

Financial report 2010

RWE Finance B.V.

's-Hertogenbosch, the Netherlands

PricewaterhouseCoopers Accountants N.V.
For identification purposes only



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Directors' report

Directors' report

During the year under review one new bond has been issued for a total nominal amount of USD 250,000,000. One bond in the amount of GBP 500,000,000 has been repaid. Furthermore the exchange rate for GBP-EUR increased from 1.126 in 2009 to 1.162 at year end 2010. As a result the balance sheet total decreased from EUR 16,258,887,000 to EUR 15,987,594,000 and the net result increased with 5.7% to EUR 2,580,000.

During the year RWE Finance B.V. (the "Company") paid an interim dividend in amount of EUR 2,500,000.

In 2011 EUR 1,500 million is due and has to be repaid. During 2012 EUR 1,808 million is due and during 2013 EUR 1,000 million, GBP 630 million and USD 250 million is due. No refinancing is planned.

All bonds have been issued under guarantee of RWE AG.

By way of a shareholder's resolution dated 15 April 2010 the resignation of Mr. H. Morelisse was accepted with effect from 31 March 2010. In the same resolution Mr. A. Blok was appointed managing director with effect from 1 May 2010.

The Company intends to continue its operations as an inter group finance company for the foreseeable future.

Risk management and use of financial instruments

As the proceeds of all the bonds are one on one lent to the parent company RWE AG and RWE Benelux Holding B.V., a 100% group company, the ability of the company to meet its obligations under the bonds depends upon the payment of the principal and interest due from the parent company. No liquidity risk is present, due to the fact that the maturity mismatch between the assets and liabilities is limited to the equity of the company. The interest rate on the loans, which were issued to the parent company before 2008, is 0.0237% higher than the interest rate on the relating bonds. The loans issued in 2008 and thereafter have an interest rate of 0.0225% higher than the interest rate on the relating bonds. We furthermore refer to the disclosures in paragraph 4 of the notes.

Currency risk

The company's currency exposure mainly relates to positions and future transactions in British Pounds. However, as the bonds issued in foreign currencies have been one on one used to finance the loans to group companies a natural hedge has been obtained and therefore currency risk is eliminated.

Interest rate risk

The company's exposure to interest rate risk on interest-bearing receivables and interest-bearing long-term and current liabilities is limited as the bonds and loans issued all have fixed interest rates. The spread on loans amounts to 0.0237% for loans issued before 2008 and 0.0225% for loans issued thereafter.

Credit risk

The loans to group companies have been granted to RWE AG and RWE Benelux Holding B.V., being a 100% group company. RWE AG has a good solvency and a rating A outlook negative (S&P).

Responsibility Statement

"The Managing Directors of the Company hereby declare that to the best of their knowledge and in accordance with the applicable reporting principles for the financial reporting, the financial statements for the year ending 31 December 2010 give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and that the Director's report referred to above gives a true and fair view concerning the position as per the balance sheet date, the development and performance of the business during the financial year of the Company together with a description of the principal risks that it faces."

's-Hertogenbosch, the Netherlands, 10 March 2011

The managing directors,

M.E.G. Coenen

M.R.H.B. Hoogeweegen

A. Blok

R. Ton

Financial statements

Balance sheet

(before appropriation of result)

	Ref.	31 December 2010		31 December 2009	
		EUR'000	EUR'000	EUR'000	EUR'000
<i>Assets</i>					
Non-current assets					
Financial assets	5.1		13,941,224		15,112,885
Current assets					
Receivables	5.2	2,037,616		1,137,829	
Cash and cash equivalents	5.3	8,754		8,173	
			2,046,370		1,146,002
			15,987,594		16,258,887
<i>Equity and liabilities</i>					
Equity attributable to equity holders of the parent					
Share capital	5.4	2,000		2,000	
Retained earnings		5,249		5,308	
Profit for the year		2,580		2,441	
			9,829		9,749
Non-current liabilities	5.5		13,941,224		15,112,885
Current liabilities	5.6		2,036,541		1,136,253
			15,987,594		16,258,887

Income statement

	Ref.	2010		2009	
		EUR'000	EUR'000	EUR'000	EUR'000
Finance costs					
Interest income	6.1	893,720		796,957	
Interest expenses	6.2	(889,968)		(793,611)	
Gross margin on interest			3,752		3,346
General and administrative expenses	6.3		(221)		(275)
Operating income			3,531		3,071
Income tax expense	6.4		(951)		(630)
Net result after taxation			2,580		2,441

Cash flow statement

	2010	2009
	EUR 000	EUR 000
Cash flows from operating activities		
Cash generated from operations:		
Interest received	888,652	537,445
Interest paid	(884,891)	(535,128)
Expenses paid	(127)	(266)
Income tax expense	(585)	(243)
Net cash from operating activities	3,049	1,808
Cash flows from investment activities	-	-
Cash flows from financing activities		
Issuance of long-term bonds	182,962	6,245,405
Issuance of long-term loans	(182,961)	(6,245,405)
Repayment of long-term bonds	(605,181)	-
Repayment of long-term loans	605,181	-
Dividends paid	(2,500)	(3,000)
Net cash used in financing activities	(2,500)	(3,000)
Net cash flows	542	(1,192)
Exchange and translation differences on cash and cash equivalents	32	-
Net increase/(decrease) in cash and cash equivalents	581	(1,192)
Cash and cash equivalents		
Opening balance	8,173	9,365
Closing balance	8,754	8,173
Net increase/(decrease) in cash and cash equivalents	581	(1,192)

Notes to the financial statements

1 General

1.1 Activities

The activities of RWE Finance B.V. are to facilitate the financing of RWE AG and group companies.

1.2 Group structure

RWE Finance B.V., incorporated on 14 February 2001, is a private limited liability company. As per 27 September 2010 the statutory seat of the company has changed from Hoofddorp to 's-Hertogenbosch, the Netherlands.

The parent company of RWE Finance B.V. is RWE AG in Essen, Germany. The financial statements of RWE Finance B.V. are included in the consolidated financial statements of RWE AG.

1.3 Accounting policies

The financial statements have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code and the firm pronouncements in the Guidelines for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board.

1.4 Notes to the cash flow statement

The cash flow statement has been prepared applying the direct method. The cash and cash equivalents in the cash flow statement comprise the balance sheet item cash at banks.

Cash flows in foreign currencies have been translated at estimated average exchange rates. Exchange differences affecting cash items are shown separately in the cash flow statement. Receipts and payments of interest and corporate income tax are included in the cash flow from operating activities. Dividends paid have been included in the cash flow from financing activities.

1.5 Estimates

The preparation of financial statements in conformity with the relevant rules requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. If necessary for the purposes of providing the view required under Section 362(1), Book 2, of the Netherlands Civil Code, the nature of these estimates and judgments, including the related assumptions, is disclosed in the notes to the financial statement items in question.

2 Accounting policies for the balance sheet

2.1 General

In general, assets and liabilities are stated at the amounts at which they were acquired or incurred. The balance sheet and income statement include references to the notes. The financial statements are expressed in EUR'000.

2.2 Foreign currencies

Transactions, receivables and payables

Transactions denominated in foreign currencies during the reporting period are recognised in the financial statements at the exchange rate ruling at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the balance sheet date. Exchange differences resulting from settlement and translation are charged or credited to the income statement.

2.3 Financial assets

Loans to group companies

Loans to group companies included in financial assets are stated at amortised cost.

Deferred premiums and discounts on loans to group companies are amortised over the term of the loans. The deferred part of the premiums and discounts is included under the receivables and current liabilities.

The interest rate charged on loans to group companies has been set in conformity with the tax ruling obtained from the local tax authorities.

2.4 Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost. If payment of the receivable is postponed under an extended payment deadline, fair value is measured on the basis of the discounted value of the expected revenues. When a trade receivable is not collectible, it is written off against the allowance account for trade receivables.

2.5 Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and deposits with a maturity of less than twelve months. Current account liabilities at banks are recognised under bank overdrafts forming part of current liabilities.

2.6 *Non-current liabilities*

Bonds included in non-current liabilities are stated at amortised cost.

Deferred premiums and discounts on bonds are amortised over the term of the bonds. The deferred part of the premiums and discounts is included under the receivables and current liabilities

3 **Accounting policies for the income statement**

3.1 *General*

Results on transactions are recognised in the year in which they are realised; losses are accrued as soon as they are foreseeable.

3.2 *Foreign currencies*

Exchange differences resulting from settlement and translation are charged or credited to the income statement.

3.3 *General and administrative expenses*

General and administrative expenses include the expenses of the board of directors and the administration services outsourced to Deutsche International Trust Company N.V.

3.4 *Interest income and expense*

Income from financing activities is determined as interest income received from inter-company financing activities. Interest income and expense are time apportioned.

3.5 *Taxation*

Corporate income tax is calculated on the profit/loss before taxation in the income statement taking into account tax-exempt items and non-deductible expenses, and using current tax rates.

3.6 *Deferred income tax assets and liabilities*

Deferred income tax assets and liabilities are recognised to provide for temporary differences between the tax bases of assets and liabilities, and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income taxes are recognised at face value.

4 Financial instruments

4.1 Market risk

Currency risk

The company's currency exposure mainly relates to positions and future transactions in British Pounds. However, as the bonds issued in foreign currencies have been one on one used to finance the loans to group companies a natural hedge has been obtained and therefore currency risk is eliminated.

Price risk

The company's price risk is limited as the bonds issued by the company have been one on one used to finance the loans to group companies. As a result a natural hedge has been obtained.

4.2 Interest rate risk

The company's exposure to interest rate risk on interest-bearing receivables and interest-bearing long-term and current liabilities is limited as the bonds and loans issued all have fixed interest rates. The spread on loans amounts to 0.0237% for loans issued before 2008 and 0.0225% for loans issued thereafter.

4.3 Credit risk

The loans to group companies have been granted to RWE AG and RWE Benelux Holding B.V., being a 100% group company. RWE AG has a good solvency and a rating A outlook negative (S&P).

We furthermore refer to paragraph 5.1 of the notes to these financial statements.

5 Notes to the balance sheet

5.1 Financial assets

This item concerns loans to group companies and is specified as follows:

	2010	2009
	EUR'000	EUR'000
1 January		
Book value	15.112.885	9.262.492
Movements financial year		
Loans issued	182.962	6.245.405
Exchange differences	145.377	167.988
Short-term loans transferred to receivables	(1.500.000)	(563.000)
	(1.171.661)	5.850.393
31 December		
Book value	13.941.224	15.112.885

The loans are to be repaid in the period between 2012 and 2039. During the year under review only one new loan has been issued for a total amount of USD 250,000,000. The loans which are to be repaid between 1 January 2012 and 31 December 2015 amount to EUR 6,257,018,000 (EUR 5,338,000,000 and GBP 630,000,000 and USD 250,000,000). One loan for an amount of EUR 1,500 million will be repaid during 2011.

Currency

The nominal amount of the loans to the parent company consists of nine loans contracted in EUR amounting to EUR 6,843,000,000 and nine loans to the parent company contracted in GBP to a total amount of GBP 3,947,500,000 (EUR 4,586,127,000) and one loan to the parent company contracted in USD to a total amount of USD 250,000,000. Furthermore three loans for a total amount of EUR 3,825,000,000 have been lent on to RWE Benelux Holding B.V., a 100% group company.

Interest

The interest rates are fixed and vary as follows:

Loan	Amount	Interest rate
EUR	10.668.000.000	2.5225% - 6.6475%
GBP	3.947.500.000	5.5225% - 6.5237%
USD	250.000.000	2.0225%

5.2 Receivables

	31 December 2010		31 December 2009	
	Total	Term > 1 year	Total	Term > 1 year
	EUR'000	EUR'000	EUR'000	EUR'000
Short-term part of group loans	1,500,000	-	563,000	-
Interest receivable from group companies	428,795	-	443,904	-
Deferred premiums and discounts	108,821	86,799	130,585	107,845
Prepayments	-	-	340	-
	2,037,616	86,799	1,137,829	107,845

Prepayments concern payments on a preliminary corporation tax assessment for the year 2009. This assessment was based on an estimate which turns out to be higher than the final profit as realised.

5.3 Cash and cash equivalents

The cash and cash equivalents are at the free disposal of the company.

	2010	2009
	EUR'000	EUR'000
Current account group companies	8,731	8,156
Cash	23	17
Total cash and cash equivalents	8,754	8,173

At year-end the deposit with the parent company amounted to EUR 8,730,882 (2009: EUR 8,155,724). The deposit matures at 27 January 2011 and bears interest at 0.76% (2009: 0.453%).

5.4 Equity attributable to equity holders of the parent

Share capital

The authorised share capital as at 31 December 2010 amounts to EUR 10,000,000 of which 20,000 shares of EUR 100 each have been issued and fully paid up. The breakdown of the share capital can be specified as follows:

	2010		2009	
	Shares	Share capital	Shares	Share capital
	EUR'000		EUR'000	
1 January				
Issued and fully paid-up	20,000	2,000	20,000	2,000
Movements financial year				
Additionally paid-in capital	-	-	-	-
31 December				
Issued and fully paid-up	20,000	2,000	20,000	2,000

<i>Retained earnings</i>	2010	2009
	EUR'000	EUR'000
Balance as at 1 January	5,308	6,709
Additions from profit previous year	2,441	1,599
Dividends paid	(2,500)	(3,000)
Balance as at 31 December	5,249	5,308

<i>Profit for the year</i>	2010	2009
	EUR'000	EUR'000
Balance as at 1 January	-	-
Profit for the financial year	2,580	2,441
Balance as at 31 December	2,580	2,441

5.5 Non-current liabilities

This item relates to the issued bonds and is specified as follows:

	2010	2009
	EUR'000	EUR'000
1 January		
Book value	15,112,885	9,262,492
Movements financial year		
Bonds issued	182,962	6,245,405
Exchange differences	145,377	167,988
Short-term part of bonds transferred to current liabilities	(1,500,000)	(563,000)
	(1,171,661)	5,850,393
31 December		
Book value	13,941,224	15,112,885

The bonds are to be repaid in the period between 2012 and 2039. Repayment of the principals of the bonds is guaranteed by RWE AG. In 2011 EUR 1,500,000,000 has to be repaid. During the year under review one new bond has been issued for a total amount of USD 250,000,000.

The bonds which are to be repaid between 1 January 2012 and 31 December 2015 amount to EUR 6,257,018,000 (EUR 5,338,000,000, GBP 630,000,000 and USD 250,000,000).

Currency

The nominal amount of the bonds consists of eleven bonds contracted in EUR amounting to EUR 10,668,000,000 and eight bonds contracted in GBP to a total amount of GBP 3,947,500,000 (EUR 4,586,127,000) and USD 250,000,000 (EUR 187,097,000).

Interest

The interest rates are fixed and vary as follows:

Bond	Amount	Interest rate
EUR	10,668,000,000	2.50% - 6.625%
GBP	3,947,500,000	5.5% - 6.50%
USD	250,000,000	2%

5.6 Current liabilities

	31 December 2010		31 December 2009	
	Total	Term > 1 year	Total	Term > 1 year
	EUR'000	EUR'000	EUR'000	EUR'000
Short-term part of bonds	1,500,000		563,000	-
Interest payable	427,033		442,101	-
Corporate income tax	88		-	-
Accrued liabilities	142		48	-
Deferred tax liability	457	395	519	457
Deferred premiums and discounts	108,821	86,799	130,585	107,845
	2,036,541	87,194	1,136,253	108,302

Deferred tax liability

	EUR'000
At 1 January 2010	519
Added	-
	519
Movements	62
At 31 December 2010	457

During 2011 EUR 62,188 will be amortized to the Profit and Loss account.

Financial instruments

Financial instruments valued at cost

The table below shows financial instruments whose market value differs from cost.

	31 December 2010		31 December 2009	
	Market value	Book value	Market value	Book value
	EUR'000	EUR'000	EUR'000	EUR'000
<i>Financial assets</i>				
Loans to group companies	17,340,270	15,441,224	17,514,296	15,675,885
<i>Non-current liabilities</i>				
Bonds issued	17,002,187	15,441,224	17,109,845	15,675,885

Financial assets

The market value of the loans to group companies is EUR 17,340,270 (2009: EUR 17,514,296).
The market value of the loans to group companies is higher than the book value because they carry interest at a rate that is higher than the market rate.

Non-current liabilities

The market value of the bonds issued is EUR 17,002,187 (2009: EUR 17,109,845)

6 Notes to the income statement

6.1 Interest income

	2010	2009
	EUR'000	EUR'000
Interest income group companies	870,483	777,124
Release deferred premiums and discounts	23,237	19,833
	<u>893,720</u>	<u>796,957</u>

6.2 Interest expenses

	2010	2009
	EUR'000	EUR'000
Interest expenses bonds issued	866,731	773,778
Release deferred premiums and discounts	23,237	19,833
	<u>889,968</u>	<u>793,611</u>

6.3 General and administrative expenses

	2010	2009
	EUR'000	EUR'000
Advisory fees	123	131
Wages and salaries	4	10
Management and administrative expenses	80	119
Other	14	15
	<u>221</u>	<u>275</u>

The remuneration of the board of directors including pensions during 2010 was EUR 4,300 (2009: EUR 10,000).

PricewaterhouseCoopers Accountants N.V. was appointed as auditor of the financial statements of the Company. The composition of the fees paid to the auditor, as included in advisory fees, is as follows:

	2010	2009
	EUR'000	EUR'000
Audit of the Financial Statements	23	27
Professional services Debt Issuance Program	27	79
Total audit fees	<u>50</u>	<u>106</u>

6.4 Income tax expense

	2010	2009
	EUR'000	EUR'000
Result before taxation	3,531	3,072
Total permanent and timing differences	-	-
Taxable amount	<u>3,531</u>	<u>3,072</u>
Income tax charge	<u>951</u>	<u>630</u>
Effective tax rate	<u>26.9%</u>	<u>20.5%</u>

The average effective tax rate amounts to 26.9%.

The statutory rate is 25.5% for the year 2010. The difference with the effective tax rate is caused by a correction payment for the year 2009 and a deferral of early redemption fines.

6.5 Employees

During 2010 and 2009 an average of two employees were employed by the company.

6.6 Related parties

All legal entities that can be controlled, jointly controlled or significantly influenced are considered to be a related party. Also, entities which can control the company are considered a related party. In addition, statutory directors, other key management of RWE Finance B.V. or the ultimate parent company and close relatives are regarded as related parties.

The parent company RWE AG and RWE Benelux Holding B.V. qualify as related parties. We also refer to the notes 5.1, 5.2 and 5.3.

Transactions carried out by the company with related parties are all based on arm's length terms and conditions.

The related party positions within the balance sheet as at 31 December can be specified as follows.

	2010	2009
	EUR'000	EUR'000
Loans including deferred premium and discount	15,399,595	15,632,979
Interest receivable on the above loans	428,795	443,904
Deposit	8,731	8,156
Total related parties in the balance sheet	15,837,121	16,085,039

The related party positions within the income statement for the year 31 December can be specified as follows.

	2010	2009
	EUR'000	EUR'000
Interest on loans	870,422	777,006
Amortisation premium and discount	23,237	19,833
Interest on deposit	61	118
Total related parties in the income statement	893,720	796,957

's-Hertogenbosch, the Netherlands, XX March 2010

Board of directors.

M E G Coenen

M.R H B Hoogeweegen

A. Blok

R. Ton

Other information

Proposed profit appropriation

According to article 27 of the Articles of Association the profit for the year is at the free disposal of the General Meeting of Shareholders.

During the year the Company paid interim dividends to a total amount of EUR 2 500,000
The company will not advise the shareholder to pay a final dividend.

Events after the balance sheet date

No events after the balance sheet date occurred, which should be included in these accounts.

Auditors' report



Independent auditor's report

To: the General Meeting of Shareholders of RWE Finance B.V.

Report on the financial statements

We have audited the accompanying financial statements 2010 of RWE Finance B.V., 's-Hertogenbosch, as set out on pages 5 to 21, which comprise the balance sheet as at 31 December 2010, the profit and loss account for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Board of directors' responsibility

The board of directors is responsible for the preparation and fair presentation of these financial statements and for the preparation of the directors' report, both in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the board of directors is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of RWE Finance B.V. as at 31 December 2010, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Rotterdam, 10 March 2011
PricewaterhouseCoopers Accountants N.V.

Original has been signed by F.J. van Groenestein RA