Dortmund
- RWE Westfalen-Weser-Ems Netzservice GmbH, Dortmund
- RWE Westfalen-Weser-Ems Verteilnetz GmbH, Recklinghausen
- Saarwasserkraftwerke GmbH, Essen

(37) Events after the balance-sheet date

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

(38) Declaration according to Sec. 161 of the German Stock Corporation Act

The declarations on the German Corporate Governance Code prescribed by Sec. 161 of the German Stock Corporation Act (AktG) have been submitted for RWE AG and its publicly traded German subsidiaries and have been made accessible to the shareholders on the Internet pages of RWE AG and its publicy traded German subsidiaries.

Essen, 11 February 2011

The Executive Board


Großmann


Birnbaum


Fitting


Pohlig


Schmitz

4.7 AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the RWE Aktiengesellschaft, Essen, comprising the income statement and statement of recognised income and expenses, balance sheet, cash flow statement, statement of changes in equity and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the RWE Aktiengesellschaft, Essen, for the business year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Essen, 14 February 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Manfred Wiegand
(German Public Auditor)

Markus Dittmann
(German Public Auditor)

MATERIAL INVESTMENTS

As of 31 December 2010

I. Affiliates	Investment in acc. with Sec. 16 of the German Stock Corporation Act %	Equity of the last fiscal year € '000	Net income/ loss of the last fiscal year € '000	Revenue 2010 € million	Employees[2] 2010 average
RWE Aktiengesellschaft, Essen		**8,146,208**	**2,520,741**	**–**	**801**
Power Generation, Germany					
RWE Power Aktiengesellschaft, Cologne and Essen	100	3,476,964	–[1]	10,886	13,560
Kernkraftwerke Lippe-Ems GmbH, Lingen (Ems)	99	432,269	–[1]	433	329
Kernkraftwerk Gundremmingen GmbH, Gundremmingen	75	84,184	8,343	295	743
Rheinbraun Brennstoff GmbH, Cologne	100	63,316	–[1]	611	168
Sales and Distribution Networks, Germany					
Emscher Lippe Energie GmbH, Gelsenkirchen	79	77,955	23,301	501	642
Energis GmbH, Saarbrücken	64	140,934	26,867	385	299
envia Mitteldeutsche Energie AG, Chemnitz	59	1,200,692	276,468	3,097	2,085
envia Netzservice GmbH, Kabelsketal	100	4,046	–[1]	406	13
envia Verteilnetz GmbH, Halle (Saale)	100	24	–[1]	1,883	5
eprimo GmbH, Neu-Isenburg	100	4,600	–[1]	498	93
EWV Energie- und Wasser-Versorgung GmbH, Stolberg	54	39,539	13,586	346	382
Koblenzer Elektrizitätswerk und Verkehrs-Aktiengesellschaft, Koblenz	58	78,542	15,273	451	492
Lechwerke AG, Augsburg	90	385,369	70,903	1,388	1,102
LEW Verteilnetz GmbH, Augsburg	100	4,816	–[1]	814	100
MITGAS Mitteldeutsche Gasversorgung GmbH, Halle (Saale)	75	134,041	40,255	713	331
rhenag Rheinische Energie Aktiengesellschaft, Cologne	67	272,158	158,093	254	341
RWE Beteiligungsgesellschaft mbH, Essen	100	7,820,490	–[1]	–	–
RWE Deutschland Aktiengesellschaft, Essen	100	504,974	–[1]	1,886	4,906
RWE Effizienz GmbH, Dortmund	100	25	–[1]	5	83
RWE Gasspeicher GmbH, Dortmund	100	115,426	–[1]	135	49
RWE Kundenservice GmbH, Bochum	100	25	–[1]	246	14
RWE Rhein-Ruhr Netzservice GmbH, Siegen	100	25	–[1]	789	26
RWE Rhein-Ruhr Verteilnetz GmbH, Wesel	100	25	–[1]	2,312	222
RWE Vertrieb Aktiengesellschaft, Dortmund	100	11,002	–[1]	12,574	2,044
RWE Westfalen-Weser-Ems Netzservice GmbH, Dortmund	100	25	–[1]	675	19
RWE Westfalen-Weser-Ems Verteilnetz GmbH, Recklinghausen	100	25	–[1]	1,914	183
RWW Rheinisch-Westfälische Wasserwerksgesellschaft mbH, Mülheim an der Ruhr	80	75,730	10,267	106	403
Stadtwerke Düren GmbH, Düren	75	23,345	2,614	150	221
Süwag Energie AG, Frankfurt am Main	78	347,675	82,300	1,657	1,197
Süwag Netz GmbH, Frankfurt am Main	100	961	–[1]	576	274
VSE Aktiengesellschaft, Saarbrücken	69	159,255	28,766	456	321
Netherlands/Belgium					
RWE Benelux Holding B.V., 's-Hertogenbosch/Netherlands	100	3,709,689	–112,679	–	–
Essent Energie Productie B.V., 's-Hertogenbosch/Netherlands	100	599,732	–16,118	–	518
Essent Energie Verkoop Nederland B.V., 's-Hertogenbosch/Netherlands	100	82,757	24,135	1,146	172
Essent Retail Energie B.V., 's-Hertogenbosch/Netherlands	100	65,552	50,552	2,847	914
RWE Energy Nederland N.V., Hoofddorp/Netherlands	100	50,330	12,984	1,539	32

1 Profit- and loss-pooling agreement
2 Converted to full-time positions

I. Affiliates	Investment in acc. with Sec. 16 of the German Stock Corporation Act %	Equity of the last fiscal year € '000	Net income/ loss of the last fiscal year € '000	Revenue 2010 € million	Employees[1] 2010 average
United Kingdom					
RWE Npower Holdings plc, Swindon/United Kingdom[2]	100	61,272	–374,895	7,770	11,908
Central Eastern and South Eastern Europe					
Budapesti Elektromos Müvek Nyrt. (ELMÜ), Budapest/Hungary	55	929,519	27,068	832	354
ELMÜ Hálózati Elosztó Kft., Budapest/Hungary	100	977,568	37,201	377	228
ÉMÁSZ Hálózati Kft., Budapest/Hungary	100	318,160	14,027	155	125
Észak-magyarországi Áramszolgáltató Nyrt. (ÉMÁSZ), Miskolc/Hungary	54	327,131	19,928	309	116
Jihomoravská plynárenská, a.s., Brno/Czech Republic	50	328,653	74,793	675	711
JMP Net, s.r.o., Brno/Czech Republic	100	433,148	49,806	150	45
Mátrai Erömü Zártkörüen Müködö Részvénytársaság (MÁTRA), Visonta/Hungary	51	309,034	71,715	352	2,407
NET4GAS, s.r.o., Prague/Czech Republic	100	2,119,563	198,936	404	521
RWE & Turcas Güney Elektrik Üretim A.S., Ankara/Turkey	70	130,309	–1,024	–	–
RWE Energie, a.s., Ústí nad Labem/Czech Republic	100	381,092	119,851	796	28
RWE Gas International B.V., Hoofddorp/Netherlands	100	4,389,763	775,287	–	–
RWE GasNet, s.r.o., Ústí nad Labem/Czech Republic	100	581,831	87,885	217	200
RWE Gas Storage, s.r.o., Prague/Czech Republic	100	600,468	53,112	155	223
RWE Polska S.A., Warsaw/Poland	100	522,916	42,293	700	608
RWE Stoen Operator Sp. z o.o., Warsaw/Poland	100	670,597	9,165	220	584
RWE Transgas, a.s., Prague/Czech Republic	100	3,070,682	–192,336	4,683	308
Severomoravská plynárenská, a.s., Ostrava/Czech Republic	68	230,836	66,608	490	19
SMP Net, s.r.o., Ostrava/Czech Republic	100	291,307	46,688	121	–
VCP Net, s.r.o., Hradec Králové/Czech Republic	100	217,374	27,253	72	–
Východočeská plynárenská, a.s., Hradec Králové/Czech Republic	67	152,041	40,776	294	49
Renewables					
RWE Innogy GmbH, Essen	100	514,583	–[3]	123	267
Agrupació Energías Renovables, S.A.U., Barcelona/Spain AERSA Group[2] with 9 subsidiaries in Spain	100	293,897	287	79	36
RWE Innogy Cogen GmbH, Dortmund	100	54,813	–[3]	78	171
RWE Npower Renewables Ltd., Swindon/United Kingdom	100	452,547	–24,662	20	341
Upstream Gas & Oil					
RWE Dea AG, Hamburg	100	1,407,378	–[3]	808	989
RWE Dea Norge AS, Oslo/Norway	100	160,130	36,336	306	61
RWE Dea Suez GmbH, Hamburg	100	87,226	–[3]	213	133
Trading/Gas Midstream					
RWE Supply & Trading GmbH, Essen	100	426,294	–[3]	26,308	1,146
RWE Supply & Trading Netherlands B.V., Eindhoven/Netherlands	100	1,870,231	–57,561	4,742	74
RWE Supply & Trading Switzerland S.A., Geneva/Switzerland	100	373,941	–43,874	842	193
Other subsidiaries					
Amprion GmbH, Dortmund	100	613,025	118,527	6,439	797
RWE Finance B.V., 's-Hertogenbosch/Netherlands	100	9,749	2,441	–	–
RWE Service GmbH, Dortmund	100	248,451	–[3]	2,303	1,395

1 Converted to full-time positions
2 Figures from the Group's consolidated financial statements
3 Profit and loss-pooling agreement

II. Companies accounted for using the equity method	Investment in acc. with Sec. 16 of the German Stock Corporation Act %	Equity of the last fiscal year €'000	Net income/loss of the last fiscal year €'000
Power Generation, Germany			
Grosskraftwerk Mannheim Aktiengesellschaft, Mannheim	40	114,141	6,647
Sales and Distribution Networks, Germany			
AVU Aktiengesellschaft für Versorgungs-Unternehmen, Gevelsberg	50	117,176	12,672
Dortmunder Energie- und Wasserversorgung GmbH (DEW 21), Dortmund	47	157,589	23,741
Enovos International S.A., Luxembourg/Luxembourg	20	469,083	140,541
Kärntner Energieholding Beteiligungs GmbH, Klagenfurt/Austria[1]	49	543,739	49,686
KEW Kommunale Energie- und Wasserversorgung AG, Neunkirchen	29	71,803	9,165
Niederrheinische Versorgung und Verkehr Aktiengesellschaft, Mönchengladbach[1]	50	471,315	42,250
Pfalzwerke Aktiengesellschaft, Ludwigshafen	27	194,732	17,763
Regionalgas Euskirchen GmbH & Co. KG, Euskirchen	43	53,482	11,381
RheinEnergie AG, Cologne	20	564,045	184,476
RWE-Veolia Berlinwasser Beteiligungs GmbH, Berlin	50	305,559	87,167
Stadtwerke Duisburg Aktiengesellschaft, Duisburg	20	154,409	40,733
Stadtwerke Essen Aktiengesellschaft, Essen	29	117,257	22,568
Stadtwerke Remscheid GmbH, Remscheid	25	113,503	5,767
Stadtwerke Velbert GmbH, Velbert	50	76,466	8,312
Südwestfalen Energie und Wasser AG, Hagen	19	287,283	20,272
Zagrebačke Otpadne Vode d.o.o., Zagreb/Croatia	49	123,559	11,529
Central Eastern and South Eastern Europe			
Fővárosi Gázmüvek Zrt., Budapest/Hungary	50	136,888	16,717
TIGÁZ Tiszántúli Gázszolgáltató Zrt., Hajdúszoboszló/Hungary	44	508,633	-9,481
Východoslovenská energetika a.s., Košice/Slovakia	49	672,621	54,344
Renewables			
Fri-El S.p.A., Bolzano/Italy[1]	50	16,622	-1,421
Greater Gabbard Offshore Winds Limited, Reading/United Kingdom	50	40	89
Zephyr Investments Limited, Swindon/United Kingdom[1]	33	-12,234	-4,265
Trading/Gas Midstream			
Excelerate Energy LP, The Woodlands/Texas/USA[1]	50	310,220	–183,626

1 Figures from the Group's consolidated financial statements

THE RWE GROUP'S VALUE MANAGEMENT

Return-oriented control of the company. Increasing shareholder value lies at the heart of our strategy. Additional value is created when the return on capital employed (ROCE) exceeds the cost of capital. ROCE reflects the pure operating return. It is the ratio of the operating result to capital employed.

The table at the top of page 232 shows the parameters used to calculate the cost of capital. We calculate it as a weighted average cost of equity and debt.

The cost of equity corresponds to the capital market's expectation of company-specific returns when investing in an RWE share over and above that of a risk-free investment. The cost of debt is linked to long-term financing conditions for the RWE Group and allows interest on debt to be classified as tax deductible (tax shield).

We used new figures as a basis for determining the cost of capital in 2010. We calculate the cost of equity as follows: we use an interest rate for a risk-free investment of 4.25% (previous year: 4.5%) as a basis, plus risk charges specific to the Group and the Group's divisions. The applied beta factor for the RWE Group is 0.95 (previous year: 0.78). We calculate the cost of debt by applying a pre-tax rate of 5.75% (previous year: 6.25%). The ratio of equity to debt is 50:50. We do not derive this parameter from the amounts carried on the balance sheet, but, among other things, from the marked-to-market valuation of equity and assumptions concerning the long-term development of our net financial position and provisions. As in the preceding year, the RWE Group's total cost of capital for 2010 was 9.0% before tax.

When determining capital employed, depreciable non-current assets are not stated at carrying amounts. Instead, we recognise half of their historic costs. The advantage of this procedure is that the determination of ROCE is not influenced by the depreciation period. This reduces the fluctuation in value added caused by the investment cycle. However, we fully account for the goodwill included in the purchase price of financial assets.

Relative value added is the difference between ROCE and the cost of capital. Multiplying this figure by the capital employed results in the absolute value added, which we employ as a central management benchmark. The higher the value added, the more attractive a particular activity is for our portfolio. It is another important criterion for evaluating capital expenditure and for determining the performance-linked compensation of RWE Group executives.

Lower cost of capital from 2011 onwards. Our annual review of our cost of capital caused us to make some new adjustments. Due to the reduction in interest levels, we will apply lower rates for both equity and debt. The cost of capital will drop from 9.0% to 8.5%.

RWE Group – capital costs		2011	2010	2009
Risk-free interest rate	%	3.7	4.25	4.50
Market premium	%	5.0	5.0	5.0
Beta factor		0.90	0.95	0.78
Cost of equity after tax	%	8.2	9.0	8.4
Cost of debt before tax	%	4.90	5.75	6.25
Tax rate for debt	%	27.4	27.1	27.1
Tax shield	%	–1.3	–1.6	–1.7
Cost of debt after tax	%	3.6	4.2	4.6
Proportion of equity	%	50	50	50
Proportion of debt	%	50	50	50
Capital costs after tax	%	**5.75**	**6.5**	**6.5**
Tax rate for blanket conversion	%	31	30	30
Weighted average cost of capital (WACC) before tax	%	**8.50**	**9.0**	**9.0**

RWE Group – determining capital employed		31 Dec 2010	31 Dec 2009
Intangible assets/property, plant and equipment[1]	€ million	58,849	56,150
+ Investments including loans[2]	€ million	5,998	5,585
+ Inventories	€ million	3,293	3,115
+ Trade accounts receivable	€ million	9,481	9,527
+ Other accounts receivable and other assets[3]	€ million	12,872	16,627
- Non-interest-bearing provisions[4]	€ million	12,384	12,214
- Non-interest-bearing liabilities[5]	€ million	22,156	27,043
- Adjustments[6]	€ million	954	858
Capital employed	€ million	**54,999**	**50,889**

RWE Group – determining value added		2010
Capital employed before adjustments (averaged for the year)	€ million	52,944
+ Adjustments[7]	€ million	442
Capital employed after adjustments (averaged for the year)	€ million	**53,386**
Operating result	€ million	**7,681**
ROCE	%	**14.4**
Relative value added	%	**5.4**
Absolute value added	€ million	**2,876**

1 Intangible assets; property, plant and equipment; and investment property were stated at half of their cost (see the statement of changes in assets); goodwill and the customer base were recognised at carrying amounts.
2 Investments accounted for using the equity method and other financial assets (excluding non-current securities).
3 Including tax refund claims; excluding the net present value of defined contribution pension benefit obligations as well as derivative financial instruments in the amount of €938 million (previous year: €733 million).
4 Including tax provisions and other provisions; excluding non-current provisions in the amount of €425 million (previous year: €446 million).
5 Including trade liabilities, income tax liabilities and other liabilities; excluding derivative financial instruments in the amount of €534 million (previous year: €485 million) and purchase price liabilities of €1,775 million (previous year: €1,562 million) from put options.
6 Assets capitalised in accordance with IAS 16.15 in the amount of €486 million (previous year: €488 million) are not taken into account since these assets do not employ capital. Deferred tax liabilities relating to RWE npower's capitalised customer base are not taken into account, either.
7 Mostly corrections to reflect timing differences, due among other things, to first-time consolidations/deconsolidations during the year.

BOARDS
As of 11 February 2011

Supervisory Board[1]

Dr. Manfred Schneider
Leverkusen
Chairman
Year of birth: 1938
Member since: 10 December 1992

Other appointments:
- ▪ Bayer AG (Chairman)
- ▪ Daimler AG
- ▪ Linde AG (Chairman)

Frank Bsirske[2]
Berlin
Deputy Chairman
Chairman of ver.di Vereinte Dienstleistungsgewerkschaft
Year of birth: 1952
Member since: 9 January 2001

Other appointments:
- ▪ Deutsche Lufthansa AG
- ▪ IBM Central Holding GmbH
- ▪ Deutsche Postbank AG
- – KfW Bankengruppe

Dr. Paul Achleitner
Munich
Member of the Board of Management of
Allianz SE
Year of birth: 1956
Member since: 16 March 2000

Other appointments:
- ▪ Allianz Global Investors AG
- ▪ Bayer AG
- ▪ Daimler AG
- – Allianz Investment Management SE (Chairman)

Werner Bischoff[2]
Monheim am Rhein
Former member of the Main Executive Board of IG Bergbau, Chemie, Energie
Year of birth: 1947
Member since: 13 April 2006

Other appointments:
- ▪ Continental AG
- ▪ Evonik-Degussa GmbH
- ▪ Evonik Industries AG
- ▪ RWE Dea AG
- ▪ RWE Power AG
- – THS TreuHandStelle für Bergmannswohnstätten im rheinisch-westfälischen Steinkohlenbezirk GmbH (Chairman)

Carl-Ludwig von Boehm-Bezing
Bad Soden
Former member of the Board of Management of
Deutsche Bank AG
Year of birth: 1940
Member since: 11 December 1997

Heinz Büchel[2]
Trier
Chairman of the General Works Council of RWE Deutschland AG
Year of birth: 1956
Member since: 13 April 2006

Dieter Faust[2]
Eschweiler
Chairman of the General Works Council of RWE Power AG
Year of birth: 1958
Member since: 1 August 2005

Other appointments:
- ▪ RWE Power AG

Dr. Thomas R. Fischer[3]
Berlin
Year of birth: 1947
Member until: 31 January 2010

▪ Member of other mandatory supervisory boards.
– Member of comparable domestic and foreign supervisory bodies of commerical enterprises.

1 The terms of all members end with effect from the end of the Annual General Meeting on 20 April 2011.
2 Employee representative.
3 Information valid as of the date of retirement from the Supervisory Board.

Andreas Henrich[2]
Mülheim an der Ruhr
Head of HR Management at RWE Deutschland AG
Year of birth: 1956
Member since: 1 April 2008

Other appointments:
- ▪ ELE Emscher Lippe Energie GmbH
- ▪ RWE Deutschland AG

Heinz-Eberhard Holl[3]
Osnabrück
Former Chief Administrative Officer, Osnabrück Rural District
Year of birth: 1940
Member until: 31 January 2010

Other appointments:
- ▪ Georgsmarienhütte GmbH
- ▪ Georgsmarienhütte Holding GmbH

Frithjof Kühn
Siegburg
Chief Administrative Officer, Rhein Sieg Rural District
Year of birth: 1943
Member since: 1 February 2010

Other appointments:
- ▪ RW Holding AG (Chairman)
- – Kreissparkasse Köln

Hans Peter Lafos[2]
Bergheim
Regional District Sector Head, Utilities and Disposal (Sector 2), ver.di Vereinte Dienstleistungsgewerkschaft, District of NRW
Year of birth: 1954
Member since: 28 October 2009

Other appointments:
- ▪ GEW Köln AG
- ▪ RWE Power AG
- ▪ RWE Vertrieb AG

Dr. Gerhard Langemeyer
Dortmund
Former Mayor of the City of Dortmund
Year of birth: 1944
Member since: 4 January 2001

Dagmar Mühlenfeld
Mülheim an der Ruhr
Mayor of the City of Mülheim an der Ruhr
Year of birth: 1951
Member since: 4 January 2005

Other appointments:
- – Beteiligungsholding Mülheim an der Ruhr GmbH
- – Flughafen Essen/Mülheim GmbH (Chairwoman)
- – medl GmbH (Chairwoman)
- – Mülheim & Business GmbH (Chairwoman)
- – Ruhrbania Projektentwicklungsgesellschaft mbH (Chairwoman)

Dr. Wolfgang Reiniger
Essen
Lawyer
Year of birth: 1944
Member since: 4 January 2001

Günter Reppien[2]
Lingen
Former Chairman of the General Works Council of RWE Power AG
Year of birth: 1951
Member since: 9 January 2001

Other appointments:
- ▪ RWE Power AG
- – Stadtwerke Lingen GmbH

Dagmar Schmeer[2]
Saarbrücken
Chairwoman of the Works Council of VSE AG
Year of birth: 1967
Member since: 9 August 2006

Other appointments:
- ▪ VSE AG

▪ Member of other mandatory supervisory boards.
– Member of comparable domestic and foreign supervisory bodies of commerical enterprises.

1 The terms of all members end with effect from the end of the Annual General Meeting on 20 April 2011.
2 Employee representative.
3 Information valid as of the date of retirement from the Supervisory Board.

Dr.-Ing. Ekkehard D. Schulz
Krefeld
Member of the Supervisory Board of ThyssenKrupp AG
Year of birth: 1941
Member since: 13 April 2006

Other appointments:
- ▪ AXA Konzern AG
- ▪ Bayer AG
- ▪ MAN SE
- ▪ ThyssenKrupp Elevator AG (Chairman) – until 21 January 2011 –
- ▪ ThyssenKrupp Steel Europe AG (Chairman) – until 21 January 2011 –

Dr. Wolfgang Schüssel
Vienna
Former Federal Chancellor
Year of birth: 1945
Member since: 1 March 2010

Other appointments:
- – Bertelsmann Stiftung

Uwe Tigges[2]
Bochum
Chairman of the Group Works Council of RWE AG
Year of birth: 1960
Member since: 1 December 2003

Other appointments:
- ▪ RWE Vertrieb AG

Manfred Weber[2]
Wietze
Chairman of the General Works Council of RWE Dea AG
Year of birth: 1947
Member since: 1 December 2008

Other appointments:
- ▪ RWE Dea AG

Dr. Dieter Zetsche
Stuttgart
Chairman of the Executive Board of Daimler AG
Year of birth: 1953
Member since: 16 July 2009

▪ Member of other mandatory supervisory boards.
– Member of comparable domestic and foreign supervisory bodies of commerical enterprises.

2 Employee representative.

Supervisory Board Committees

Executive Committee of the Supervisory Board
Dr. Manfred Schneider (Chairman)
Frank Bsirske
Dr. Paul Achleitner
Heinz Büchel
Dieter Faust
Dagmar Mühlenfeld
Dagmar Schmeer
Dr.-Ing. Ekkehard D. Schulz

Mediation Committee in accordance with Sec. 27, Para. 3 of the German Co-Determination Act (MitbestG)
Dr. Manfred Schneider (Chairman)
Frank Bsirske
Werner Bischoff
Dr.-Ing. Ekkehard D. Schulz

Personnel Affairs Committee
Dr. Manfred Schneider (Chairman)
Frank Bsirske
Dr. Paul Achleitner
Heinz-Eberhard Holl – until 31 January 2010 –
Frithjof Kühn – since 1 February 2010 –
Günter Reppien
Uwe Tigges

Audit Committee
Carl-Ludwig von Boehm-Bezing (Chairman)
Werner Bischoff
Dr. Gerhard Langemeyer
Günter Reppien
Dr.-Ing. Ekkehard D. Schulz
Uwe Tigges

Nomination Committee
Dr. Manfred Schneider (Chairman)
Dr. Paul Achleitner
Heinz-Eberhard Holl – until 31 January 2010 –
Frithjof Kühn – since 1 February 2010 –

Executive Board

Dr. Jürgen Großmann
President and CEO of RWE AG,
appointed until 30 September 2012

Born in 1952 in Mülheim an der Ruhr; studied ferrous metallurgy and economics, doctorate in ferrous metallurgy; active within the Klöckner Group from 1980 to 1993, exiting as member of the Executive Board of Klöckner-Werke AG; acquired Georgsmarienhütte in 1993; Owner and Managing Director of Georgsmarienhütte Holding GmbH from 1993 to 2006; joined RWE AG as President and CEO with effect from 1 October 2007.

Group-level responsibilities: Public Affairs/Energy Politics, Compliance/Management Board Office, Communication, Executive Management and Audit.

Other appointments:
▪ BATIG Gesellschaft für Beteiligungen mbH
▪ British American Tobacco (Industrie) GmbH
▪ British American Tobacco (Germany) GmbH
▪ Deutsche Bahn AG
▪ SURTECO SE (Chairman)
▪ Volkswagen AG
- Hanover Acceptances Limited

Dr. Leonhard Birnbaum
Executive Vice-President of RWE AG,
appointed until 30 September 2013

Born in 1967 in Ludwigshafen am Rhein; doctorate in chemical engineering; consultant at McKinsey & Company Inc. from 1996 to 2008; promoted to partner (principal) in 2000 and to senior partner (director) at McKinsey in 2006, exiting as member of McKinsey's global management team for the energy sector; joined RWE AG as Head of Corporate Strategy and Business Development with effect from 7 April 2008; Executive Vice-President since 1 October 2008; Chief Strategy Officer of RWE AG from January 2009 to September 2010; Chief Commercial Officer of RWE AG since 1 October 2010.

Group-level responsibilities: Commodity Management, Strategy, Mergers & Acquisitions and Research & Development.

Other appointments:
▪ RWE Dea AG (Chairman)
▪ RWE Supply & Trading GmbH
- RWE Turkey Holding A.S.

Alwin Fitting
Executive Vice-President of RWE AG,
appointed until 31 March 2013

Born in 1953 in Westhofen (Rhine-Hesse); joined the RWE Group in 1974; trained master electrician; Executive Vice-President and Labour Director of RWE Power AG from October 2000 to July 2005; Executive Vice-President and Labour Director of RWE AG since August 2005.

Group-level responsibilities: Security, HR Management & Labour Law, Diversity Office and Corporate Responsibility/Environmental Protection.

Other appointments:
▪ Amprion GmbH
▪ RWE IT GmbH (Chairman)
▪ RWE Pensionsfonds AG
▪ RWE Service GmbH (Chairman)

Dr. Ulrich Jobs[1]
Executive Vice-President of RWE AG,
until 30 September 2010

Born in 1953 in Herne; holds a diploma in engineering and a doctorate in mining/mine engineering; joined the RWE Group in 1977; Executive Vice-President of RWE AG since April 2007; concurrently CEO of RWE Power AG from May 2007 to February 2008; Chief Operating Officer of RWE AG from April 2008 to April 2009; Chief Operating Officer International of RWE AG from May 2009 to September 2010.

Other appointments:
▪ Deutsche Steinkohle Aktiengesellschaft
▪ RAG AG
▪ RWE Dea AG (Chairman)
- ELMÜ Nyrt. (Chairman)
- EMASZ Nyrt. (Chairman)
- Essent N.V.
- Mátrai Kraftwerk G.AG (Chairman)
- NET4GAS, s.r.o.
- RWE Npower Holdings plc (Chairman)
- RWE Polska Spólka Akcyina (Chairman)
- RWE Supply & Trading GmbH (Chairman)
- RWE Transgas, a.s. (Chairman)
- RWE Turkey Holding A.S.
- Východoslovenská energetika, a.s.

▪ Member of other mandatory supervisory boards.
- Member of comparable domestic and foreign supervisory bodies of commerical enterprises.

1 Information valid as of the date of retirement from the Executive Board.

Dr. Rolf Pohlig
Executive Vice-President of RWE AG,
appointed until 31 December 2011

Born in 1952 in Solingen; doctorate in economics; Executive Vice-President Finance and Accounting of VEBA AG from 1993 to 2000; Executive Vice-President Mergers & Acquisitions of E.ON AG from 2000 to 2006; joined the RWE Group in January 2007 as Executive Vice-President; Chief Financial Officer of RWE AG since May 2007.

Group-level responsibilities: Controlling/Organisational Efficiency, Finance, Investor Relations, Legal/Board Affairs, Accounting and Tax.

Other appointments:
- ▪ RWE Dea AG
- ▪ RWE Pensionsfonds AG (Chairman)
- ▪ RWE Power AG
- ▪ RWE Deutschland AG
- – Essent N.V.
- – RWE Transgas, a.s.

Dr. Rolf Martin Schmitz
Executive Vice-President of RWE AG,
appointed until 30 April 2014

Born in 1957 in Mönchengladbach; doctorate in engineering; i.a. in charge of corporate development and economic policy at VEBA AG from 1988 to 1998; Executive Vice-President of rhenag Rheinische Energie AG, Cologne, from 1998 to 2001; Member of the Board of Management of Thüga AG from 2000 to 2004; Chairman of the Board of Directors of E.ON Kraftwerke GmbH from 2004 to 2005; Chairman of the Executive Board of RheinEnergie AG and Managing Director of Stadtwerke Köln from 2006 to 2009; Chief Operating Officer National of RWE AG from May 2009 to September 2010; since 1 October 2010 Chief Operating Officer of RWE AG.

Group-level responsibilities: Participation Management, Municipalities and Generation/Networks/Sales Coordination.

Other appointments:
- ▪ envia Mitteldeutsche Energie AG
- ▪ Lechwerke AG (Chairman)
- ▪ RWE Power AG (Chairman)
- ▪ RWE Deutschland AG (Chairman)
- ▪ Süwag Energie AG (Chairman)
- – Essent N.V.
- – KELAG-Kärntner Elektrizitäts-AG
- – RWE Transgas, a.s.
- – RWE Turkey Holding A.S.

▪ Member of other mandatory supervisory boards.
– Member of comparable domestic and foreign supervisory bodies of commerical enterprises.

ORGANISATION CHART OF THE RWE GROUP

As of 11 February 2011

RWE AG

Chief Operating Officer
Dr. Rolf Martin Schmitz

Germany

Power Generation

RWE Power AG
- Dr. Johannes F. Lambertz
- Prof. Dr. Gerd Jäger
- Antonius Voß
- Erwin Winkel

Sales and Distribution Networks

RWE Deutschland AG
- Dr. Arndt Neuhaus
- Bernd Böddeling
- Dr. Heinz-Willi Mölders
- Dr. Joachim Schneider
- Dr. Bernd Widera

Netherlands/Belgium

Essent N.V.
- Peter Terium
- Arjan Blok
- Dr. Nina Skorupska
- Erwin van Laethem

United Kingdom

RWE Npower plc
- Volker Beckers
- Kevin McCullough
- Kevin Miles
- Dr. Frank Weigand

Central Eastern and South Eastern Europe

RWE East, s.r.o.
- Martin Herrmann
- Karl Kraus
- Dr. Marie-Theres Thiell
- Dr. Filip Thon

RWE AG

President and CEO
Dr. Jürgen Großmann

Labour Director
Alwin Fitting

Chief Commercial Officer
Dr. Leonhard Birnbaum

Transmission system operators

Amprion GmbH
Electricity transmission system operator (unbundled)
- Dr. Hans-Jürgen Brick
- Dr. Klaus Kleinekorte

NET4GAS, s.r.o.
Gas transmission system operator (Czech Republic) (unbundled)
- Thomas Kleefuß
- Jan Nehoda

Internal service providers

RWE IT GmbH
- Michael Neff
- Stefan Niehusmann

RWE Service GmbH
- Georg Petrich
- Dr. Ulrich Piepel

RWE Technology GmbH
- Matthias Hartung
- Dr. Michael Fübi
- Dr. Ralf Nowack

RWE AG

Chief Commercial Officer
Dr. Leonhard Birnbaum

Renewables

RWE Innogy GmbH
- Prof. Dr. Fritz Vahrenholt
- Dr. Hans Friedrich Bünting
- Paul Coffey

Upstream Gas & Oil

RWE Dea AG
- Thomas Rappuhn
- Dr. Johannes Karlisch
- Ralf to Baben

Trading/Gas Midstream

RWE Supply & Trading GmbH
- Stefan Judisch
- Dr. Bernhard Günther
- Dr. Peter Kreuzberg
- Richard Lewis
- Alan Robinson

ORGANISATION CHART OF RWE AG

As of 11 February 2011

RWE AG

President and Chief Executive Officer
Dr. Jürgen Großmann

Group Public Affairs/Energy Politics
Dr. Peter Heinacher

Group Compliance & Management Board Office
Dr. Jens Hüffer

Group Communication
Volker Heck

Group Executive Management
Dr. Henning Rentz

Group Audit[1]
Harry Schur

Chief Financial Officer
Dr. Rolf Pohlig

Group Controlling/Organisational Efficiency
Dr. Martin Muhr

Group Finance
Dr. Markus Coenen

Investor Relations
Dr. Stephan Lowis

Group Legal/Board Affairs
Dr. Manfred Döss

Group Accounting
Fred Riedel

Group Tax
Dr. Berend Holst

Labour Director
Alwin Fitting

Group Security
Michael Schmidt

Group HR Management & Labour Law
Dr. Hans-Dieter Rüter

Diversity Office[1]
Dr. Claudia Mayfeld

Corporate Responsibility/ Group Environmental Protection
Joachim Löchte

Chief Operating Officer
Dr. Rolf Martin Schmitz

Participation Management
Frank Grone

Municipalities
Dr. Arndt Neuhaus

Group Coordination Generation/Networks/Sales
Bernhard Lüschper

Chief Commercial Officer
Dr. Leonhard Birnbaum

Commodity Management
Dr. Michael Herrmann

Group Strategy
Thomas Birr

Mergers & Acquisitions
Andreas Zetzsche

Group Research & Development
Dr. Frank-Detlef Drake

1 Functional head.

GLOSSARY

Asset coverage. Ratio of long-term capital (shareholders' equity and non-current liabilities) to long-term assets.

BAFA prices. To enable German coal to be sold at competitive prices, mining companies receive financial support equalling the difference between their production costs and the price of coal imported from non-EU countries. In this context, the German Federal Office of Economics and Export Control determines free-at-frontier third-country coal prices as a subsidy parameter. The price of thermal hard coal is published by BAFA quarterly and annually in shipping tons and tons of hard coal units.

Barrel. International unit of measurement for trading oil. A US barrel corresponds to 158.987 litres.

Base load. Constant minimum demand for electricity irrespective of load fluctuation. This electricity is used by household appliances running 24 hours a day, industrial enterprises that operate around the clock, etc. Base-load power is primarily generated by lignite and nuclear power stations. These facilities are usually in operation more than 6,000 hours a year. Run-of-river power stations and biomass plants also supply base-load power.

Clean Development Mechanism. In accordance with the Kyoto Protocol, companies and countries can obtain emission certificates by participating in projects to reduce emissions in newly industrialising and developing countries, which are not obliged to reduce emissions themselves. They can use these certificates to meet their own requirements.

CO_2. Chemical formula for carbon dioxide. CO_2 is a chemical compound made of carbon and oxygen.

Combined heat and power generation (CHP). In CHP energy conversion plants, heat produced during chemical or physical conversion and the electric power generated by the energy conversion process are used. Unlike thermal power stations, which are solely designed to generate electricity, CHP plants use waste heat, thereby achieving much higher efficiencies, which result in fuel savings.

Commercial paper. Tradeable, unsecured bearer bond issued only for short-term debt financing. Commercial paper is a revolving credit facility, with terms typically ranging from one day to 24 months.

Commodity. Term for standardised, tradeable goods such as electricity, oil or gas.

Confidence level. Probability of a value lying within a certain interval.

Credit default swap (CDS). Financial derivative for trading default risks associated with debt financing. The party seeking to hedge such risks generally pays an annual fee to the principal. In the event that the underlying credit is not repaid, the hedge-seeking party receives a contractually agreed sum from the principal.

Current asset intensity of investment. Ratio of current assets to total assets.

Debt issuance programme (DIP). Contractual master and model documents for the issuance of bonds. Based on the DIP, bonds with tenors of one to 30 years can be issued both quickly and flexibly.

Defined benefit obligation. Net present value of an employee's benefit entitlements from a company pension plan as of the balance-sheet date.

Degree of asset depreciation. Cumulative property, plant and equipment depreciation-to-cost ratio.

Diluted earnings per share. If a company places new shares on the financial market as part of a capital increase, the portion of the company represented by each share decreases. In addition, the rise in the total number of shares causes earnings per share to decline. This drop in value is referred to as a dilution.

EBITDA. Earnings before interest, taxes, depreciation and amortisation.

Efficiency. In energy conversion, the ratio of useful work performed to total energy expended. In thermal power stations, the efficiency is the percentage of thermal energy contained in the fuel which can be converted to electricity. The higher the efficiency, the lower the loss of the fuel's energy content. Modern gas-fired power plants have an efficiency of up to 60 %. Efficiencies of 46 % and 43 % can be achieved with hard coal and lignite, respectively.

Equity accounting. Method for accounting for entities, the assets and liabilities of which cannot be entirely included in the consolidated financial statements by fully consolidating the entity. In such cases, the carrying amount of the investment is recorded on the basis of the development of the share held in the entity's equity. This change is recorded in the income statement of the company which owns the share in the entity.

Exploration. Term used for the search for, and prospecting of, oil and gas resources.

Fixed asset intensity of investments. Ratio of non-current assets to total assets.

Forward market/forward trading. Contracts for transactions to be fulfilled at a fixed point in time in the future are traded on forward markets. Certain conditions, e.g. the price or settlement date, are established when the contract is agreed.

Full consolidation. Method for including subsidiaries in the financial statements of a group in cases where the subsidiaries are controlled by the parent company (through the majority of the voting rights or by other means).

Hard coal unit (HCU). Unit of measurement for the energy content of primary energy carriers. One kilogram HCU corresponds to 29,308 kilojoules.

Hybrid bond. Mixture of debt and equity financing. Hybrid bonds usually have very long or unlimited tenors and can usually only be redeemed by the issuer on contractually agreed dates. Depending on the bond provisions, interest payments may be suspended if certain contractual conditions are met.

Impairment test. Method of verifying the value of assets, involving a comparison of the carrying amount to the realisable amount. The objective is not to account for assets at an amount higher than their realisable amount. The difference is recognised as a reduction in value with an effect on the profit or loss.

Investment grade. Rating category for companies of very good to average creditworthiness. This category includes the AAA to BBB and Aaa to Baa rating classes awarded by S&P/Fitch and Moody's, respectively. Non-investment-grade companies are at a much higher risk of not being able to meet their financial obligations.

Joint implementation. In accordance with the Kyoto Protocol, countries or companies can obtain emission certificates by participating in projects to reduce emissions in certain other countries which are also obliged to reduce emissions. They can use these certificates to meet their own reduction requirements.

Kilowatt (kW). Unit of measurement of electric output.
1 megawatt (MW) = 10^3 kilowatts,
1 gigawatt (GW) = 10^6 kilowatts,
1 terawatt (TW) = 10^9 kilowatts.

Leverage factor. Ratio of net debt to EBITDA.

LNG. Acronym for liquefied natural gas. LNG is obtained by cooling gas until it becomes liquid. It occupies only 1/600 of the space filled by natural gas in its gaseous state. In this form, it is very well suited for transportation and storage.

Peak load. Designates phases in which electricity demand is especially high, for example, at noon, when meals are prepared in many factories and homes. Peak-load power plants are often in service less than 3,000 hours per year. Gas-fired and hydro storage power stations belong to this category.

Performance shares. Virtual shares, which entitle participants in the Beat Long-Term Incentive Plan to receive a payment at the end of the plan period. The prerequisite is that the predefined performance targets have been met or exceeded.

Put or call options. Options granting their buyer the right to purchase (call option) or sell (put option) a specific underlying, for example a share, at a pre-arranged price within a predetermined period of time.

Rating. Standardised method in international capital markets for assessing the risk exposure and creditworthiness of debt issuers. A Single A rating is given to borrowers of strong creditworthiness.

Service cost. Reflects the increase in the cost associated with the net present value of an employee's pension benefit entitlements in accordance with the employee's work performance in the period being reviewed.

Spot market/spot trading. General term for markets where payment and delivery are usually effected soon after conclusion of the transaction.

Syndicated credit line. Credit line offered to companies, backed by several banks, which can be drawn down in various amounts, terms and currencies. Generally used to secure liquidity.

Total Shareholder Return (TSR). Indicator of the development of a share investment over the long term. It takes into account both the dividends paid as well as the changes in share price for the duration of the investment.

Upstream. Term for all activities involved in the exploration and production of oil and gas. Also includes the processing of these resources into marketable raw materials meeting generally accepted quality standards.

Value at Risk (VaR). Measure of risk indicating the maximum loss that might occur from a risk position (e.g. a securities portfolio) assuming a certain probability under normal market conditions and that the position is held for a certain period of time. A VaR of €1 million with a holding period of one day and a confidence level of 95% means that there is a 95% probability that the potential loss resulting from the risk position will not exceed €1 million from one day to the next.

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IMPRINT

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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.

FIVE-YEAR OVERVIEW (PART OF THE REVIEW OF OPERATIONS)

Five-year overview RWE Group		2010	2009	2008	2007	2006
External revenue	€ million	53,320	47,741	48,950	42,507	42,554
Income						
EBITDA[1]	€ million	10,256	9,165	8,773	7,915	7,172
Operating result	€ million	7,681	7,090	6,826	6,533	5,681
Income from continuing operations before tax	€ million	4,978	5,598	4,866	5,246	3,537
Net income/RWE AG shareholders' share in net income	€ million	3,308	3,571	2,558	2,667	3,847
Earnings per share	€	6.20	6.70	4.75	4.74	6.84
Recurrent net income per share	€	7.03	6.63	6.25	5.29	4.38
Return on equity	%	23.1	28.5	20.7	20.1	30.3
Return on revenue	%	12.3	14.8	12.3	16.0	15.2
Value management[2]						
Return on capital employed (ROCE)	%	14.4	16.3	17.2	16.5	14.2
Value added	€ million	2,876	3,177	3,453	2,970	2,074
Capital employed	€ million	53,386	43,597	39,809	39,710	40,206
Cash flow/capital expenditure/depreciation and amortisation						
Cash flows from operating activities	€ million	5,500	5,299	8,853	6,085	6,783
Free cash flow	€ million	−879	−614	4,399	2,020	2,289
Free cash flow per share	€	−1.65	−1.15	8.17	3.59	4.07
Capital expenditure including acquisitions	€ million	6,643	15,637	5,693	4,227	4,728
of which: Property, plant and equipment and intangible assets	€ million	6,379	5,913	4,454	4,065	4,494
Depreciation, amortisation, impairment losses and asset disposals	€ million	3,410	2,553	2,416	2,629	3,164
Degree of asset depreciation	%	61.8	64.0	69.4	70.9	66.0
Asset/capital structure						
Non-current assets	€ million	60,465	56,563	41,763	41,360	51,999
Current assets	€ million	32,612	36,875	51,667	42,060	41,456
Balance sheet equity	€ million	17,417	13,717	13,140	14,659	14,111
Non-current liabilities	€ million	45,162	45,633	36,793	36,796	52,402
Current liabilities	€ million	30,498	34,088	43,497	31,965	26,942
Balance sheet total	€ million	93,077	93,438	93,430	83,420	93,455
Fixed asset intensity of investments	%	53.4	49.4	35.5	38.4	44.0
Current asset intensity of investments	%	35.0	39.5	55.3	50.4	44.4
Asset coverage	%	103.5	104.9	119.6	124.4	127.9
Equity ratio	%	18.7	14.7	14.1	17.6	15.1

Five-year overview RWE Group		2010	2009	2008	2007	2006
Net financial debt	€ million	11,904	10,382	−650	−2,064	−4,720
Net debt of the RWE Group	€ million	28,964	25,787	18,659	16,514	17,827
Leverage factor		2.8	2.8	2.1	2.1	–
Workforce						
Workforce at end of the year[3]		70,856	70,726	65,908	63,439	61,725
Research & development						
R&D costs	€ million	149	110	105	74	73
R&D employees		360	350	330	270	273
Emissions balance						
CO_2 emissions	million metric tons	165	149	172	187	178
Free allocation of CO_2 certificates	million metric tons	115	105	105	170	167
Shortage of CO_2 certificates	million metric tons	50	44	67	17	11
Specific CO_2 emissions	metric tons/MWh	0.732	0.796	0.768	0.866	0.797

Five-year overview RWE Aktiengesellschaft		2010	2009	2008	2007	2006
Dividend/dividend payment						
Dividend payment	€ million	1,867[4]	1,867	2,401	1,689	1,968
Dividend per share	€	3.50[4]	3.50	4.50	3.15	3.50
Market capitalisation						
Market capitalisation at the end of the year	€ billion	28.0	38.0	35.4	53.5	46.5
Long-term credit rating						
Moody's		A2	A2	A1	A1	A1
(outlook)		(negative)	(negative)	(negative)	(stable)	(stable)
Standard & Poor's		A	A	A	A+	A+
(outlook)		(negative)	(negative)	(stable)	(negative)	(negative)

1 Since 2008, EBITDA has also included operating income from investments.
2 Figures from 2006 according to the new value management concept; see Annual Report 2007, page 208.
3 Converted to full-time positions.
4 Proposed dividend for RWE AG's 2010 fiscal year, subject to approval by the 20 April 2011 Annual General Meeting.

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Five-year overview
(part of the review of operations)
Financial calendar 2011/2012

FINANCIAL CALENDAR 2011/2012

20 April 2011	Annual General Meeting
21 April 2011	Dividend payment
12 May 2011	Interim report for the first quarter of 2011
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 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 Annual Report 2010

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