Annual Report 2008

DO IT.

The new RWE.

RWE
The energy to lead

2008 KEY FIGURES AT A GLANCE.

- All major financial goals achieved
- Recurrent net income up 13 %
- Efficiency-enhancement target doubled to €1.2 billion
- Proposed dividend of €4.50 per share at record level

RWE Group		2008	2007[1]	+/- in %
External revenue	€ million	48,950	42,507	15.2
Germany	€ million	30,694	24,840	23.6
Outside Germany	€ million	18,256	17,667	3.3
EBITDA	€ million	8,314	7,915	5.0
Operating result	€ million	6,826	6,533	4.5
Income from continuing operations before tax	€ million	4,866	5,246	-7.2
Net income	€ million	2,558	2,667	-4.1
Recurrent net income[2]	€ million	3,367	2,985	12.8
Return on capital employed (ROCE)	%	17.2	16.5	–
Weighted average cost of capital (WACC) before tax	%	8.5	9.0	–
Value added	€ million	3,453	2,970	16.3
Capital employed	€ million	39,809	39,710	0.2
Cash flows from operating activities[3]	€ million	8,853	6,085	45.5
Capital expenditure[3]	€ million	5,693	4,227	34.7
Property, plant and equipment	€ million	4,454	4,065	9.6
Financial assets	€ million	1,239	162	664.8
Free cash flow[3,4]	€ million	4,399	2,020	117.8
Number of shares outstanding (weighted average)	thousands	538,364	562,373	-4.3
Earnings per share	€	4.75	4.74	0.2
Recurrent net income per share[2]	€	6.25	5.31	17.7
Dividend per share	€	4.50[5]	3.15	42.9
		Dec 31, 08	Dec 31, 07	
Net debt of the RWE Group[6]	€ million	18,659	16,514	13.0
Workforce[7]		65,908	63,439	3.9

1 Figures partially adjusted (see commentary on page 60).
2 Net income excluding the non-operating result and excluding non-recurrent effects in the financial result, in the tax expense and in income from discontinued operations.
3 Discontinued operations are still included in figures for 2007, but not in figures for 2008.
4 Cash flows from operating activities minus capital expenditure on property, plant and equipment.
5 Dividend proposal for RWE AG's 2008 fiscal year, subject to approval by the April 22, 2009, Annual General Meeting.
6 Also includes provisions for pensions and similar obligations and provisions for nuclear waste management and mining damage. The capitalized surplus of plan assets over benefit obligations is netted against this.
7 Converted to full-time positions.

WHAT WE DO.

RWE is one of Europe's five leading electricity and gas companies. We are active in the generation, trading, transmission and supply of electricity and gas. This integrated business model enables us to take advantage of the rising demand for energy. Through our fully consolidated investments, our 66,000 employees supply over 14 million customers with electricity and 6 million customers with gas. In fiscal 2008, we recorded €49 billion in revenue.

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

Our power plant portfolio and our investment programme for building new, environmentally friendly generation capacity are the basis for growing earnings in the future. Energy from renewables 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. 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 global rise in demand for gas, we plan to steadily increase the share we produce in-house.

Our aim is to create value for our investors, customers and employees. Therefore, our strategy centres on profitable, organic growth, supplemented by value-increasing acquisitions. Our takeover offer for the Dutch-based energy utility Essent will take us a major step forward in this direction. We want our shareholders to continue to take part in the Group's success to a great extent in the future.

THE RWE GROUP

HOW WE ARE SET UP.

RWE Group

RWE Power	RWE Innogy	RWE Dea	RWE Supply & Trading	RWE Energy	RWE npower
					

RWE Power is Germany's biggest power producer and among the largest in Continental Europe. The company mines lignite and generates electricity from coal, nuclear fuel and gas.

RWE Innogy pools our renewable energy activities. They include onshore and offshore wind farms in Europe as well as hydroelectric power plants and biomass projects.

RWE Dea produces gas and oil, focussing on Europe and North Africa.

RWE Supply & Trading runs our European energy trading operations and commercially optimizes our non-regulated gas activities.

RWE Energy is responsible for our sales and grid companies in twelve regions in and outside Germany. We provide electricity, gas, water and related services from a single source.

RWE npower generates electricity from coal, gas and oil and sells electricity and gas to end customers in the UK.

WHAT YOU CAN MEASURE OUR SUCCESS BY.

REVENUE

✓ **Goal for 2008:** Higher year on year
Goal achieved in 2008: Increase of 15 % to €49 billion
Goal for 2009: Higher year on year

EBITDA

✓ **Goal for 2008:** At least on par year on year
Goal achieved in 2008: Increase of 5 % to €8.3 billion
Goal for 2009: In the order of last year's level

OPERATING RESULT

✓ **Goal for 2008:** At least on par year on year
Goal achieved in 2008: Increase of 4 % to €6.8 billion
Goal for 2009: In the order of last year's level

RECURRENT NET INCOME

✓ **Goal for 2008:** Increase of more than 10 %
Goal achieved in 2008: Increase of 13 % to €3.4 billion
Goal for 2009: In the order of last year's level

DIVIDEND

✓ **Goal for 2008:** Payout ratio 70 to 80 % of recurrent net income
Goal achieved in 2008: Payout ratio of 71 % (proposed dividend: €4.50 per share)
Goal for 2009: Payout ratio of 50 to 60 %

EFFICIENCY ENHANCEMENT

✓ **Goal for 2008:** €200 million (compared to 2006)
Goal achieved in 2008: €200 million
Goal for 2009: €450 million (compared to 2006)

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The new RWE.

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Our responsibility (from page 119)

Consolidated Financial Statements (from page 147)

DO IT.

Being a leading European energy company, we take responsibility for our customers, shareholders and employees alike. And also for the environment. Long term. Because energy supply is a promise to future generations.

This means that we have to think and act far beyond our day-to-day business: Identifying market changes in good time. Developing supply concepts for decades ahead. Deciding early to invest billions. Always keeping our ambitions high, offering the best possible service to our customers, along with the most environmentally friendly technology and the most efficient processes.

And our driving force is clearly: The energy to lead.

How do we do that?

DON'T DELAY. **DECIDE.**

DON'T WAIT. **MAKE IT HAPPEN.**

DON'T STAND STILL. **GO THE EXTRA MILE.**

DON'T CLING TO THE OLD. **EMBRACE THE NEW.**

DON'T HESITATE. **MAKE IDEAS REALITY.**

DON'T HINDER. **ENABLE.**

DON'T FOLLOW. **LEAD.**

THE RWE EXECUTIVE BOARD

Alwin Fitting
Labour Director

Dr. Ulrich Jobs
Chief Operating Officer

Dr. Leonhard Birnbaum
Chief Strategy Officer

DON'T DELAY.

DECIDE.

Anyone who wishes to become more competitive as we do needs to chart new courses.
We on the Executive Board rely on every individual having more entrepreneurial responsibility.
Turn to pages 226/227 for more about us.

Dr. Rolf Pohlig
Chief Financial Officer

Dr. Jürgen Großmann
President and CEO

Berthold Bonekamp
Chief Strategy Officer
(until December 31, 2008)

DON’T WAIT.

MAKE IT HA

Small device, big effect: intelligent electricity meters enabling the use of power-hungry appliances during less expensive periods. Customer-oriented tariffs such as “RWE Treuestrom.” We have even more ideas in this area, as demonstrated by our Energy Efficiency initiative for the conservation of resources and the protection of our climate. Turn to pages 140/141 for more.


PPEN.

DON'T STAND STILL.
GO THE EXT

RWE is present where there is growth. The countries of Central, Eastern and Southern Europe offer opportunities for this. We are active in the field of international exploration and production via RWE Dea in order to expand our reserves. Successfully at that: We again discovered substantial amounts of gas in the Egyptian Nile Delta in July 2008.


RA MILE.

DON'T CLING TO THE OLD.

EMBRACE IT.

We are en route to becoming one of Europe's leading suppliers in the field of renewable energy. But that isn't enough for us. We are working with Daimler to make use of environmentally friendly electricity for new mobility concepts. The result will soon be visible on the streets: the electric Smart car. Turn to page 100 for more.

HE NEW.

DON’T HESITATE.

MAKE IDEA

Care for a power plant next week? Mobile electricity generation on a large scale—we’re working on it. We want to test a power station on floating pontoons in the Mediterranean and the Black Sea. Sometimes, one has to chart new courses.

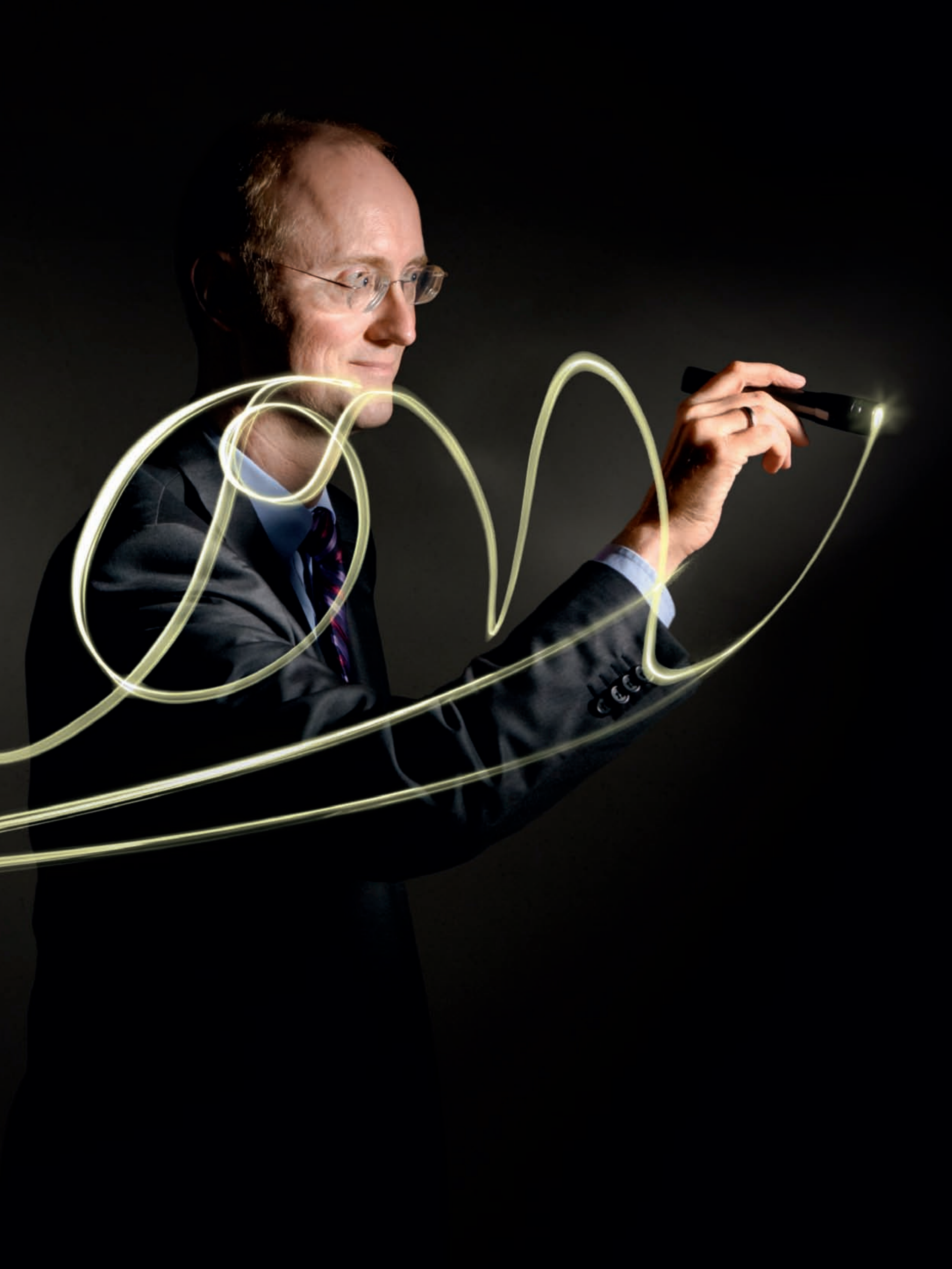

RWE
S REALITY.

DON'T HINDER.

ENABLE.

We do a variety of things in pursuit of a family-friendly personnel policy: Flexible working hours and childcare support are just a few of the options from which RWE's employees benefit. A full five RWE companies were recognized for this in 2008 by the jury of the German "berufundfamilie" (workandfamily) audit. Turn to page 136 for more.


DON'T FOLLOW.
LEAD.
We've already accomplished a lot, and we want to achieve even more. Vision and ideas are our key tools to this end. We put them to work in order to produce energy in a more efficient, economic and environmentally friendly way as we go forward. In the interests of our customers, investors and employees as well as of society and the environment. We lead. With the new RWE.



2008 IN BRIEF

FEBRUARY

Renewable energy subsidiary established

The new RWE Innogy starts operations on February 1, 2008. Our activities in the field of renewable energies are pooled in this company. We aim to more than triple RWE Innogy's generation base to 4.5 gigawatts by 2012. Wind power is the focal point.

FEBRUARY

RWE becomes partner in Nabucco consortium

We are the sixth contractual partner to join the international consortium for the planning and construction of the Nabucco gas pipeline, one of Europe's most important infrastructure projects for securing gas supplies. The first section of the pipeline is scheduled to be commissioned in 2014.

MARCH

Construction of a hard coal power plant in Hamm underway

With a combined installed capacity of 1,530 megawatts, the two units are scheduled to go online in 2011. Thanks to their 46% efficiency, they meet the highest technical standards. We estimate that capex will total €2.1 billion. Twenty-three municipal utilities from four German states are partners in the new power plant. They will have access to a total of 350 megawatts.

APRIL

First tranche of American Water shares placed on the New York Stock Exchange

As part of the IPO, we sell a 39.5% stake in the US water utility, which does not belong to our core business. Proceeds from the sale amount to about US$1.3 billion. Due to the unexpected intensification of the financial crisis we did not implement our plan to divest the majority of the shares in the company by the end of 2008. But we still want to sell our investment in American Water in full.

APRIL

RWE Supply & Trading kicks off

We combine RWE Trading and RWE Gas Midstream in this new division. Gas purchasing and energy trading are now a one-stop shop.

MAY

RWE declares commitment to sell its German gas transmission grid

We agree with the EU on a solution to the antitrust proceedings against RWE Transportnetz Gas GmbH underway since April 2007. We remain convinced that we did not infringe competition law. We agree to settle to avoid protracted litigation.

MAY

Share buyback programme completed

We purchase 31.7 million RWE common shares on the stock exchange from February to May. This corresponds to a share of 5.6% of the company's subscribed capital and 6.1% of RWE AG's voting rights. €2.5 billion are spent on the share buyback programme.

MAY

Expansion of renewable energy activities

RWE Innogy and Fri-El Green Power establish a joint venture to develop wind power and biomass plants in Italy. The company acquires Spanish-based wind power operator Urvasco Energía soon thereafter.

MAY

Entry into LNG market

RWE Supply & Trading acquires a 50% stake in Excelerate Energy. Excelerate specializes in the transportation of liquefied natural gas (LNG). The US-based company operates LNG tankers which can regasify liquefied natural gas on board. Furthermore, Excelerate owns special import facilities in the UK and the USA.

AUGUST

Site for climate-friendly coal power plant chosen

The plant will have a gross installed capacity of 450 megawatts, will be built in Hürth near Cologne (Germany) and will be fuelled by lignite. Thanks to a special technique, we can capture about 90% of the carbon dioxide generated by the power station and store it in geological rock formations to protect the environment. We are investigating potential storage locations in Schleswig-Holstein.

SEPTEMBER

RWE chosen as strategic investor for nuclear power plant in Bulgaria

The Bulgarian national electricity company NEK intends to build and operate two nuclear power plant units, each with an installed capacity of 1,000 megawatts, at the Belene site in cooperation with RWE. We intend to share our 49% stake with a partner. But we will only invest in the project if the highest safety and transparency standards are complied with.

NOVEMBER

Participation in UK offshore wind farm project

RWE Innogy acquires a 50% interest in the construction and operation of the Greater Gabbard UK offshore wind farm. Scottish and Southern Energy is its partner in the project. On completion in 2011, the wind farm will have a total installed capacity of 509 megawatts.

NOVEMBER

Successful return to the bond market

RWE issues bonds again for the first time since 2004: In a difficult market environment, we place two eurobonds totalling €2 billion at favourable conditions. They have terms of five and ten years. The high demand shows that we are considered a solidly financed company.

DECEMBER

Entry into German offshore wind business

Our first large-scale wind power project in Germany is now taking shape: We acquire the rights to build about 960 megawatts in generation capacity off the coast of Germany. The wind farm, "Innogy Nordsee 1," will be built on an area of 150 square kilometres north of the Island of Juist and is scheduled for completion by 2015. The project's capex budget totals €2.8 billion.

LETTER FROM THE CEO

Dear Investors,

When I wrote to you a year ago, our world was a different one. No one could have suspected that we were about to face the biggest financial crisis in the post-war era. Its extent and consequences still cannot be predicted entirely. But one thing is certain: The global economy is on a downward trend that is steeper than we have witnessed in decades. There are no signs of improvement. On the contrary, uncertainty is deeply rooted. Our customers in the automotive, chemicals and steel industries are reporting record falls in demand. Confidence in the reliability and performance of the banking sector has reached its low point. Indeed, many now question the entire system and are second-guessing the fundamental principles of the market economy. State intervention in the economy has become the order of the day. Could we have imagined this a year ago? Certainly not.

What do the financial crisis and the recession mean for our RWE? Even for an energy company such as ours, the negative news is growing: Industrial energy consumption is on the decline, and customers are experiencing difficulty in making payments. Financing costs are on the rise and politicians are increasingly inclined to regulate functioning market processes more intensely.

That is one side of the coin. The other is that the business we conduct with our main products—electricity and gas—is both robust and only marginally cyclical: The economic situation has hardly affected demand from the 20 million households we serve. And all of these customers live in EU member states, which have framework conditions that we have been familiar with for many years. Our financial situation is extremely robust. We achieved our earnings targets for 2008. We have already secured a significant portion of the margin in our electricity generation business for 2009 and 2010 through forwards we concluded early on. Our business outlook is positive despite the crisis. We aim to increase recurrent net income—the yardstick for determining your dividend—considerably until 2012. Our payout ratio of a one-time 71% for the fiscal year that just ended and 50 to 60% in the future is above the market average. The dividend of €4.50 per share for fiscal 2008, which we will propose to the Annual General Meeting, is the highest since the company's inception. Furthermore, we have reduced debt substantially over the last few years. While others went on shopping sprees, we focussed on organic growth and avoided expensive acquisitions. RWE's balance sheet is therefore extremely healthy. Investors worldwide appreciate our cash-strong operations and subscribe to our bonds, as evidenced once again by the most recent issuance. This gives us a good basis for providing solid financing for upcoming investments.

There are not many companies which can make the same claim at present. This is why we believe we have to take on responsibility as well. We plan to invest about €26 billion to expand and modernize energy infrastructure by 2012: in environmentally friendly power plants, supra-regional and cross-border electricity grids, gas pipelines and storage facilities as well as in gas and oil production. Besides being the largest capital expenditure programme in our 111-year history, this also makes us one of Europe's largest private investors. As a result, we will secure and create jobs at RWE as well as at equipment providers and their suppliers. This economic package spares state budgets while improving security of supply. But we need the right political framework to implement this programme.

The gas dispute between Russia and Ukraine has once again demonstrated that a warm living room cannot be taken for granted. And it proves that although gas is a good fuel for power stations as far as the CO_2 balance is concerned, it can quickly become scarce. This is why we will use equal shares of gas and coal in our current power plant new build projects. No other utility is currently building more generation capacity in Europe than RWE. At the same time, we are making the greatest possible effort to accelerate the preparation of the construction of the Nabucco gas pipeline and to increase our gas storage capacity. RWE Dea is exploring and tapping new gas and oil reserves in Europe and North Africa. Last, but not least, we are fighting in Berlin to give nuclear energy a future in Germany as well. After all, nuclear power is not only affordable, but given the uncertainty about other fuel supplies, it is also secure. All the more so in times of economic crisis when we must do anything it takes to strengthen the competitiveness of our energy-intensive customers.

A year ago, I explained our Strategy Agenda 2012 in my letter to you. Its guiding principle is "More Growth, Less CO_2." Since then, we have explored numerous options with which we can grow profitably while reducing our emissions. The investment programme that I mentioned earlier will take us a long way down this road. In this context, our main priority is the rapid establishment and expansion of our new division for renewables, RWE Innogy. Our focus on organic growth so far is paying off. This may take a big effort and a lot of time, but you can expect RWE Innogy to deliver results with double-digit growth rates from 2010 onwards.

The takeover offer for Essent is a major step forward in implementing the Strategy Agenda 2012. Essent is a leading energy company in the Benelux region. Due to the large share of the generation portfolio accounted for by gas-fired power stations, the company's CO_2 intensity is much lower than ours. At €9.3 billion, the transaction value is high, but it is appropriate given Essent's attractiveness to our business. A glance at the map of Europe reveals that no other region is closer to RWE's supply area than the Benelux markets. Essen is only a one-hour car drive from Arnheim, the location of Essent´s headquarters. Combining Essent with our German activities will put us among the leaders in North Western Europe. It is likely that markets in this region will continue to converge. Furthermore, Essent is set up similarly to us with electricity generation, energy trading as well as electricity and gas supply operations. As a result, the integration risks are relatively low. If everything stays on schedule, we will close the acquisition in the third quarter of 2009. We will then concentrate entirely on integrating the company. Further acquisitions are conceivable, albeit of a significantly smaller scale. We are looking into how we can gain footholds with investments in established local companies, above all, in South Eastern Europe. We expect this region to post far above average growth rates in the future.

Constant improvement is another element of our Strategy Agenda 2012. Six months ago, we doubled our efficiency-enhancement goal to €1.2 billion by 2012. Taking 2007 into account, we have already realized €200 million in savings and are therefore on track. We largely reduce costs and increase revenue by improving the efficiency of our grid and power plant operations. At the same time, we are sifting through all our business processes—especially those relating to administrative functions—and simplifying the Group's organizational structure. But efficiency is not the only item on the agenda here. We also want to adapt to new market trends—faster than our competitors. This year, we will realign our regional supply activities with a view to creating a consistent, nationwide stance in Germany. In addition, changes in regulation require us to reorganize our electricity and gas grids.

Unfortunately, our demonstration of strength through billions of euros invested in supply security and crisis-proof jobs during this period of economic weakness is often counteracted by political decisions. The debate on energy policy conducted in recent years and decades is deadlocked. This is a great worry to me. The full auctioning of CO_2 certificates from 2013 onwards will make the construction of new coal-fired power plants virtually impossible under the conditions that are foreseeable for Western Europe at present. Gas-based electricity generation and energy from renewables undoubtedly make sense, but they create new dependencies as well. German nuclear power is still headed for a political dead end, while steps to ensure its long-term viability are being taken elsewhere. Varying regulatory conditions within the EU are blocking investments and competition. We will not stop promoting necessary change with constructive suggestions and initiatives on all political levels. "Do it" is the motto of this annual report and it reflects our ambitions in this regard. We demonstrate solutions, including innovations in CO_2 avoidance in power production and vehicles, with huge investments in environmentally friendly power plant technology and energy efficiency, and with a high degree of voluntary transparency.

My conclusion for the new financial year is that the recession will not fail to leave its mark on RWE. The political headwind is still strong, but our business model is weather-proof. We are pursuing strategies that will ensure the company's success over the long term. Furthermore, we have identified numerous measures which, once implemented, will immediately enable us to react more quickly, become more cost-efficient and therefore more competitive. Moreover, we have a team of 66,000 highly motivated employees in twelve European countries, who tackle issues with determination. My fellow board members and I would like to take this opportunity to express our sincere gratitude to them. Our thanks also go out to you, our shareholders, for your support on which we continue to build. After all, in times of crisis, trust is the most important currency.

Sincerely yours,

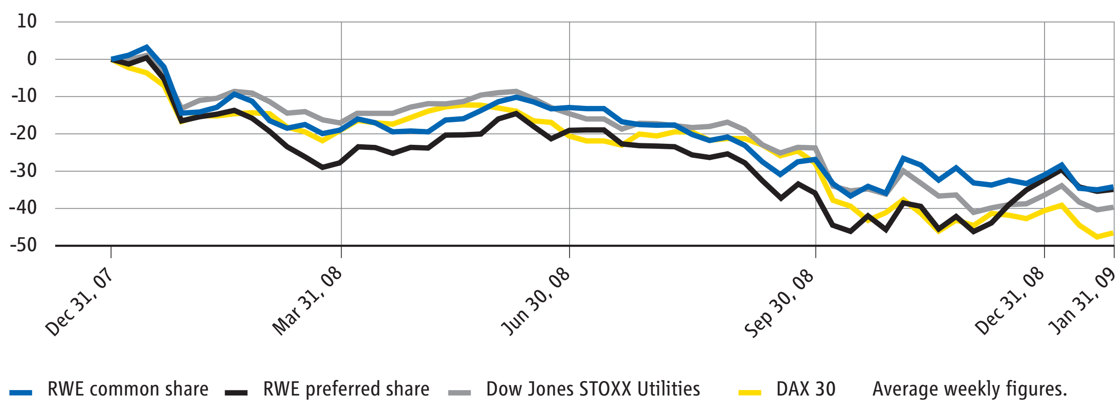
Dr. Jürgen Großmann
President and CEO of RWE AG

Essen, February 13, 2009

RWE ON THE CAPITAL MARKET

The financial and economic crisis ended the upward trend witnessed on stock markets since 2003. RWE share prices declined significantly. They lost a third of their value in 2008. But their development was much better than that of comparable indices. Our strong financial position is a big advantage. It was the main reason why we were able to successfully issue €5 billion in bonds, despite the financial crisis.

Performance of RWE shares compared with the DAX 30 and the Dow Jones STOXX Utilities indices in %



Average weekly figures.

One of the weakest years ever on the stock market. In 2008, the stock market left deep red marks on the portfolios of almost all investors. The index representing the major shares in the Eurozone, the Dow Jones EURO STOXX 50, lost 42% of its value. Germany's lead index, the DAX 30, was down 40%. It started the year at 8,067 points and had fallen to 4,127 points by the end of November. It closed the year slightly up, at 4,810 points. The massive decline in share prices put an end to the nearly five-year long boom on the German stock market, during which the DAX had climbed from 2,203 points in March 2003 to an all-time high of 8,106 points in July 2007. By the end of 2008, it had returned to the level of 1998.

Turbulence on the stock markets originated from the US subprime crisis, which escalated dramatically over the course of 2008, shaking the foundations of the entire international financial sector. The collapse of the US bank Lehman Brothers in September 2008 brought the crisis to its temporary peak. Numerous financial institutions avoided failure only thanks to state rescue measures. All major industrialized nations introduced aid packages for banks in order to bolster investor confidence in the financial system. However, these measures failed to brighten sentiment on the stock markets significantly, especially since the financial market crisis has led to a worldwide recession. Economic research institutes expect that the economic output of major industrialized countries will shrink in 2009. In light of the bleak economic forecasts and the increasing amount of bad news from the corporate sector, the DAX continued its downward trend at the beginning of 2009. The index closed the month of January at 4,338 points.

RWE shares caught in downward spiral caused by the financial crisis. RWE shares got off to a good start to the year before being affected by the general weakness on stock markets. On January 7, 2008, RWE's common shares surpassed the 100-euro mark for the first time ever (€100.64). As the financial crisis came to a head, however, the share price dropped dramatically. By the middle of October, RWE's common shares had fallen to their low for the year of €52.53, before making up some ground. They closed 2008 at €63.70, with RWE preferred shares ending at €53.61. This corresponds to a total return (including the dividend) of -31% (common shares) and -32% (preferred shares). RWE shares therefore fared better than the market as a whole and also surpassed the European sector index, the Dow Jones STOXX Utilities, which recorded a drop of 36% in 2008.

In addition to the financial crisis, the development of prices on commodity markets also affected the performance of RWE shares. In the first half of the year, raw material prices increased considerably at the global level, leading to rising quotations on Europe's electricity exchanges. This triggered positive share price reactions for utilities with strong generation positions such as RWE. But against the backdrop of the financial market crisis and mounting fear of recession, prices on the commodity markets have been trending steeply downwards since July. This was reflected in a substantial drop in RWE share prices. A stabilizing effect came from RWE's solid financial position. After the turn of the year, RWE shares initially posted marginal gains, which they lost thereafter. The common shares traded at €60.87 at the end of January.

Weighting of RWE shares and RWE bonds in important indices as of December 31, 2008

Stock index	Weighting in %	Bond index	Weighting in %
DAX 30	5.9	iBoxx Euro Corporates	0.8
Dow Jones EURO STOXX 50	2.1	iBoxx Euro Utilities	7.6
Dow Jones STOXX Utilities	8.8	iBoxx Sterling Utilities	11.8

Comparative performance of RWE shares and important indices up to the end of 2008 in % p.a.	1 year	5 years	10 years
RWE common share	-30.8	19.3	6.4
RWE preferred share	-32.1	18.3	9.5
DAX 30	-40.4	3.9	-0.4
Dow Jones EURO STOXX 50	-42.4	0.4	-1.0
Dow Jones EUROPE STOXX 50	-41.7	-2.0	-2.3
Dow Jones STOXX	-44.1	-0.3	-1.2
Dow Jones STOXX Utilities	-36.4	12.7	4.4
REXP[1]	10.1	4.7	4.7

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

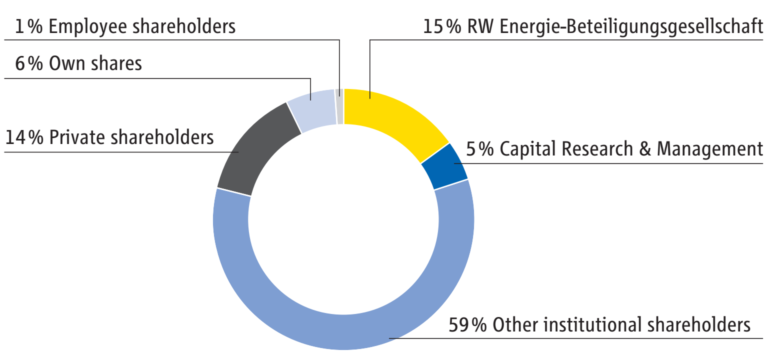
Long-term returns: RWE shares clearly outperform the DAX. RWE's shares performed much better than the multi-year average of the overall market. Long-term investors who invested €10,000 in RWE ten years ago and reinvested their dividends saw their investments grow to €18,569 (common shares) or €24,816 (preferred shares) by December 31, 2008. This corresponds to an annual average return of 6.4% and 9.5%, respectively. In contrast, the total return posted by the DAX was slightly negative. An initial investment in the index would have decreased by 0.4% per annum to €9,616.

RWE share indicators[1]		2008	2007	2006	2005	2004
Earnings per share	€	4.75	4.74	6.84	3.97	3.80
Cash flows from operating activities per share	€	16.44	10.82	12.06	9.43	8.76
Dividend per share	€	4.50[2]	3.15	3.50	1.75	1.50
Common share price						
End of fiscal year	€	63.70	96.00	83.50	62.55	40.70
High	€	100.64	97.90	89.85	63.24	43.50
Low	€	52.53	74.72	61.56	41.10	29.70
Preferred share price						
End of fiscal year	€	53.61	83.07	72.00	54.44	34.21
High	€	84.39	86.00	73.91	55.09	36.94
Low	€	37.46	66.33	54.18	34.79	25.96
Dividend payment	€ million	2,388[2]	1,772	1,968	984	844
Number of shares outstanding (average)	thousands	538,364	562,373	562,374	562,375	562,364
Market capitalization at the end of fiscal year	€ billion	35.4	53.5	46.5	34.9	22.6

1 In relation to the annual average number of shares outstanding.
2 Dividend proposal for RWE AG's 2008 fiscal year, subject to the approval of the April 22, 2009, Annual General Meeting.

Record dividend proposed. The Supervisory and Executive Boards will propose a dividend of €4.50 per share for fiscal 2008 to the Annual General Meeting on April 22, 2009—the highest in our 111-year corporate history. Relative to recurrent net income, this results in a payout ratio of 71%. We are therefore above our usual range of between 50% and 60%. We had originally made the increased dividend payout ratio for 2008 dependent on the sale of a majority of the shares in American Water by the end of 2008, but abandoned this condition later on. The target ratio will return to between 50% and 60% from fiscal 2009 onwards. Based on the year-end closing share prices of our common and preferred shares, the dividend yields are 7.1% and 8.4%, respectively. We therefore have a leading position in the DAX 30.

Shareholder structure of RWE AG[1]



79% Institutional shareholders:
- 39% Germany
- 17% USA/Canada
- 11% UK/Ireland
- 11% Continental Europe excl. Germany
- 1% Rest of the world

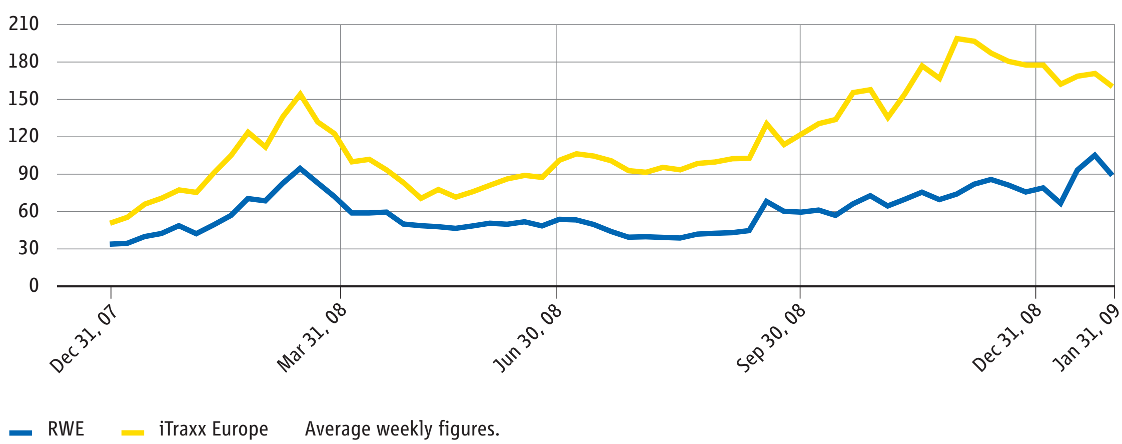
1 Percentages reflect shares in the subscribed capital. Sources: Shareholder identification and notifications of shareholdings in accordance with the German Securities Trading Act (WpHG), as of December 31, 2008.

Changes in shareholder structure due to share buyback. As set out in detail on page 57, we bought back 31.7 million common shares on the stock market last financial year. This corresponds to 5.6% of RWE AG's subscribed capital. The portion held by institutional investors decreased by a similar order. At the end of 2008, their share of the capital amounted to 79% (prior year: 84%). Private investors (including employee shareholders) held 15% (prior year: 16%).

On the balance sheet date, institutional investors from Germany held 39% of the shares. As in the previous year, RW Energie-Beteiligungsgesellschaft was our single-largest investor, holding 15%. Institutional investors in North America and the United Kingdom accounted for a total of 28% of RWE's capital (prior year: 29%). Holding about 5%, US-based mutual fund Capital Research & Management leads the group of international investors. Institutional investors outside Germany, the UK and North America accounted for 12% of RWE shares. These investors are domiciled primarily in Continental Europe. The free float of RWE common shares considered by Deutsche Börse AG in terms of index weighting was 78% at the end of the year.

Big increase in the price of credit default swaps. The international financial crisis was also reflected in the bond markets. Confidence in corporate solvency suffered significantly. The collapse of the investment bank Lehman Brothers in September nearly brought lending to a halt. At the beginning of December, the European CDS index, iTraxx Europe, which is made up of prices paid to hedge the credit risk of 125 major European companies using five-year credit default swaps (CDSs), hit a record high of more than 200 basis points. RWE distanced itself from this trend. Five-year CDSs for our company were occasionally at over 90 basis points in March, before falling significantly. CDS prices rose again in the fourth quarter, but remained below the March level. They reached this level again in January 2009. This was because we announced our intention to acquire the Dutch-based utility Essent. The transaction will cause our net debt to increase. Irrespective of this, RWE is considered a company with a solid financial position. We benefited from our strong creditworthiness again in November 2008 and February 2009 when we issued a combined nominal €5 billion in bonds at relatively favourable rates (see page 88).

Development of RWE's five-year credit default swap (CDS) compared with the CDS index iTraxx Europe in basis points



Average weekly figures.

RWE in dialogue with the capital market. Once again, we maintained intense dialogue with investors and analysts throughout the last financial year. We held presentations and Q&A sessions for investors in 25 financial centres during more than 40 roadshows (on-site visits to investors) and 13 conferences as well as numerous one-on-one meetings. Additional communication activities include presentations published on the Internet. One highlight is the online publication entitled "RWE Facts & Figures" which contains a wealth of detailed information on RWE and the European energy sector and can be viewed at "http://rwecom.online-report.eu/factbook".

1.0 REVIEW OF OPERATIONS

Recurrent net income
up 13 % to

€3,367 million

Proposed dividend of

€4.50 per share

at a record level

Mid-term financial targets
adjusted

upward

1.1 STRATEGY AND STRUCTURE

RWE ranks among Europe's five leading electricity and gas companies. We want to improve this position. Our market environment is undergoing dynamic change. Competition is becoming fiercer, and the demands placed by our customers on service and product diversity are rising. Furthermore, political and regulatory requirements are becoming increasingly complex. At the same time, Europe's energy markets continue to converge. By implementing our "Strategy Agenda 2012," we intend to take profitable advantage of this market environment.

Power utilities face huge challenges. The financial and economic crisis means Europe's utilities need to take urgent action. We must brace ourselves for fluctuating demand, mounting political pressure and higher financing costs. However, the utility sector is generally less susceptible to severe economic downturns than other branches of industry. Our investments in new power plants, grids and oil and gas production demonstrate the long-term nature of the energy utility business. We should think in terms of decades, not years. This is why, in addition to the demands currently placed on us, we always keep a watchful eye on the fundamental challenges facing the energy industry that have lasting effects. The following trends are of special importance to us:

- Need for substantial investment: Major investments must be made in Europe's energy infrastructure, especially in new generation capacity, electricity and gas grids, and gas storage facilities. The thrust is two-fold: ageing power stations have to be replaced and companies have to prepare themselves to cope with the growing demand for electricity and—more importantly—gas imports.
- Development of energy prices and security of supply: Tasks to be handled by companies such as RWE are not limited to managing risks associated with increasingly volatile electricity and gas prices. They also include ensuring the physical availability of electricity and gas in Europe. The Russian-Ukrainian gas dispute and tight supply in numerous European electricity markets underscore the importance of this topic.
- Climate protection: The European Union's greenhouse gas reduction target of 20% by 2020 will lead to a significant expansion of Europe's renewable energy base. At the same time, the resolutions passed by the EU in the December 2008 climate package will have an effect on both the future energy mix and the competitive situation.
- Political intervention: Policymakers are increasingly influencing pricing policy and investment decisions made by the energy industry, in some cases contradicting the EU goal of liberalizing the energy market. The main topics besides climate protection are the promotion of renewable energy, the German nuclear phase-out, and political intervention in end-customer prices. This is rounded off with the regulation of electricity and gas grids.
- Consolidation: Europe's energy market is increasingly converging. This is resulting in the formation of a "premier league" of European companies, including RWE. Critical mass is important not only from a cost perspective. Energy has become a global issue where size is a decisive differentiating factor.

- Market convergence: One way in which energy markets are becoming intertwined is through cross-border trade and denser logistical networks. In addition, the markets for primary energy—particulary electricity and gas—are growing closer together. Many energy companies are now active in both markets, not least as the result of acquisitions.
- Competition and deregulation: Competition is becoming fiercer across all parts of the value chain—from energy generation to the sale of electricity and gas. Willingness to switch suppliers is rising in the end-customer business.
- Fluctuating margins along the value chain: Differing developments in sub-markets—primarily in generation and supply—and regulatory intervention give rise to the expectation that margins in individual parts of the value chain will continue to change significantly in the future. Vertically integrated companies which cover the entire value chain have a clear competitive advantage.

Our strength: leading positions in key EU markets, good foothold in growth markets. An environment posing such challenges also offers outstanding opportunities to strong, well-aligned market participants such as RWE. In terms of sales, we hold a leading market position with at least one of our main products (electricity and gas) in our core markets. We strive to achieve leading market positions when we tap new markets.

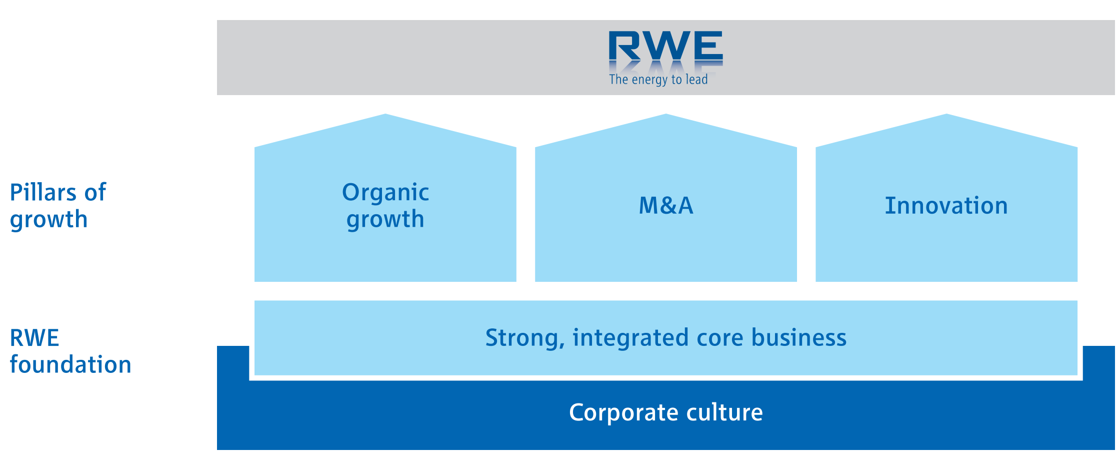
Market positions of the RWE Group – in terms of sales –	Electricity	Gas
Germany	No. 2	No. 3
UK	No. 4	No. 4
Eastern Europe	No. 2 in Hungary No. 3 in Slovakia Active in Poland	No. 1 in the Czech Republic Leading position in Hungary Active in Slovakia
Total Europe	No. 3	No. 6

Our expertise in the construction and operation of power plants and grids is world-renowned. Via RWE Supply & Trading, we occupy one of the leading positions in European energy trading and optimize the commercial operation of our assets (e.g. power stations) from a single source. We have vertically integrated positions along the value chain in Germany and the UK, our key markets. Long-term partnerships with municipalities and industrial key accounts make us more competitive. Our fast-growing, regionally diversified gas production improves our position in gas procurement. Our high cash flows and solid balance sheet give us a robust financial foundation for achieving future growth.

RWE's integrated business model: stability even in volatile markets. Our operations are vertically integrated, i.e. we cover all of the major elements of the energy chain. In the electricity business, for example, we are not just a producer, but a trader, grid operator and supply company as well. Our vertical alignment affords us greater flexibility in offsetting market fluctuations at the individual stages of the value chain. Thanks to our horizontal integration, e.g. the sale of electricity and gas via one regional energy company, we achieve additional synergies.

Our strategic principles. Our aim is to expand our electricity and gas business while reducing CO_2 emissions. We can take advantage of the current market environment to do so: The global recession provides opportunities to financially strong companies with a robust foundation such as RWE. But we must think and plan far beyond this. Therefore, the medium-term operating targets that we set ourselves within the scope of the Strategy Agenda 2012 are also oriented to long-term goals. The following is a summary of our strategy's cornerstones:

- We have a team- and performance-oriented corporate culture.
- Our strong, integrated business, which delivers substantial and stable value, is the foundation for both our current and future success.
- We want to grow organically wherever we can leverage our competitive advantages to achieve strong earnings.
- Value-added acquisitions are to contribute to our growth in target markets.
- Innovative technologies, business models and products set the stage for our long-term operational success.



To this end, we always draw on two established strengths: first, our long experience in achieving and safeguarding operating excellence in products and assets. This entails a continuous process of improvement along the value chain. It goes beyond cutting costs: More efficient processes and structures enable us to optimize the use of our financial and human resources. In turn, this translates into competitive advantages which add value and therefore secure our investment power and jobs. Second, we focus our business on markets which are close to us: Our market is Europe—primarily North West, Central and Eastern Europe. This is where we feel at home, this is where political and regulatory frameworks are largely comparable, and this is where we derive an advantage from regional synergies.

We are and will remain a European, asset-backed electricity and gas company. And we are always aware of the fact that energy supply is not only a microeconomic challenge, but also brings with it significant macroeconomic and social responsibilities. This means we have to ensure our customers are served in an economic, safe and environmentally friendly manner. Only if all three requirements are met can we remain successful over the long term.

"More growth, less CO_2"—the Strategy Agenda 2012. Last year, we presented our roadmap for RWE's medium-term development: the Strategy Agenda 2012. It focuses on profitable growth and reducing CO_2 emissions, aiming to continue adding value. We are pursuing six goals, which we intend to achieve by 2012:

- Earnings growth in our core markets: Our focus is directed especially to markets which are most important to RWE at present: Germany and the UK.
- Stronger regional diversification: We want the share of earnings achieved by our activities outside Germany to increase to between 40 and 50%. In fiscal 2008, it was 27%.
- Value-added growth by expanding the renewable energy business: We want to enlarge our renewable generation base to 4.5 GW. This would be more than three times its current level.
- Improved emissions balance: We plan to reduce CO_2 emissions substantially. Our target for 2012 is 20% less than the current level. This excludes the impact of growth investments on our emissions balance.
- Expansion of our midstream gas position: We intend to increase our purchasing volume from 40 to 60 billion cubic metres a year.
- Strengthening of our upstream position: We want to increase annual gas and oil production to about 12 million cubic metres of oil equivalent by 2012/2013. In gas terms, this corresponds to roughly 12 billion cubic metres. This would be twice as much as in the financial year just ended.

In our pursuit of these goals, we want to make all our business processes more efficient and reduce costs. In August 2008, we more than doubled our target of improving earnings from €600 million by 2010 to €1.2 billion. The reference year is 2006. We aim to achieve the new target figure by the end of 2012.

Furthermore, we are rolling out a comprehensive investment programme. We must make investments today to secure our market share tomorrow. Only by doing so will we continue to earn stable and attractive returns in the future. Our power plant and grid activities and—to an increasing degree—our renewables-based electricity generation business are pivotal to this accomplishment. In addition, we are rigorously expanding our gas business. The construction of new gas storage facilities and pipelines, of which the Asian-European Nabucco pipeline is the most prominent example, and the liquefied natural gas (LNG) business are further projects. In total, our budget for capital expenditure on property, plant and equipment for this and the next three years amounts to €6.5 billion per annum.

We constantly evaluate options available to expand our existing portfolio through acquisitions. However, we only consider acquisitions if they meet our financial criteria. The most important yardstick is the internal rate of return (IRR), which must at least equal the cost of capital plus an additional return. After the planned acquisition of Dutch-based energy utility Essent (see page 58), we will initially focus on the company's integration. However, smaller-scale acquisitions are still conceivable.

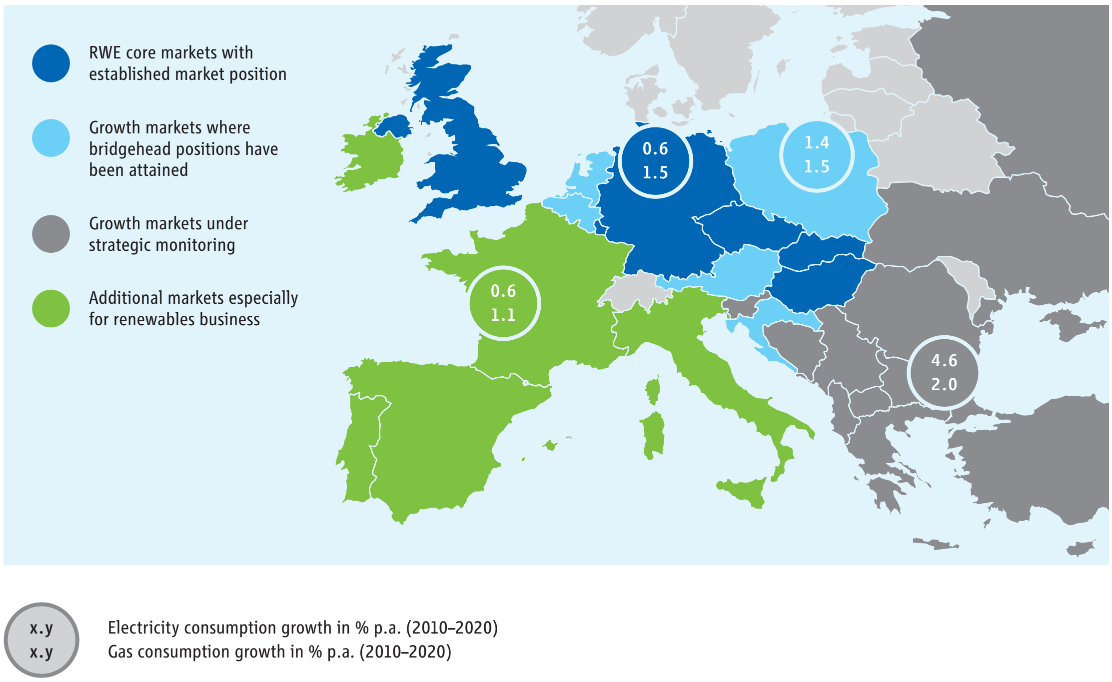
Our strategy's focus: reducing CO_2 emissions. Our goal is to reduce our annual shortage of CO_2 allowances considerably through avoidance measures. We have identified more than 30 million metric tons in potential reductions by 2012 and slightly less than 60 million metric tons by 2015 versus 2008. These figures are based on the current size of RWE's power plant portfolio. Growth investments have not been factored in. This corresponds to a decline of 20% by 2012 and more than 30% by 2015, compared to the RWE Group's CO_2 emissions in 2008 (172 million metric tons).

A key element of our strategy is to take part in climate-protection projects within the scope of the Kyoto "Clean Development Mechanism" (CDM) and "Joint Implementation" (JI) mechanism. Companies which participate in the emissions trading scheme can meet their emissions obligations with certificates obtained from these types of measures at lower cost. However, the EU has set caps limiting their use. The allowable amount for our plants is about 100 million metric tons of CO_2. Further key elements of our CO_2 strategy are the reduction of emissions through the modernization of our power plant portfolio and the expansion of our renewable energy base. We also want to step up the use of combined heat and power generation. In addition, we plan to build one of the world's first large-scale coal-fired power plants featuring carbon capture and underground storage if we can count on state subsidies.

Political decisions in the field of energy policy have a significant impact on the options available to the RWE Group to reduce CO_2 emissions sustainably. The most effective and affordable way to avoid emissions is to extend the lifetimes of nuclear power plants. Nuclear power generation emits practically no carbon dioxide, and if nuclear power stations are shut down, they will have to be replaced by higher-emission fossil fuel-fired power plants. This is because renewables-based facilities are not capable of generating the same amounts of base-load power. We could prevent up to an additional 15 million metric tons of CO_2 emissions per year merely by extending the lifetimes of our two Biblis units.

Our regional strategy. We focus our strategy on Germany—our largest market—as well as on the UK, the Benelux countries, Central and South Eastern Europe, Turkey and Russia.

- Germany: Modernizing our power plant portfolio remains our top priority. But we will wait for the EU resolutions concerning the December 2008 climate package (see page 49) to be translated into national law. It seems likely that lignite and hard coal-fired generation will be disadvantaged. We will step up our electricity generation from renewables considerably. At the same time, we are strengthening our competitive position in the end-customer business with new products (e.g., fixed-price, three-year contracts) and new sales channels (e.g., on the Internet through our subsidiary eprimo).
- UK: In addition to the end-customer business, our focus in this market lies on increasing our share of the generation market. This market is highly attractive to operators of modern power plants and RWE npower has a strong supply position. New combined cycle gas turbine power stations with low CO_2 emissions, offshore wind farms and—in the long term—nuclear power plants are the focal points.
- Benelux: So far, our activities in the Netherlands have aimed to achieve a strong, organically grown market position in the end-customer business and to build generation capacity. The planned acquisition of the energy utility Essent, which also operates its own power plants, will help us make considerable progress in both these areas.
- Central and South Eastern Europe: Our objective in this region is to build a well-balanced, low CO_2-emitting generation portfolio. In Central Eastern Europe, we also concentrate on optimizing the grid business, increasing gas storage capacity, and expanding sales.
- Turkey and Russia: These fast-growing markets provide opportunities at various stages of the electricity value chain. In Turkey, this also applies to the gas business. In addition to organic growth, the Turkish government's privatization plans will be decisive for the market's continued development. In principle, the Russian market is also attractive to RWE. However, we will take particular care to weigh the opportunities and risks in this country.



Value-oriented growth: the internal controlling system. Our central controlling instrument is "value added." Therefore, the goal to create long-term value is anchored in the Group's management processes. Value added is calculated by taking each division's return on capital employed and subtracting from it the cost of capital. Another important means of improving value added, besides increasing the operating result, is the optimization of asset intensity. The effective management of capital expenditure is key to achieving success in this area. A further lever is working capital. Here, we focus on controlling trade accounts receivable and payable and on decreasing inventories. Value added, in addition to individually agreed goals, is a yardstick for determining the performance-linked compensation of our executives and salaried employees. For details on value management at RWE, please turn to pages 74/75 and 221/222.

The RWE Group's structure: a mirror of the value chain. The strategy outlined above is put into practice by six divisions overseeing operations.

	Upstream (Generation)			Gas Midstream (Commercial Optimization of Procurement, Transport and Storage and Energy) and Trading	Supra-regional and Regional Electricity and Gas Grids	Electricity and Gas Supply
	Power Generation	Renewable Energy	Gas and Oil Production			
Continental Europe	RWE Power	RWE Innogy	RWE Dea	RWE Supply & Trading	RWE Energy	
UK	RWE npower					RWE npower

- RWE Power encompasses our Continental European power generation activities (with the exception of energy from renewables), including lignite mining. In 2008, the company had access to an installed capacity of about 33 gigawatts (GW). In addition to the further modernization of its German power plants, RWE Power is conducting a large number of growth projects in Eastern Europe and the Netherlands.
- RWE Innogy has been in charge of all our renewable activities since February 2008. The division focuses on wind, hydropower and biomass and already has an installed capacity of 1.2 GW. RWE Innogy plans to raise this to 4.5 GW by 2012, and will invest an average of over €1 billion per annum for this purpose.
- RWE Dea produces oil and gas in and outside Europe. Its regional points of focus are Germany, the UK, Norway and North Africa. Furthermore, the company is working on establishing upstream positions in the Black Sea and in the Caspian region. As a result, we will secure a growing share of the Group's gas sales with in-house production.
- RWE Supply & Trading was created in 2008 by combining RWE Gas Midstream and RWE Trading. The company is responsible for the commercial optimization of all our non-regulated midstream gas activities. These consist of the purchase, transmission and storage of gas as well as the LNG business. In addition, as Europe's largest energy trader, the company is our hub for tradable commodities such as electricity, gas, coal, oil, and CO_2 emissions certificates. RWE Supply & Trading was put in charge of our key account sales business (RWE Key Account) in 2009.
- RWE Energy is our supply and grid company for Continental Europe and supplies our customers in this region with electricity, gas, water and energy services. Six integrated regional companies operate under this division in Germany, with another six active in our other Continental European markets. Supra-regional electricity and gas grid operations are grouped under legally independent companies. In the future, we will assign the German electricity transmission business directly to RWE AG (see page 59).

- RWE npower is responsible for power generation (with the exception of energy from renewables) as well as electricity and gas supply in the UK. The company already has an installed capacity of roughly 10 GW and intends to continue growing. It plans to build gas-fired power stations with a combined installed capacity of 3.7 GW. Moreover, we are looking into participating in nuclear power plant new build projects in the UK.

RWE IT GmbH and RWE Service GmbH render these six divisions a variety of support services. RWE AG is the RWE Group's management holding company, which carries out corporate tasks such as Group strategy, mergers & acquisitions, research & development, finance, controlling, executive development and communications.

Our guiding principle: "The energy to lead." Growth provides stimulus. But growth needs stimulus as well. We revamped our appearance in the market in order to explain our strategy and ambition in daily communications to our employees, customers, shareholders and the public at large. The "voRWEg gehen" logo (outside Germany: "The energy to lead") stands for this realignment: RWE is a forward-thinking and forward-acting organization. RWE is responsible. And RWE is innovative.

1.2 ECONOMIC ENVIRONMENT

Fiscal 2008 was a year of contrasts. The economy's good start was followed by one of the biggest financial and economic crises in the post-war era. Developments on commodity markets could not have varied more, either: Oil and hard coal prices reached successive record highs before going into a rapid downward spiral from the middle of the year. This was reflected in the price of electricity. However, the major price swings on the energy exchanges did not have a major impact on our 2008 earnings: We sold forward our generation in prior years and secured fuel costs early on.

Crisis on financial markets dampens global economy. The deepening of the financial market crisis had already significantly affected the economy in 2008. World economic growth dropped from 3.7% (2007) to an estimated 2%. All leading industrialized countries experienced massive economic collapse by year-end. Economic output in these countries has declined recently. Emerging countries continued to increase their economic performance, albeit with waning momentum.

Real gross domestic product (GDP) in the Eurozone was 0.7% up year on year. Germany posted a gain of 1.3%. Following a strong first quarter, industrial production increasingly suffered from the weakening economy. The euro's gain on the US dollar had an adverse effect on exports, which rose nevertheless. Despite declining capacity utilization, corporate investment in property, plant and equipment matched the growth rate witnessed in 2007. Consumption was flat, despite higher wages and a temporary improvement in the labour market.

Growth recorded in the UK, our second key market, was similar to that of the Eurozone, estimated at 0.7%. Falling orders and corporate spending on property, plant and equipment, coupled with a marked decline in construction, characterized the economic situation. Since the UK real estate market is in the middle of a serious crisis, many households saw their assets substantially devalued. This had a negative effect on consumer behaviour. Despite counteracting measures such as tax cuts and reductions in interest rates by the central bank, the situation remained tense.

The countries of Central Eastern Europe expanded at a fast pace and had strong currencies until the middle of the year, but their situation also deteriorated considerably in the second half of the year. However, the economic output for the region as a whole was still some 5% higher than the previous year's level. Estimates have Poland recording 4.9% growth, the Czech Republic 4.1% and Slovakia 6.7%. The employment situation in these countries remained favourable. Robust demand for investment and exports also supported these economies. Much weaker developments were displayed by the Hungarian economy. It only grew by an estimated 1%, largely driven by higher state spending.

Weather colder year on year. While the economic trend is primarily reflected in demand for energy from industrial enterprises, energy consumption by private households is largely affected by weather conditions. This is because temperature drives demand for domestic heating. In Germany, the Benelux countries and the UK, the weather was cooler overall compared to 2007, whereas it was slightly milder in Central Eastern Europe. Weather conditions affect both energy consumption and the supply of electricity, above all from wind turbines. In 2008, it was marginally less windy in Germany compared to the long-term average.

Energy consumption varied substantially across regions. The economy's good start and the increase in demand for domestic heating in certain regions stimulated demand for energy on our core markets. In the second half of the year, however, weakening industrial production was already having a negative impact. Due to these mutually opposing effects, electricity consumption stagnated in Germany, whereas it was down an estimated 0.5% in the UK. In contrast, electricity demand in our Central Eastern European markets posted a marginal increase, growing by an estimated 1.5% in Hungary and Slovakia and 0.5% in Poland. Gas consumption was up 1% in Germany. The cooler weather and increased use of gas to generate electricity were the drivers. In the UK, the same factors resulted in a gain of 5%. Gas consumption in the Czech Republic and Hungary recorded slight growth.

Crude oil prices on roller coaster ride. International commodity markets displayed two entirely different developments in 2008: They were more bullish than ever in the first half of the year. This was followed by an even stronger bearish trend in the second six months. Price swings were especially pronounced on international crude oil markets. Quotations for a barrel of North Sea Brent, which stood at US$97 at the beginning of 2008, climbed to records exceeding US$140 in early July, before falling to US$37 by the end of December, far below their starting point. The average price paid for a barrel of Brent crude in the period under review was US$97, which was a third more than in 2007. The huge jump in crude oil prices in the first six months of 2008 was due to increasing demand from newly industrializing countries such as India and China. Furthermore, political tension such as over Iran's nuclear programme led to fears about adequate supply. Increased speculative cash investments in raw materials also contributed to the rise in prices. The dramatic collapse of oil prices in the second half of the year is a result of the economic cool-down and the ensuing drop in demand for crude oil.

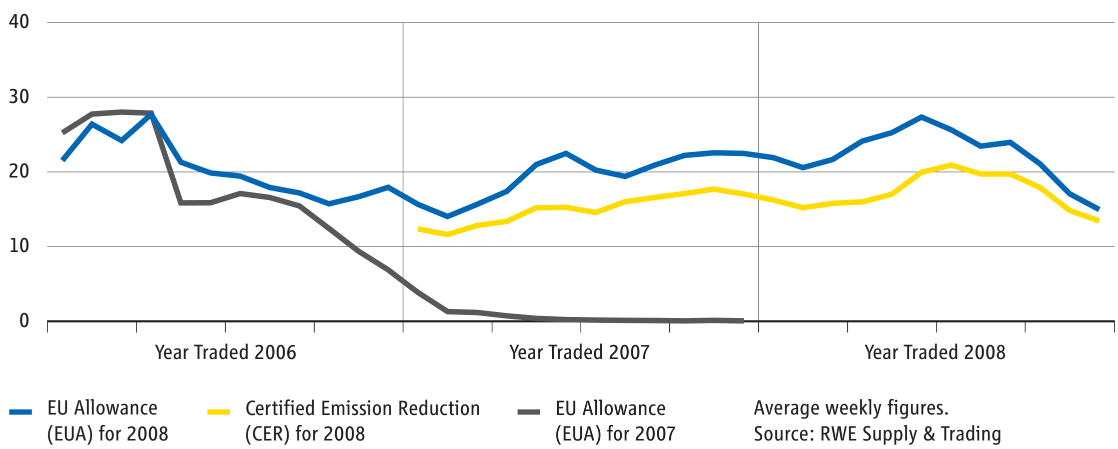
Gas prices much higher than previous year due to oil price trend. European gas prices track developments on the oil market. However, this normally happens with a lag. Gas imports to Germany were 36% more expensive than in 2007. Changes in import prices are passed through to end customers with a delay too. Therefore, the average gas bill paid by industrial customers was only 18% higher year on year. It was up 9% for households and small commercial enterprises. In the Czech Republic, our second-largest gas market, end-customer prices were adjusted sooner. Tariffs rose 30% for industrial customers and 22% for household and commercial customers. Quotations on the UK gas spot market more than doubled compared to the previous year. In addition to the influence of the price of oil, the significant rise in demand also played a role. According to preliminary surveys, UK industrial and commercial customers paid approximately 50% more than in 2007. Price adjustments in this customer segment are made much earlier than in the residential retail business, which saw gas prices increase by an estimated 23%. On the Hungarian market, gas prices advanced by 15% for industrial companies and 16% for households.

Hard coal prices: summer record high followed by substantial fall. International hard coal markets followed a price curve similar to the one for crude oil, but the range within which it fluctuated was marginally smaller. In Rotterdam spot trading, the price for a metric ton of power plant coal rose from US$125 (including freight and insurance) at the beginning of the year to its peak of US$225 in July—an all-time high. Strong demand for raw materials from Asia and transport bottlenecks in Australia and South Africa, both of which are supplier countries, characterized this phase. Subsequently, prices collapsed dramatically when the financial crisis came to a head. At the end of the year, the price for a metric ton of hard coal hovered around the 80-dollar mark—in part because sea freight rates spiralled downward. By year-end, they were less than a tenth of their all-time high recorded in June when the standard route from South Africa to Rotterdam cost up to US$64 per metric ton. As a result of the economic slowdown, numerous ocean freighters were left without a payload.

Despite the most recent decline in prices, hard coal quotations averaged for the year were much higher than in 2007. In Rotterdam spot trading, the average price for 2008 was US$148, compared with US$89 a year earlier. German hard coal prices are determined by the German Federal Office of Economics and Export Control (BAFA). Since they are linked to the price of imported hard coal, they track developments on international markets, albeit with a slight lag. No BAFA figures were available for the full year when this report went to print. According to official data, the BAFA price for the first three quarters amounted to €110 per metric ton of hard coal unit. €135 is the estimate for the fourth quarter. On this basis, the BAFA price for the year as a whole would exceed the 2007 level (€68) by more than two thirds.

CO_2 emissions trading: certificate prices much higher year on year. The second period of the European CO_2 emissions allowance trading scheme began on January 1, 2008, and will last until the end of 2012. Framework conditions are much less favourable for power producers, compared with the first trading period from 2005 to 2007. In the past, the number of allowances allocated by the state exceeded overall actual emissions originating from the plants participating in the EU emissions trading scheme. This stopped being the case in 2008, since the national allocation plans for the second trading period envisage reductions in state allocations, some of which are substantial. As a result, many utilities will have to obtain a great number of certificates.

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

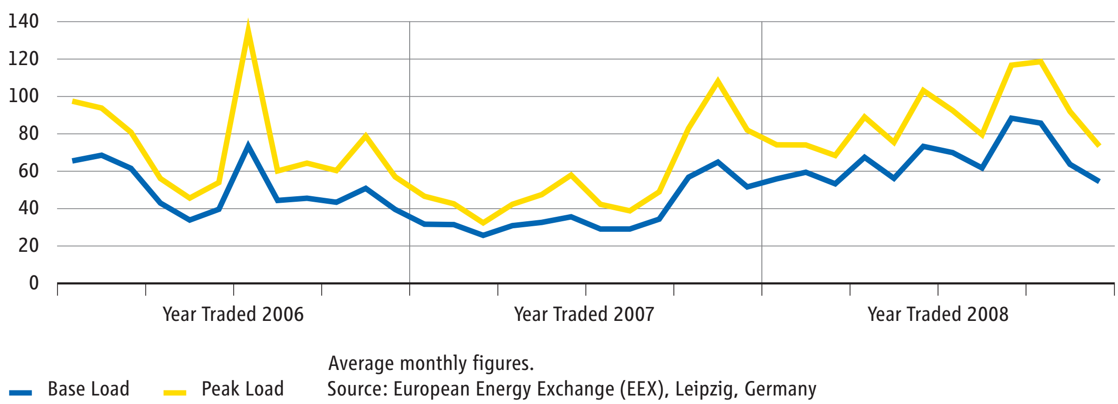


Average weekly figures.
Source: RWE Supply & Trading

The anticipated scarcity of available emissions allowances compared to the first trading period is reflected in their market price. Whereas certificates for 2007 traded at just a few euro cents per metric ton of CO_2 at the end of the first trading period, certificates for 2008 sold for an average of €22 in the period under review. It is important to note here that surplus emissions allowances could not be carried over from the first to the second trading period. An increasing number of Certified Emission Reductions (CERs) are currently being generated. These are certificates obtained from emissions reductions achieved in developing and newly industrializing countries within the scope of the Clean Development Mechanism. European companies may cover domestic emissions up to a predetermined level by submitting CERs. The advantage is that the costs for these types of certificates are usually lower than the market prices of state-allocated emissions allowances. Last year, 2008 CERs traded at an average of €17 per metric ton of CO_2.

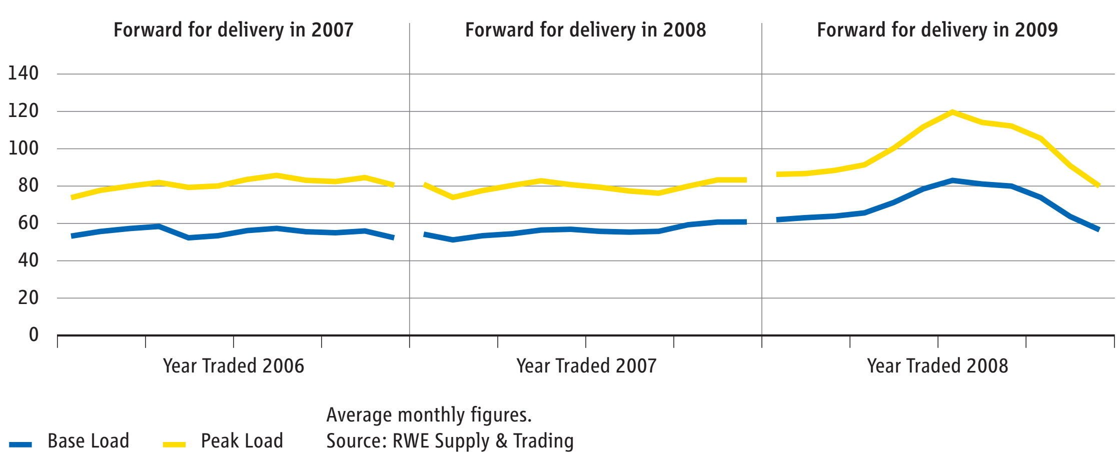
European electricity markets: year-average prices much higher than in 2007. The development of prices for fuel and emissions certificates had a big effect on Europe's wholesale electricity markets. In spot trading on the European Energy Exchange (EEX) in Leipzig, Germany, baseload contracts were concluded at an average of €66 per megawatt hour (MWh) in 2008. This was much more than in 2007 (€38). Peak-load electricity rose in price from €56 to €88. Among other things, the quotations reflected the significant difference in the cost of emissions certificates for 2007 versus 2008. Prices in German electricity forward trading were up year on year as well, albeit not as much as on the spot market. In 2008, contracts for the coming calendar year (2009 forwards) sold for an average of €70 per MWh for base-load power and €99 per MWh for peak-load power. In comparison, the 2008 forwards cost €56 and €79 on average, respectively, in 2007. Forward prices were influenced above all by the development of hard coal and gas prices. This explains why there were differences between the first and the second half of the year: The price of the 2009 base-load forward rose from €62 per MWh at the beginning of the year, to a record of €90 (July 1), before falling back to €56 by the end of 2008.

Development of wholesale electricity spot prices in Germany in €/MWh



Average monthly figures.
Source: European Energy Exchange (EEX), Leipzig, Germany

Development of one year forward wholesale electricity prices in Germany in €/MWh



Average monthly figures.
Source: RWE Supply & Trading

We sell forward nearly all our in-house electricity generation output in order to reduce volumes and price risks. Therefore, electricity prices witnessed in the period under review only had a minor impact on our income in 2008. What was much more decisive was the price at which we concluded contracts for delivery in 2008 in preceding years. Our sales of 2008 generation fetched an average price of €58 per MWh in Germany. This was substantially more than the comparable figure a year earlier. We had sold our production for 2007 at an average of €47 per MWh.

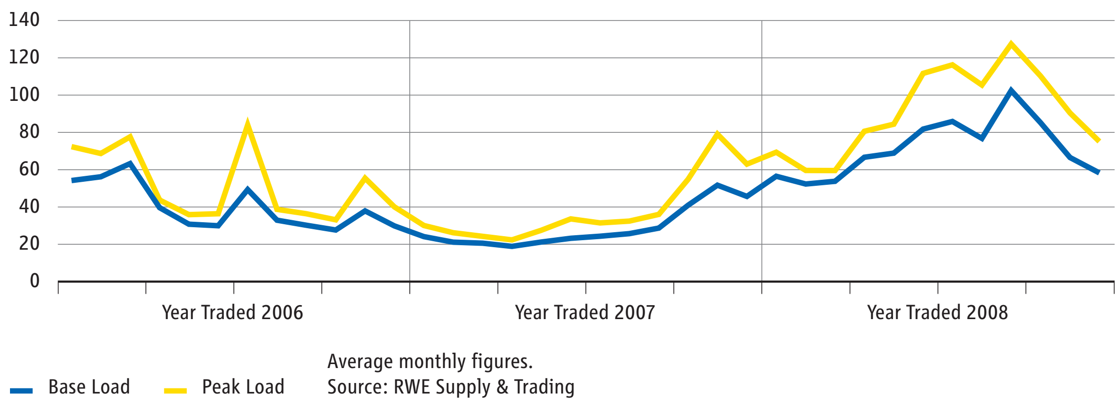
The rise in electricity prices also had a positive effect on our earnings. This applies primarily to our lignite and nuclear power plants, since the general rise in commodity prices did not add to costs substantially: We produce lignite ourselves, and fuel costs account for a relatively small portion of total costs in nuclear power generation. Our hard coal and gas power stations face a different situation. Their earnings development is predominantly influenced by so-called clean dark spreads (hard coal) and clean spark spreads (gas). These are calculated by deducting the costs for the respective fuel and CO_2 certificates from the market price of electricity. Overall, the situation on the German market was less favourable for our hard coal power plants, whereas for our gas power stations, it was better than in 2007.

The trend in electricity prices for end customers and distributors in Germany reflects the rising prices on the wholesale market. Most of the power utilities had to lift tariffs due to the increase in electricity procurement costs. In 2008, prices paid by households and small commercial operations were up an average of 5 % year on year. Industrial enterprises had to pay around 13 % more. For deliveries to this customer group, the share of electricity procurement costs in the total price is especially high.

UK wholesale electricity prices were also markedly up year on year. In 2008, a megawatt hour of base-load power sold for an average of £71 (€89) on the spot market. This is more than double the figure for 2007, which was £29 (€43). Peak-load power increased in price from £39 (€57) to £91 (€114). Electricity prices were significantly higher than those in Germany because in the UK, gas-fired power plants, which typically have high variable costs, account for a larger share of generation capacity, and therefore have a stronger influence on the formation of electricity prices. Prices on the UK electricity forward market climbed as well. In 2008, the contract for the 2009 calendar year traded at an average of £68 (€85) per MWh of base-load power. This is 66 % more than the cost of the 2008 forward a year earlier. The peak-load forward price advanced by 58 % to £82 (€101).

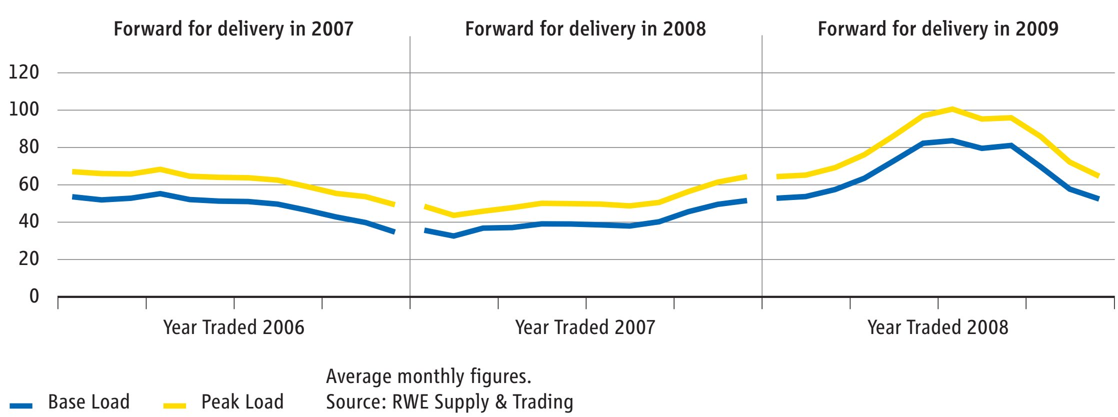
RWE sells forward most of its UK production, similar to the policy it pursues in Germany. Prices realized for generation sold by RWE npower in 2008 are therefore determined by the wholesale market's development in preceding years. However, the level of electricity prices realized is of limited value in assessing its earnings. This is because our UK generation portfolio differs from our German one in that the former largely consists of hard coal and gas power stations, the fuel costs of which are exposed to substantial market fluctuations. The clean dark spreads and the clean spark spreads commented on earlier in this report are the main determinant of RWE npower's earnings trend.

Development of wholesale electricity spot prices in the UK in £/MWh



Average monthly figures.
Source: RWE Supply & Trading

Development of one year forward wholesale electricity prices in the UK in £/MWh



Average monthly figures.
Source: RWE Supply & Trading

Electricity tariffs in the UK end-customer business rose to a much lesser extent than spot prices on the wholesale market. Electricity purchases by industrial and commercial customers were an average of 20 % more expensive than in 2007. The price increase in the household and small commercial enterprise segment was 17 %.

The price of electricity rose on our markets in Central Eastern Europe as well. Households in Slovakia were charged 3 % more year on year. Electricity bills for this customer group in Poland and Hungary were up more, rising by 14 % and 19 %, respectively. In some instances price increases for industrial enterprises were higher still, amounting to 10 % in Slovakia, 21 % in Hungary and 23 % in Poland.

1.3 POLITICAL ENVIRONMENT

The political environment is key to our business. Last year, climate protection topped the agenda in Brussels, Berlin and London. Centre stage was taken by the details of the European CO_2 emissions trading scheme for the period from 2013 to 2020. There was activity at the national level as well—above all in Germany, where the legislator set the stage for stepping up the use of renewable energy. In the UK, our second largest market, the government launched a new programme to reduce emissions which obliges energy companies to promote energy-saving measures in homes.

European Parliament adopts climate-protection package for the period from 2013 to 2020. On December 17, 2008, the European Parliament approved an "Energy and Climate Package" by a large majority vote. It includes guidelines for emissions trading after 2012 and the expansion of the renewable generation base. In addition, a legal framework was created for the capture, transportation and storage of carbon dioxide (Carbon Capture & Storage—CCS for short) produced by fossil fuel-fired power plants.

According to the emissions trading directive, generators will stop receiving free emissions allowances from the government from 2013. Instead, all of the certificates for these companies will be auctioned. However, existing power plants in several Eastern European countries will gradually transition to full auctioning. A maximum of 15% of the investment costs of new highly efficient power stations may be subsidized by EU member states between 2013 and 2016. CCS demonstration plants and innovative ways of generating electricity from renewables shall also receive subsidies. Funds to the equivalent of 300 million tons of CO_2 are envisaged. Assuming a certificate price of €20 per metric ton of CO_2, this represents a total subsidy of about €6 billion. The rules governing the major parameters for the future use of Kyoto's flexible "Clean Development Mechanism" and "Joint Implementation" (CDM/JI) are yet to be defined at the European level. The scope for earning emissions credits from international climate-protection projects is expected to be much more limited in the third trading period. The CDM/JI usage rules will be designed to ensure that these climate-protection tools primarily benefit companies which made only little use of them in the second trading period ending in 2012. Therefore, it is likely that companies such as RWE, which play a pioneering role in international climate-protection projects, will be negatively affected.

The EU's goal is to increase the share of final electricity consumption accounted for by renewable energy to 20% by 2020. Every member state is obliged to make a contribution to achieving this objective. Germany, for instance, will have to increase its share from 9.8% (2007) to 18%. The member states will retain the authority to make decisions on the respective support programmes. The scope of the national promotion schemes will therefore be protected. At the same time, the EU allows one country to integrate the support mechanisms of another country into its domestic programme in order to improve cost efficiency.

Based on our estimates, the resolution in favour of the full auctioning of emissions certificates for power utilities passed by the European Parliament, and the limited use of CDM/JI, will weaken the German energy industry. Full auctioning is predominantly to the detriment of electricity generation based on coal, our most important domestic energy source. Utilities in countries in which nuclear energy accounts for a substantial proportion of the generation mix, e.g., France (80%) will only have to buy few certificates. The same applies to utilities with a high share of hydro power in their generation portfolio, e.g., in Scandinavia and the Alpine region. The EU is thus distorting competition in the single European market for electricity. In addition, Eastern European producers of coal-based power will receive preferential treatment through free certificate allocations. As a result, German coal power plants will suffer substantial competitive disadvantages. Subsidy for new power stations is an option that is at the discretion of the individual member states. It remains to be seen whether and by which means RWE will benefit from it.

We welcome the rules for the promotion of CCS power plants. However, the planned subsidy is unlikely to be sufficient to realize the ten to twelve demonstration plants envisaged by the EU. This will require further subsidies from the member states. The “just geographical distribution” of the projects called for by the EU and the subsidization of renewable energy using the same budget may limit the latitude for the construction of CCS power stations in Germany.

Amendment to the German Renewable Energy Act. In June 2008, the German Lower House adopted an amendment to the German Renewable Energy Act (EEG). The new EEG entered into force on January 1, 2009. The German government aims to increase the share of electricity generation accounted for by renewables from its current level of about 15% to at least 30% by 2020. The amended EEG envisages adapted rates of compensation for the various sources of energy. In addition, it creates an improved legal basis for promoting offshore wind power, replacing old wind turbines with more productive ones (repowering) and integrating renewables-based electricity generation into the grid. The amendment to the EEG will stimulate further investment—especially in offshore wind projects—and is therefore laudable. But it does not include additional incentives to increase the cost efficiency of individual technologies.

We regret that certain directives envisaged by the Act have not been implemented yet, although the amended EEG has already come into force. This applies, among other things, to the envisaged facilitation of the direct marketing of electricity produced from renewables by plant operators or resellers commissioned by them, which is expected to provide further major stimulus for long-term market integration. We hope that the directives will be submitted in the current legislative period and approved by the German Lower House. The impending adoption of the German law for the acceleration of the construction of ultra high-voltage networks is just as important for the expansion of the existing grid infrastructure in order to achieve the federal government’s goals in a timely manner.

EU in favour of ownership unbundling in the transmission grid business. On October 10, 2008, Europe's energy ministers adopted the "Third Liberalization Package," putting an end to the years of heated debate on new rules for the European gas and electricity market. The final adoption of the package is subject to the approval of the European Parliament, which is expected in the first half of 2009.

In September 2007, the Commission presented a total of five ordinances and directives to strengthen the single European market. A large number of the Commission's proposals gained widespread approval. Conversely, the call for the unbundling of the ownership of electricity and gas transmission grids from other areas of business activity by energy utilities triggered a heated debate. A group of ten member states, including Germany and France, rejected this demand, alleging that it was unreasonable. As a compromise, the group suggested the establishment of an independent transmission operator, which would strengthen the autonomy of a transmission system operator within an integrated energy company.

RWE welcomes the "Third Liberalization Package" as a step towards a functioning single European energy market. We believe that the independent transmission operator model is a workable solution for effectively separating regulated grid operations from business areas subject to free competition.

UK government introduces new programme for reducing emissions. The "Carbon Emissions Reduction Target" (CERT) programme came into force on April 1, 2008. It replaces the "Energy Efficiency Commitment" (EEC) programme which was introduced in 2002 and aims to decrease CO_2 emissions from homes. CERT is designed to achieve a total CO_2 reduction of 154 million metric tons. UK energy companies have three years to take appropriate measures. These include cavity wall insulation, energy-efficient boilers and electrical appliances as well as energy-saving light bulbs. At least 40% of these measures must be aimed at low-income homes. UK energy companies are expected to have to spend a total of £2.8 billion.

CERT was expanded by the UK government on September 11, 2008, and the target for reducing CO_2 was raised by 20% to 185 million metric tons. This is expected to result in a further cost of around £560 million to the energy sector. Furthermore, the government announced the "Community Energy Saving Programme" (CESP), which also involves pure generation companies. Under the CESP, energy companies will work with communities and charitable organizations to offer assistance to customers in the most deprived areas of the UK. The government is currently discussing the programme with the energy industry. The way in which help will be offered remains to be clarified. Resulting costs for energy sector are an estimated £350 million.

Incentive-based regulation provides a framework for the German grid business. Incentive-based regulation was introduced for Germany's electricity and gas grids in 2009. The gas transmission network is exempt from this until year-end. Incentive-based regulation decouples approved grid fees from actual costs. Prior to its introduction, the competent authorities verified the grid operators' efficiency. Some companies were classified by the regulator as 100% efficient. Lower-ranked companies have to achieve 100% within two regulatory periods. The regulatory periods each last five years for the electricity grid. The first regulatory period for the gas grid is shorter. The regulator also requires all grid companies to achieve general efficiency improvements. The mandated rate of improvement is 1.25% per annum in the first regulatory period and 1.5% per annum in the second one. We consider the required efficiency enhancements to be ambitious. However, the RWE Group's grid companies are already relatively efficient compared to their peers. Several of the incentive-based regulation's major details have not yet been clarified. They mainly relate to full reimbursement of certain costs (e.g., procurement of balancing power and offsetting of grid losses), a reasonable return on debt, and the approval of budgets for big investment projects.

1.4 MAJOR EVENTS

The IPO of American Water nearly completed our shift in focus to energy—our core business—in the year under review. Fiscal 2008 was characterized by the implementation of our growth strategy. We passed major milestones en route to expanding and modernizing our power plants. We also made rapid progress in the expansion of our renewable electricity generation base. We initiated our biggest growth step at the beginning of 2009: By making a takeover offer for Dutch-based energy utility Essent, we aim to achieve a leading position in the Benelux market.

IPO of American Water. In April 2008, RWE sold 58 million shares in American Water on the New York Stock Exchange at a price of US$21.50 per share. Trading commenced on April 23, 2008. The placement represented 36.25% of the shares in the US water utility. The underwriters of the IPO partially exercised the "greenshoe option," which allowed them to purchase additional shares. This increased the size of the offering to 63.17 million shares, or 39.5%. RWE's total proceeds from the initial public offering amounted to about US$1.3 billion. Since the issue price was below the shares' carrying amount, we recognized a capital loss. In addition, we had to make a downward adjustment to the value of our remaining stake in American Water. These two facts had an adverse effect on our net income (see page 77). Due to the unexpected intensification of the financial market crisis, we did not conduct a further placement to divest the majority of the shares in the company by the end of 2008. But we still intend to sell our holding in American Water in full. The delay of the sale of American Water does not affect our dividend proposal for fiscal 2008, which anticipates an increased payout ratio of 71% of recurrent net income. This is far above our usual ratio of 50 to 60%. We had originally made this subject to the condition that we sell the majority of the shares in American Water by the end of 2008.

Go-ahead for new hard coal-fired power plant in Hamm. Our comprehensive investment programme centres on the expansion and modernization of our power plants. We made good headway in this area in 2008. In March, RWE Power began to construct a hard coal-fired power station in Hamm, Germany, having received the go-ahead from the Arnsberg district administration in compliance with the German Emission Control Act. The two units are scheduled for commissioning in 2011. With a net installed capacity of 1,530 MW and efficiency of 46%, the power plant will realize roughly 2.5 million metric tons in CO_2 savings per year compared to older facilities, while generating the same amount of electricity. Furthermore, the construction plans already allow for the installation to be retrofitted with carbon capture technology. The total investment in the dual-block plant amounts to €2.1 billion. In February 2008, 23 German municipal utilities became partners in the new power plant. They will hold a combined stake of 350 MW of generation capacity.

Preparatory work for hard coal power plant in the Netherlands commenced. We also want to build a dual-unit hard coal-fired power station in the Netherlands. The power station will have a net installed capacity of 1,560 MW and an efficiency of over 46%, making it one of the most modern of its kind in the world. We expect to be able to start construction work in the first half of 2009. Providing the project stays on schedule, the first unit could go online in 2013. The plant's design will allow for units to be retrofitted in order to extract CO_2 from flue gas. Furthermore, biomass can be used for up to 10% of the heat generation. The investment will be an estimated €2.6 billion.

New 800-MW hard coal-fired power plant planned in Poland. In June, we took the first steps towards building a hard coal-fired power station in Poland. We agreed with Kompania Węglowa, the EU's largest coal mining company, to establish a joint venture in which RWE will own an interest of at least 75%. Among other things, Kompania Węglowa would provide the location and supply the power plant with hard coal. The definitive decision concerning the investment is expected to be taken by the end of 2009.

RWE chosen as strategic investor for nuclear energy projects in Bulgaria and Romania. We also plan to build and operate power stations in Bulgaria and Romania. In Bulgaria, a nuclear power plant project in Belene, a site in the north of the country, is of interest to us. The national electricity company NEK intends to build two units, each with an installed capacity of 1,000 MW, in co-operation with us. In December 2008, RWE and NEK signed an agreement to establish a joint-venture company in which NEK will hold a 51% interest. We have the option to share our 49% stake with another partner. The joint venture will address major technical, legal, financial and economic issues in the project phase, which is already underway. Compliance with the highest safety and transparency standards is the central prerequisite for our participation in the project.

In Romania, the state-owned SNN plans to build two new nuclear power generation units, each with an installed capacity of 720 MW, in Cernavoda together with six international partners, including RWE. In November 2008, the companies involved agreed the foundation of a project company. SNN will hold a majority stake of 51%. Our share will amount to 9.15%. The project company will spend its 18-month development phase clarifying all of the safety and technical details. Afterwards, the partners will decide whether to invest. If the project stays on schedule, the new units could go online in 2015/2016.

Site for climate-friendly coal-fired power plant chosen. We also made progress in preparing for the planned nearly CO_2-free large-scale coal-fired power plant, which will be one of the first of its kind worldwide. In August 2008, we selected the site and the energy source: It will be built in Hürth near Cologne (Germany) and fuelled by Rhenish lignite resources. The power plant will feature integrated gasification combined cycle (IGCC) technology. This technique converts the lignite into a gaseous state, after which the carbon dioxide is captured. This produces a synthesis gas with a high hydrogen content, which is used to generate electricity in gas and steam turbines. The plant will have a gross installed capacity of 450 MW. Provided legal steps to accelerate the approval process are successful, the earliest plant commissioning will be the end of 2014. About 90% of the CO_2 produced by the power plant can be captured and put into long-term storage in geological rock formations. RWE Dea plans to investigate potential storage locations in Schleswig-Holstein. We applied for the required permits last year. The power plant, pipeline and storage facility will cost around €2 billion. RWE is willing to invest €1 billion. In addition, we are seeking the participation of partners and state subsidies for the project. The latter are a major criterion for deciding in favour of the investment. Another necessary element is an appropriate legal framework.

RWE Innogy implements renewable energy growth strategy. Our activities in the field of renewable energies have been pooled under the newly established RWE Innogy since February 1, 2008. Our goal is to more than triple our renewable generation base to 4.5 GW by 2012. But growth is not our only top priority—adding value is of special importance. RWE Innogy currently has at its disposal a generation capacity of 1.2 GW. A further 450 MW are under construction. In addition, we are developing projects accounting for approximately 12 GW. Our activities focus on wind power, but we also made progress in power generation from biomass.

We recorded the strongest growth in offshore wind capacity. The generation capacity of projects under construction or in operation was more than doubled to 400 MW and we have a 7.2 GW project pipeline. Our objective is to be one of Europe's three largest offshore wind farm operators by 2013. In the UK, we are in the process of building the Rhyl Flats wind farm with an installed capacity of 90 MW off the coast of Wales. We intend to commission it in 2009. In addition, RWE Innogy acquired a 50% stake in the Greater Gabbard wind farm off the South Eastern coast of England. On completion in 2011, the wind farm will have an installed capacity of 509 MW. The partner companies RWE Innogy and Scottish and Southern Energy will invest a total of £1.3 billion (excluding grid connections). Onshore work is almost finished. We will start working at sea in the summer of 2009. At the end of 2008, we received clearance for the construction of the Gwynt y Môr wind farm off the Welsh coast, which will have an installed capacity of 750 MW. Full commissioning is forecast for 2014. In Germany, RWE Innogy acquired the rights in the North Sea Windpower 3 offshore wind farm (renamed Innogy Nordsee 1). Its envisaged 960 MW make it the largest planned offshore wind farm off the coast of Germany. We expect to obtain the construction permit by the end of 2009. The project's overall investment budget amounts to about €2.8 billion.

We also made significant progress in the field of onshore wind. By acquiring wind power operator Urvasco Energía in the summer of 2008, RWE Innogy increased its Spanish onshore generation capacity by 150 MW. We will develop wind and biomass projects in Italy with Fri-El Green Power, a developer and operator of power stations fuelled by renewable sources. A joint venture called Fri-El, in which we hold a 50% stake, was established for this purpose. The joint venture already has a sizeable project portfolio in the field of wind energy. RWE Innogy's share in it is 985 MW. We have set the course for the construction and operation of new onshore wind turbines in Poland, Hungary and the Czech Republic.

We expanded our biomass activities by acquiring UK-based Helius Energy Alpha Ltd., among other things. Helius owns the rights for the development and operation of a 65-MW biomass power station in Lincolnshire (East Midlands), the construction of which is scheduled to begin in 2009. RWE Innogy intends to invest approximately €260 million in the project. The facility will be fuelled with wood residuals.

RWE takes interest in LNG company. At the end of May, RWE Supply & Trading acquired a 50% stake in US-based Excelerate Energy for some US$500 million. Excelerate specializes in the transportation of liquefied natural gas (LNG). The company operates five LNG tankers, four of which are equipped with special technology enabling the regasification of liquefied natural gas on board. This provides for flexible transportation, while keeping the costs of feeding the gas into the grid relatively low. The fleet will be expanded to nine ships by 2010. Furthermore, Excelerate operates special import facilities for LNG tankers in the UK and the USA.

Sale of German gas transmission grid. At the end of May 2008, we reached an agreement with the EU Commission on a solution to the antitrust abuse proceedings against RWE Transportnetz Gas GmbH, which have been ongoing since April 2007. We committed to selling our German gas transmission grid to a third party which is independent from RWE. In exchange, the EU would stop the proceedings. The Commission conducted an investigation against RWE on grounds that it suspected unjustified barriers were put in the way of gaining access to the German gas transmission system. The envisaged settlement is not an admission of guilt. We remain convinced that we have complied with the statutory regulations in the gas business, but we want to avoid protracted litigation. In December, we made an official commitment to sell our gas transmission grid. The EU Commission is expected to declare the commitment binding in the spring of 2009 and stop the proceedings. Our gas transmission grid has a length of approximately 4,100 kilometres. In 2008, we generated €185 million in total revenue from the activities that are up for sale.

RWE conducts share buyback. Based on an authorization granted by the 2007 Annual General Meeting, RWE purchased 31.7 million RWE common shares on the stock exchange from February to May of last year. This corresponds to a share of 5.6% of the company's subscribed capital and 6.1% of RWE AG's voting rights. €2.5 billion were spent within the scope of the share buyback programme. We paid an average of €78.73 per share.

RWE reaches agreement with former VEW shareholders. RWE reached an agreement with former VEW shareholders in conciliation proceedings before the Dortmund Regional Court underway since the end of 2000. They had filed a lawsuit on grounds that they believed that the share conversion ratios for the merger between RWE and VEW were inappropriate. On the court's recommendation, the suit was ended via a settlement on December 22, 2008. VEW shareholders will receive compensation from us exclusively consisting of RWE shares in the first quarter of 2009. The compensation amounts to €10.39 per VEW share with a nominal value of DM 50, plus a reimbursement for interest. To qualify for the compensation, individuals must have held VEW shares when the merger became effective (November 24, 2000). Excluding the interest reimbursement, the compensation totals €130 million. The goodwill carried on our balance sheet has increased by this amount. The interest claim reduced our financial result by €46 million. Both of the effects have already been included in the financial statements for 2008. The Executive Board of RWE AG decided to purchase RWE common shares to the value of up to €180 million between January 29, 2009, and February 28, 2009, in order to make the settlement. In the same period, we are selling RWE common treasury stock—also to a value of up to €180 million. By conducting this share buyback, we are applying Sec. 71, Para. 1, Item 3 of the German Stock Corporation Act (AktG), which authorizes companies to conduct share buybacks in connection with company transformations, analogously. The existing authorization for share buybacks by the Annual General Meeting did not include this use.

Dr. Leonhard Birnbaum appointed to the Executive Board of RWE AG. The Supervisory Board of RWE AG appointed Dr. Leonhard Birnbaum (42) to the Executive Board of RWE AG effective October 1, 2008. He succeeded Berthold Bonekamp, who retired at the end of the year, as Chief Strategy Officer (CSO). His Executive Board mandate comprises Corporate Strategy and Business Development, Mergers & Acquisitions, Research & Development and Renewable Energies. Before joining RWE, Leonhard Birnbaum worked for the McKinsey consulting group for twelve years, exiting as senior partner (director). His consulting activities focussed on the utilities sector and energy-intensive raw materials industry.

Major events after the period under review:

RWE initiates acquisition of Netherlands-based energy utility Essent. On January 12, 2009, RWE and the leading Dutch energy company Essent reached an agreement on a takeover offer. We agreed the conditions for a binding all-cash offer by RWE to the shareholders of Essent for the acquisition of all of the issued and outstanding shares in the company, which is headquartered in Arnhem. We will not take over Essent's electricity and gas distribution grids and waste management operations. Including Essent's net debt, the transaction is valued at €9.3 billion. Essent has 4.7 GW of generation capacity in the Netherlands, 0.1 GW of which is attributable to wind power plants, and supplies 3.9 million customers with electricity or gas. In addition, the company operates power stations with a combined installed capacity of 1.4 GW in Germany, of which 0.4 GW is accounted for by wind power, and 0.1 GW in Belgium. According to preliminary calculations, excluding the grid and waste management business, Essent earned some €6.6 billion in revenue in 2008. EBITDA achieved by these activities including income from investments was about €880 million for the financial year. We expect to realize annual synergies of about €100 million from 2014 onwards. We secured a €9 billion credit facility from a bank consortium to finance the transaction. Our purchase offer is subject to at least 80% of the issued and outstanding share capital of Essent being tendered to us. The acquisition requires antitrust clearance by the EU Commission. We expect to complete the takeover in the third quarter of 2009.

Joint venture for the construction of nuclear power stations in the UK. In January, RWE and E.ON formed a joint venture to build nuclear power plants in the United Kingdom. The 50:50 joint venture will aim to purchase sites being sold by the Nuclear Decommissioning Authority (NDA) at Bradwell, Oldbury and Wylfa. The joint venture will develop nuclear power plant projects and carry out the construction and operation of the facilities. Our goal is to build at least 6 GW of nuclear generation capacity in the UK together with E.ON. The size of the investment will in part depend on the number of sites obtained during the NDA sales procedure.

Strengthening of position in Luxembourg. RWE will take a share in the integrated national electricity and gas company that the Grand Duchy of Luxembourg is currently in the process of creating. This was contractually agreed at the end of January. RWE Energy will contribute its stake in the Luxembourg power utility Cegedel to the new company and hold a 19.8% interest in it in the future. The activities of Cegedel, Soteg and Saar Ferngas will be combined in the new entity. Previously, RWE Energy, together with the holding company Luxempart, held a 30% stake in Cegedel. We have since taken over Luxempart's interest. The purchase price amounted to €186 million.

Increased organizational independence of the electricity transmission network. We will assign RWE Transportnetz Strom GmbH (an RWE Energy subsidiary until then) directly to RWE AG retrospectively as of January 1, 2009. The reclassification is scheduled for the first half of the year. It represents a step towards preparing for the "Third Liberalization Package" of the European energy ministers, which, among other things, aims to strengthen the autonomy of transmission system and long-distance grid operators within integrated energy companies.

UK energy minister approves gas power plant in Pembroke. In early February, the UK energy minister gave us the final go-ahead for the construction of the combined-cycle gas turbine power station in Pembroke, Wales. The plant will consist of five units with a combined installed capacity of 2 GW. The site is in the immediate vicinity of LNG terminals and provides the option of direct sea water cooling. Construction work is scheduled to begin in the spring. If the project progresses as planned, the power station will be commissioned in 2012 and achieve an efficiency of 59%. Based on our estimates, the capex budget will amount to €1.2 billion.

1.5 NOTES ON REPORTING

Change in divisional structure in fiscal 2008. Our financial reporting for the year under review reflects the changes in the Group's structure. From April 1, 2008, we combined RWE Trading and RWE Gas Midstream to form RWE Supply & Trading GmbH. As a result, gas purchasing activities for RWE Group companies are pooled with the energy trading business for electricity, gas, coal, oil and CO_2. The new RWE Supply & Trading is presented as a separate division. Under the previous reporting structure, RWE Trading was part of the "Power Generation" Business Unit within the RWE Power Division, and RWE Gas Midstream was included in "Other, consolidation" as part of the RWE Energy Division. We also report RWE Dea, a business unit of RWE Power thus far, as an independent division. The reason for this is that the RWE Group's upstream business will display above-average growth. To enable comparability with last year despite these reclassifications, we are stating 2007 figures in line with the new structure as well.

New company for renewables-based energy. We have pooled our activities in the field of renewable energies in "RWE Innogy," the company which was founded as of February 1, 2008. In the year being reviewed, the company was still assigned to "Other, consolidation." RWE Innogy has taken over the majority of the installed renewables-based electricity generation capacity from RWE Power, RWE npower and RWE Energy. The reassignment has been taken into account in our financial reporting since January 1, 2008. As the reclassified activities are still relatively small, we have not adjusted prior-year figures.

American Water recognized as a "discontinued operation" again in 2008. We were unable to sell the majority of the shares in American Water as intended. This was due to the conditions on the capital market, which have worsened considerably. As we still want to fully divest our stake in American Water, we have classified this company as a "discontinued operation." Therefore, figures for the US water utility ("Water Division") are no longer included in revenue, EBITDA, the operating result, the non-operating result, the financial result, or taxes on income. This corresponds to our presentation in the 2007 financial statements. As regards capital expenditure and the cash flow statement, American Water is included in the figures for 2007, but not in those for 2008.

Change in method applied to account for pension commitments (IAS 19.93A). As of 2008, we recognize actuarial gains and losses on defined-benefit pension plans and similar obligations using a new method pursuant to IAS 19.93A. For detailed commentary, please turn to page 169 in the notes. According to IFRS, prior-year figures had to be adjusted accordingly. This primarily affects provisions for pensions and similar obligations, other non-current receivables and other assets, deferred taxes and retained earnings. There are minor retrospective changes to the staff costs and taxes on income in the income statement for 2007.

1.6 BUSINESS PERFORMANCE

RWE looks back on a successful financial year. Our earnings showed continued improvement despite the negative effects of the emissions trading scheme and grid regulation. The most important contributor to this success was our German electricity generation business. We increased our operating result by 4%. Recurrent net income, the yardstick for our dividend, rose by 13%. We therefore confirmed the forecast we published in February 2008 and paved the way for the highest dividend in RWE history.

Electricity production by primary energy source	RWE Power[1]		RWE npower		RWE Group[2]	
Billion kWh	2008	2007	2008	2007	2008	2007
In-house generation	180.3	178.9	36.7	33.8	224.1	216.1
Lignite	73.9	76.1	–	–	73.9	76.1
Hard coal	43.1	55.3	18.0	15.1	62.0	71.0
Nuclear	49.3	32.1	–	–	49.3	32.1
Gas	11.5	10.1	18.2	17.7	31.2	29.3
Renewable energies	0.6	3.2	–	0.8	5.3	5.2
Pumped storage, oil, other	1.9	2.1	0.5	0.2	2.4	2.4
Electricity purchased from third parties	–	–	18.1[3]	23.7[3]	110.1	108.2
Total	**180.3**	**178.9**	**54.8**	**57.5**	**334.2**	**324.3**

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 2008, it amounted to 30.6 billion kWh, of which 28.6 billion kWh was generated from hard coal.
2 Including generation and electricity purchases of RWE Energy's regional companies and the renewables-based electricity generation business transferred to RWE Innogy in 2008.
3 RWE npower largely purchases electricity via RWE Supply & Trading.

Electricity generation up 4%. In the financial year that just came to a close, the RWE Group produced 224.1 billion kilowatt hours (kWh) of electricity—4% more than in 2007. In-house generation and power purchases combined for 334.2 billion kWh. This was 3% more than in fiscal 2007. In the year under review, 33% of electricity generation was based on lignite, 28% on hard coal, 22% on nuclear, and 14% on gas. Renewables' share amounted to 2.4%.

RWE Power contributed 180.3 billion kWh of the RWE Group's total in-house electricity production; this represents a share of 80%. This includes electricity generated from power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. RWE Power generated a little more electricity than in fiscal 2007. Nuclear output rose considerably, up more than 50% year on year. This was primarily due to the improved availability of the Biblis nuclear power plant. Block A was offline from September 2006 to February 2008, and Block B from October 2006 to November 2007. RWE Power increased generation in its gas-fired power stations as well. Their generation output was up 14% year on year because market conditions were favourable and less maintenance work was carried out than in 2007. In contrast, electricity production by our hard coal-fired power stations experienced a margin-driven decline of 22% compared to the year-earlier level. We generated 3% less electricity from lignite. This was largely due to an increase in maintenance work and unplanned outages resulting from boiler damage.

RWE npower generated 36.7 billion kWh of electricity—up 9% year on year. In the UK, market conditions for our power plants were better than in 2007. As a result, RWE npower's generation was up 19% from hard coal and 3% from gas.

RWE Innogy, our specialist for renewable energies, generated 4.0 billion kWh in the period under review. This production predominantly stems from capacity the company took over from RWE Power, RWE npower and RWE Energy.

RWE Energy contributed 3.1 billion kWh of the power produced by the RWE Group. This output is largely allocable to our German regional companies. It mainly consists of generation based on gas, hard coal and hydro power.

In addition to our in-house generation, we procure electricity from external suppliers. These purchases totalled 110.1 billion kWh and were therefore slightly higher than in 2007. This included electricity fed into RWE Energy's grid by third parties, in accordance with the German Renewable Energy Act (EEG).

Power plant capacity by primary energy source	RWE Power[1]		RWE npower	RWE Innogy		RWE Group[2]	
as of Dec 31, 2008 in MW	Total	Germany		Total	Germany	Total	Germany
Lignite	10,828	10,051				10,828	10,051
Hard coal	9,513	9,513	4,575			14,183	9,608
Nuclear	6,295	6,295				6,295	6,295
Gas	3,994	3,929	2,913			7,223	4,157
Renewable energies	55	55		1,225	487	1,515	776
Pumped storage, oil, other	2,348	2,348	2,657			5,152	2,495
Total	**33,033**	**32,191**	**10,145**	**1,225**	**487**	**45,196**	**33,382**

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 December 31, 2008, they amounted to 8,672 MW, of which 6,507 MW was electricity generation capacity based on hard coal.
2 Including RWE Energy's generation capacity.

Our 45 gigawatts put us among Europe's leading power producers. At the end of the 2008 financial year, the RWE Group had an installed capacity of 45.2 GW. We rank fifth among Europe's power generators. These figures include the contractually secured capacities mentioned earlier that are not owned by RWE. Our electricity generation capacity increased by 0.8 GW compared with 2007. This is primarily because we refurbished, modernized and expanded existing facilities. RWE Innogy's rise in capacity was partially due to the acquisition of Spanish-based wind power operator Urvasco Energía. Hard coal accounts for the biggest share of our installed capacity at 31%, followed by lignite (24%), gas (16%) and nuclear power (14%). Renewable energy had a share of 3.4%. We intend to increase it considerably and will invest an average of more than €1 billion per year to do so. The geographical focus of our electricity generation is Germany: This is where 33.4 GW, or 74%, of our power plant capacity is located. In second place, with 10.1 GW, or 22%, of our capacity is the UK. Hungary comes in third, with a production capacity of 0.9 GW, or 2%.

Emissions balance	Germany[1]		UK		Central Eastern Europe		RWE Group	
million metric tons	2008	2007	2008	2007	2008	2007	2008	2007
CO_2 emissions	140.9	157.8	24.8	22.0	6.4	7.3	172.1	187.1
Free allocation of CO_2 certificates	84.9	144.7	14.9	17.0	4.8	8.1	104.6	169.8
Shortage of CO_2 certificates	56.0	13.1	9.9	5.0	1.6	-0.8	67.5	17.3

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 27.1 million metric tons of CO_2 and were allocated certificates for 19.7 million metric tons.

Emissions balance and purchase of CO_2 certificates for electricity generation. In fiscal 2008, our electricity generation operations emitted 172.1 million metric tons of carbon dioxide. RWE-owned power plants accounted for 145.0 million metric tons, and the remaining 27.1 million metric tons come from contractually secured capacity in Germany. CO_2 emissions were down by 15.0 million metric tons compared with 2007. In Germany, emissions declined by 16.9 million metric tons to 140.9 million metric tons. This is because the recommissioning of Biblis increased CO_2-free nuclear electricity output and decreased coal-based generation. In contrast, our carbon dioxide emissions in the UK rose by 2.8 million to 24.8 million metric tons, because RWE npower's hard coal power plants had a much higher capacity utilization. In Hungary, we emitted 6.2 million metric tons, which was down on the previous year's level.

In the year under review, we received free state allocations of certificates equal to 104.6 million metric tons of CO_2. This is much less than in 2007 (169.8 million metric tons) and was due to new allocation rules effective in the second allocation period of the EU emissions trading scheme (see pages 43/44). Therefore, we had to buy more certificates even though our emissions declined. Our shortage totalled 67.5 million metric tons, versus 17.3 million metric tons in 2007. In Germany, we received certificates corresponding to 84.9 million metric tons, while in the UK, the allocation represented 14.9 million metric tons. This resulted in shortfalls of 56.0 million metric tons and 9.9 million metric tons, respectively (2007: 13.1 and 5.0 million metric tons, respectively). In Central Eastern Europe, the allocation was 1.6 million metric tons less than needed.

In the trading period from 2008 to 2012, we are allowed to cover a maximum of 100 million metric tons of our CO_2 emissions by submitting certificates obtained through Kyoto "Clean Development Mechanism" (CDM) and "Joint Implementation" (JI) projects. This is advantageous because the cost of these certificates is usually below the market price of emissions allowances allocated by EU member states. By the end of the 2008 financial year, we had contractually secured certificates for about 60 million metric tons of CO_2. Taking project risks into account, we estimate that this will give us emissions certificates covering approximately 34 million metric tons. We have already received certificates for 5.6 million metric tons.

Gas production up, oil production down. In the period under review, RWE Dea produced 3,325 million cubic metres of gas and 2,518 thousand cubic metres of oil. Converting gas output to oil equivalent and adding it to crude oil production results in a total output of 5,737 thousand cubic metres, which equals 36.1 million barrels. This is almost as much as the year-earlier level. Gas output was up 3 %. The biggest drivers were measures taken to improve production in Germany and higher LNG production from the Norwegian Snoehvit gas field. By contrast, crude oil output was down 8 % year on year. This was in part because we sold our licence in Dubai in April 2007. Production from our oil fields is declining as reserves are being exhausted. This is happening primarily in our fields in Germany. Conversely, we increased output in Egypt.

Electricity sales slightly above year-earlier level. In the 2008 financial year, we sold 317.1 billion kWh of electricity to external customers—4 % more than in fiscal 2007. Electricity sales volumes are typically somewhat lower than the volume of power generated and purchased. This is due to grid losses as well as our in-house consumption by lignite production and pumped-storage power plants. RWE Supply & Trading accounted for 70.1 billion kWh of our electricity sales volume. These amounts result from the sale of in-house generation on the wholesale market.

External electricity sales volume by customer segment	RWE Power		RWE Energy		RWE npower		RWE Group	
Billion kWh	2008	2007	2008	2007	2008	2007	2008	2007
Private and commercial customers	0.3	0.3	36.7	37.5	21.4	22.3	58.8	60.4
Industrial and corporate customers	–	–	69.0	65.8	31.1	32.4	100.6	98.2
Distributors	13.2	14.3	73.4	65.0	–	–	87.6	79.3
Electricity trading[1]	–	–	–	–	–	–	70.1	68.5
Total	**13.5**	**14.6**	**179.1**	**168.3**	**52.5**	**54.7**	**317.1**	**306.4**

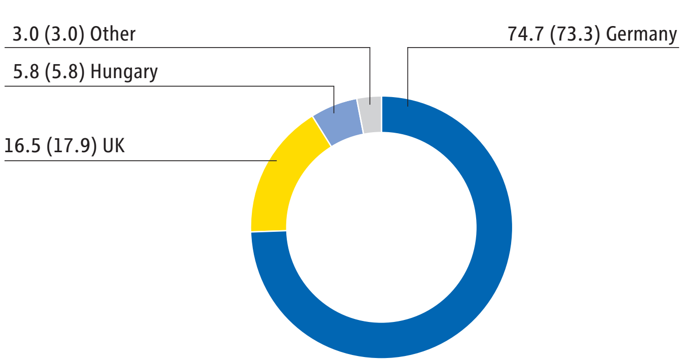
1 Electricity trading solely via RWE Supply & Trading.

At 13.5 billion kWh, RWE Power's external electricity sales were much lower than the division's production. This is because most of our German generation is sold on the market by RWE Supply & Trading and RWE Energy. Electricity produced outside Germany is marketed by RWE Power itself; this is predominantly generation by our Hungarian subsidiary Mátra. External sales also encompass production by our German Gundremmingen and Emsland nuclear power stations, which is allocable to the minority shareholder in these plants. One reason for the drop in RWE Power's external sales compared to 2007 is that renewables-based generation capacity was transferred to RWE Innogy.

RWE Energy's electricity sales increased by 6% to 179.1 billion kWh, in part because we acquired new industrial and corporate customers. In addition, sales from business with other energy utilities were also up. There was also a rise in sales of electricity fed into RWE Energy's grid and passed on to customers in compliance with the German law for the promotion of renewables-based energy. Sales to household and commercial customers decreased marginally. At the beginning of the year, we lost customers due to fiercer competition in the German supply business. However, these losses were partially compensated by customer acquisitions made by our Internet sales company eprimo and by product innovations. As of December 31, 2008, RWE Energy supplied electricity to 10.2 million customers, 7.0 million of whom were in Germany. That was some 120,000 fewer than at the end of 2007. These figures exclusively refer to our fully consolidated supply companies. eprimo more than doubled its customer base in 2008: By the end of the year, the company had already signed up 422,000 homes and commercial enterprises. Our "loyalty electricity offering" for German private customers, guaranteeing a fixed tariff over three years, was also very well received. It gives our customers planning security and flexibility as they can cancel the agreement on an annual basis. By December 31, 2008, some 500,000 households had signed up for this product. In the meantime, we have stopped marketing this product and it has been replaced by "ProKlima," which we introduced in November 2008. "ProKlima" has a three-year price guarantee and can also be cancelled on an annual basis. What sets "ProKlima" apart is that all the electricity sold through it is generated in hydroelectric and nuclear power plants and is therefore nearly CO_2-free. We guarantee this with certificates of origin issued by an independent appraiser. By the end of 2008, 130,000 customers had already opted for this product. Another 70,000 were added in January 2009. Our market positions in Central Eastern Europe remained relatively stable. RWE Energy provides electricity to 2.2 million customers in Hungary and 0.9 million in Poland.

RWE npower's electricity sales totalled 52.5 billion kWh, which was 4% less year on year. The UK energy company reported customer losses across all customer segments. At the end of 2008, we served 4.2 million electricity customers in the UK—0.2 million fewer than a year earlier. RWE npower's share of the household market is 15% (2007: 16%).

Electricity sales volume of the RWE Group by region in 2008 (2007) in %



External gas sales volume by customer segment	RWE Dea		RWE Energy		RWE npower		RWE Group[1]	
Billion kWh	2008	2007	2008	2007	2008	2007	2008	2007
Private and commercial customers	–	–	62.1	64.1	48.5	46.2	110.6	110.3
Industrial and corporate customers	2.7	3.1	95.2	103.8	9.0	9.7	106.9	116.6
Distributors	17.5	16.5	84.8	90.1	–	–	110.3	108.1
Total	**20.2**	**19.6**	**242.1**	**258.0**	**57.5**	**55.9**	**327.8**	**335.0**

1 Including RWE Supply & Trading's sales to redistributors and minor gas sales by RWE Power.

Gas sales volume slightly down year on year. External gas sales amounted to 327.8 billion kWh. This was slightly less than in 2007. We recorded competition-induced customer losses in Germany and the UK—our core markets—especially in the low-margin key account business. However, we benefited from higher demand for gas from households for heating purposes due to the cooler weather.

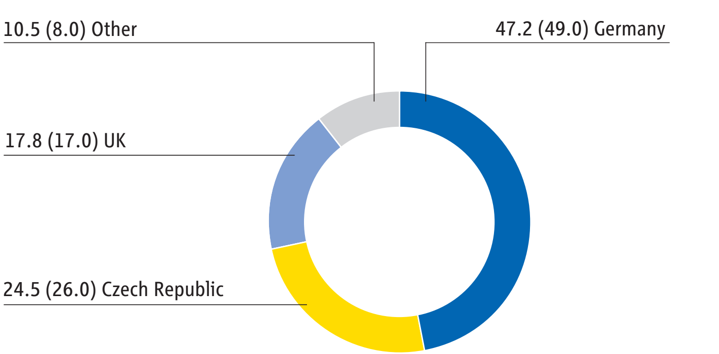
RWE Dea delivered 20.2 billion kWh of gas to external customers—3 % more than a year earlier. Including internal sales, gas sales rose by 4 % to 33.0 billion kWh. This is due to the company's increased production, especially in Germany.

Gas sales by RWE Energy amounted to 242.1 billion kWh, 6 % lower than in 2007, despite the generally cooler weather. We felt the consequences of increasingly fierce competition in the German gas market. Some of the industrial and corporate customers and power utilities we served switched suppliers or started diversifying their gas procurement. The number of households and small commercial operations we serve only declined slightly. But customers are making more thrifty use of energy. The weather-induced rise in demand had a counteracting effect. Another reason for the decline in gas sales recorded for the division was that we started stating RWE Transgas' midstream activities under RWE Supply & Trading in 2008. They were previously assigned to the RWE Energy Division.

By the end of 2008, RWE Energy's fully consolidated companies were supplying gas to 3.6 million customers. Our gas customer base in Germany totalled one million. The number of private customers we serve there declined marginally. We intend to hold our own against the mounting competitive pressure by marketing innovative products. Since September 1, 2008, we have been giving households and small commercial enterprises in Germany the option to purchase gas at a fixed price for a period of three years, similar to our offering in the electricity business. By the end of December, we had already won 130,000 customers for this product. The situation outside Germany was essentially unchanged: RWE Energy supplies 2.3 million customers with gas in the Czech Republic and nearly 0.3 million in the Netherlands.

RWE npower grew its gas deliveries by 3% to 57.5 billion kWh, despite marginal customer losses. This gain exclusively stems from business with households and small commercial enterprises and is largely due to the increased demand for gas for heating purposes. At the end of 2008, RWE npower provided gas to 2.6 million customers in this segment—roughly 61,000 fewer than at the close of 2007. This is due to fierce competition. We still have a 12% share of the UK household customer market. The number of customers to whom we deliver both electricity and gas was 2.2 million.

Gas sales volume of the RWE Group by region in 2008 (2007) in %



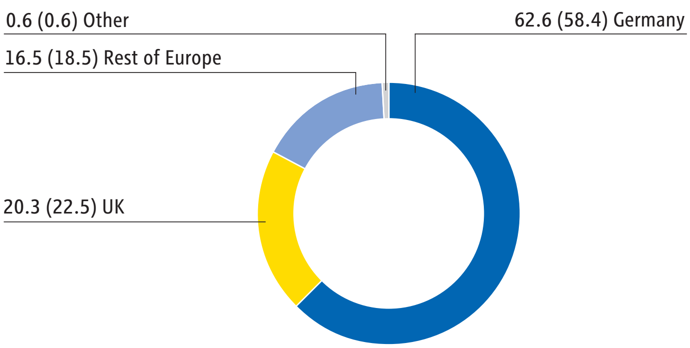
External revenue € million	2008	2007[1]	+/- in %
RWE Power	1,435	1,329	8.0
RWE Dea	1,765	1,496	18.0
RWE Supply & Trading	6,321	3,793	66.6
RWE Energy	30,435	26,877	13.2
German regions	17,111	16,015	6.8
International regions	6,927	5,589	23.9
Supra-regional operations	6,120	5,012	22.1
Other, consolidation	277	261	6.1
RWE npower	8,618	8,920	-3.4
Other, consolidation	376	92	308.7
RWE Group	**48,950**	**42,507**	**15.2**
of which:			
Electricity revenue	31,359	27,917	12.3
Direct electricity tax	964	961	0.3
Gas revenue	13,768	10,768	27.9
Oil revenue	1,164	1,023	13.8

1 Figures partially adjusted (see commentary on page 60).

External revenue up 15% year on year. Last financial year, the RWE Group generated €49.0 billion in external revenue. Compared with 2007, this corresponds to a 15% rise, which is predominantly due to increased electricity and gas prices. First-time consolidations and deconsolidations did not have a significant impact on revenue. Overall, currency effects had a negative impact on revenue since Sterling, our major foreign currency, lost considerably in value compared to the euro. Averaged for the period under review, the exchange rate was £0.80/€ (2007: £0.69/€). The US dollar depreciated as well, dropping to US$1.47/€ (2007: US$1.38/€), whereas the Czech crown increased in value. Net of currency and consolidation effects, Group revenue rose by 18%.

External revenue posted by RWE Power increased by 8% to €1,435 million. As explained, almost all our German electricity production is sold on the market by RWE Supply & Trading and RWE Energy. Therefore, RWE Power's external revenue is relatively low. It primarily comes from electricity sales generated by non-German subsidiaries (predominantly by Mátra in Hungary) and the marketing of lignite-based products (e.g. briquettes).

RWE Group revenue by region in 2008 (2007) in %



The increase in revenue is in part due to the fact that we were able to sell our power generation in Hungary at higher prices. Revenue from the sale of lignite products was also up. The transfer of the renewables-based power production business to RWE Innogy had a counteracting effect.

RWE Dea lifted its external revenue by 18% to €1,765 million. External revenue earned by the oil business increased markedly despite declining sales volumes, as we were able to sell our production at higher dollar prices than in 2007. However, the devaluation of the dollar against the euro weakened this effect. RWE Dea recorded strong revenue growth in the gas business as well. Positive price and volume effects were the basis for this.

RWE Supply & Trading recorded €6,321 million in external revenue. This was 67% more than in the same period last year. The new division earns a large portion of its external revenue by selling RWE Power's electricity generation on the wholesale market. Higher prices were realized than in 2007. Another reason for the rise in external revenue is the fact that we started reporting the midstream activities of RWE Transgas under RWE Supply & Trading in 2008.

RWE Energy recorded a gain of 13% to €30.4 billion. At €19.8 billion, electricity revenue was also 13% higher than in 2007. The aforementioned expansion of the sales volume contributed to this. Moreover, we had to increase prices owing to the rise in energy procurement costs and expenses incurred to comply with the German Renewable Energy Act (EEG). Our German regional companies lifted their general tariffs either in 2008 or in the second half of 2007 in the household and small commercial enterprise segment. Another factor contributing to the rise in revenue was the full consolidation of eprimo in the prior year. The web-based electricity and gas sales specialist was included in our figures as of April 1, 2007. External revenue from gas sales at RWE Energy rose 17 % to €9.7 billion. The substantial rise in gas procurement costs compared to 2007 caused us, and our competitors, to increase prices. All of RWE's regional companies raised their tariffs over the course of the last financial year. The development of our gas revenue in the Czech Republic benefited from the appreciation of the Czech crown over the euro.

RWE npower recorded a 3 % drop in external revenue to €8,618 million. This was largely due to the devaluation of Sterling compared to the euro. Excluding currency effects, we recorded a gain of 13 %. Electricity revenue was down 6 % to €6,045 million, while gas revenue increased 2 % to €2,144 million. Net of currency effects, revenue increased by 9 % and 20 %, respectively. RWE npower had reduced electricity and gas prices for household customers by an average of 3 % and 16 % at the end of April 2007, followed by price increases of 13 % and 17 % at the beginning of January 2008 and 14 % and 26 % at the end of August. This had a positive impact on revenues, whereas reductions in electricity sales volumes had a counteracting effect. In the gas business, we benefited from the general rise in consumption.

EBITDA € million	2008	2007[1]	+/- in %
RWE Power	3,521	3,072	14.6
RWE Dea	747	755	-1.1
RWE Supply & Trading	484	534	-9.4
RWE Energy	2,986	2,802	6.6
German regions	1,715	1,552	10.5
International regions	566	760	-25.5
Supra-regional operations	736	833	-11.6
Other, consolidation	-31	-343	91.0
RWE npower	714	870	-17.9
Other, consolidation	-138	-118	-16.9
RWE Innogy	98	–	–
RWE Group	**8,314**	**7,915**	**5.0**

1 Figures partially adjusted (see commentary on page 60).

Operating result increased by 4%. The RWE Group posted another year-on-year increase in its operating result. Our EBITDA was up by 5% to €8,314 million. We increased our operating result by 4% to €6,826 million. Net of currency and consolidation effects, both EBITDA and the operating result were up 6%. This earnings growth was primarily driven by our German power generation business, which benefited from improved margins and the positive volume effect of the recommissioning of the Biblis nuclear power plant. However, we also had to cope with burdens in the year under review—especially as a result of the significant reduction in emissions allowance allocations. In addition, RWE Energy had to cope with regulatory cuts to its German grid fees.

Reconciliation of income from operating activities to EBITDA € million	2008	2007[1]	+/- in %
Income from operating activities	5,887	5,787	1.7
+ Income from investments	454	597	-24.0
– Non-operating result	485	149	–
Operating result	6,826	6,533	4.5
– Operating income from investments	-459	-541	–
+ Operating depreciation and amortization	1,947	1,923	1.2
EBITDA	**8,314**	**7,915**	**5.0**

1 Figures partially adjusted (see commentary on page 60).

Operating result € million	2008	2007[1]	+/- in %
RWE Power	3,142	2,617	20.1
RWE Dea	494	492	0.4
RWE Supply & Trading	429	532	-19.4
RWE Energy	2,480	2,355	5.3
German regions	1,407	1,209	16.4
International regions	478	692	-30.9
Supra-regional operations	635	767	-17.2
Other, consolidation	-40	-313	87.2
RWE npower	534	724	-26.2
Other, consolidation	-253	-187	-35.3
RWE Innogy	55	–	–
RWE Group	**6,826**	**6,533**	**4.5**

1 Figures partially adjusted (see commentary on page 60).

RWE Power grew its operating result by 20% to €3,142 million in 2008, which matched our forecast. We benefited from the fact that the Biblis nuclear power plant was nearly fully available in the year under review. Outages at both units had led to substantially lower production in the preceding year. Another factor contributing to the rise in the operating result was the realization of higher prices for our German electricity output, which we had largely sold forward before 2008. However, the division's earnings trend was also marked by negative effects. As mentioned on page 63, the free state allocation of emissions allowances has decreased substantially. As a result, RWE Power has to buy more emissions certificates than in the past. Costs incurred for this in 2008 amounted to €1,122 million, compared with €160 million in 2007. Increases in fuel prices resulted in an additional expense of about €467 million in total. Material and staff costs rose as well. The transfer of the power generation activities to RWE Innogy had a further effect on earnings.

At €494 million, the operating result achieved by RWE Dea was roughly equal to the year-earlier level. The division therefore lagged our expectations. The forecast we published in February 2008 envisaged an increase of more than 10%. The considerable deviation is due to a significant step-up in the exploration for new gas and oil fields. Although we maintained a high success rate, this increased the number of exploratory wells which were unsuccessful. Expenses associated with such dry wells cannot be capitalized and therefore have an immediate impact on the income statement. Nevertheless, RWE Dea maintained the level of earnings achieved in 2007, mainly because oil and gas prices were higher. The effect would have been bigger if the US dollar and Sterling had not lost value. The decline in oil production and higher production fees also had an earnings-reducing effect.

RWE Supply & Trading earned an operating result of €429 million. As expected, the division remained significantly (19%) below the unusually high level achieved in the previous year, although our underlying business performance was essentially as successful as it was in 2007. Under IFRS, some of our trading transactions are recognized in the operating result with a delay. This applies to the external marketing of electricity produced by RWE Power and RWE npower. Income from these trading transactions can only be accounted for as profit or loss under IFRS on realization of the underlying transactions, i.e., at the time of delivery of the electricity. As a result, a significant portion of the contracts entered into in 2008 will not be recognized until 2009 or thereafter. In addition, the business suffered from substantially lower margins on contracts concluded in previous years which were realized in 2008. Higher margins and the first-time inclusion of the gas procurement activities of RWE Transgas made a substantial contribution to the operating result of the gas midstream business.

RWE Energy's operating result was up 5% to €2,480 million, confirming our expectations. Earnings improvements in the electricity supply business and cost reductions were the drivers. However, earnings were negatively affected because our German grid fees suffered another substantial reduction as a result of the second regulatory review of costs after the introduction of regulation. This led to a drop in earnings of €473 million compared with 2007. Furthermore, we incurred additional expenses to procure balancing power. One-off effects from the accrual and release of provisions affected earnings: Overall, they had a negative impact on our international activities and a positive influence on the "Other, consolidation" line item. The net effect of consolidation and reclassification on the operating result was an increase of €49 million; foreign exchange rate differentials had an additional impact of €75 million. The following is a breakdown of the operating result by business unit:

- German regions: RWE Energy's domestic regional companies closed the reporting period 16% up year on year—despite fee cuts imposed on their distribution grids. The resulting burdens were limited by cost-reducing measures. Earnings in the German electricity supply business recorded an improvement, despite the significant rise in pressure from competition. Gains in sales volume contributed to this. The first-time consolidation of small companies also had a positive effect. We also had higher income from investments. However, the rise in procurement costs in the gas supply business had a counteracting impact. We were only able to pass part of the cost increase through to our end customers. Several regional companies did not implement necessary tariff rises until the second half of the year.

- International regions: We fell 31% shy of the extraordinarily high result achieved in the Continental European grid and supply business outside Germany in 2007. The prior-year figure had benefited from positive one-off effects, which were not repeated in 2008. In contrast, we recorded operating gains, in part thanks to higher electricity margins in Hungary. Moreover, earnings benefited from the appreciation of the Czech crown over the euro.

- Supra-regional operations: The operating result recorded by this business unit declined by 17%, largely due to regulatory cuts to our German electricity transmission grid fees. As mentioned earlier, costs incurred to purchase balancing power were higher. This is used to balance sudden fluctuations in amounts of electricity fed into and withdrawn from the power grid. There was an increased need for balancing power owing to the rise in wind power production. In addition, we incurred higher costs associated with action taken to strengthen eprimo's market position.

RWE npower closed the year with an operating result of €534 million—down 26% on the previous year. Net of currency effects, the operating result declined by 14%. Our earnings in the UK electricity generation business improved. We lifted earnings above all through our short-term position management. Expenses incurred to purchase CO_2 emissions certificates totalled €194 million, compared with €114 million in 2007. In contrast, the operating result achieved by the supply business declined considerably—also net of currency effects. This is largely attributable to the household segment, where bad debt increased. Furthermore, the UK government obliges utilities to promote energy savings in homes and to provide assistance to low-income customers. RWE npower spent about €90 million more on this than in the prior year.

RWE Innogy, which is subsumed under “Other, consolidation,“ achieved an operating result of €55 million in its first year. Our run-of-river power stations, our wind farms in the UK and Spain and our combined heat and power generation plants were a major factor. However, our extensive investment programme resulted in substantial costs, above all for the development of new projects and for new hires.

Key figures for value management in fiscal 2008	Operating result € million	Capital employed[1] € million	ROCE in %	Cost of capital before tax in %	Absolute value added in 2008 € million	Absolute value added 2007 € million
RWE Power	3,142[2]	13,031	24.2	9.5	1,915	1,289
RWE Dea	494	1,806	27.3	12.0	277	266
RWE Supply & Trading	429	1,027	41.8	9.5	331	522
RWE Energy	2,480	20,578	12.1	8.5	731	468
RWE npower	534	5,303	10.1	9.5	30	82
Other, consolidation	-253	-1,936	–	–	169	343
RWE Innogy	55	1,422	3.9	8.5	-66	–
RWE Group	**6,826[2]**	**39,809**	**17.2**	**8.5**	**3,453**	**2,970**

1 Averaged for the year.
2 To determine ROCE and value added, €11 million in interest income from lease accounts receivable must be added.

Return on capital employed increased to 17.2 %. Our strategy centres on increasing the company’s value. Additional value is created when the return on capital employed (ROCE) exceeds the cost of capital. We increased the value of the company considerably in 2008 again. ROCE was 17.2 %, clearly surpassing the Group’s cost of capital before tax, which was 8.5 % for 2008. In 2007, we still used a Group cost of capital of 9 %. We reduced it because corporate tax reforms in Germany and the UK had led to lower tax rates. As a result of this adjustment to the cost of capital before tax, the cost of capital after tax remained unchanged, at 6.0 % for the RWE Group for both years.

Our strong organic performance is reflected primarily in the development of absolute value added, the central controlling instrument for all of the RWE Group’s activities. It is an important criterion for assessing investments and the parameter for determining our executives’ bonus payments. Absolute value added is obtained by multiplying the difference between ROCE and cost of capital by capital employed. In fiscal 2008, the RWE Group’s value added amounted to €3,453 million. This is 16 % more than in 2007 (€2,970 million). This reflects the improved operating result and is in part due to the reduction in the cost of capital before taxes which had a positive effect on all divisions.

Value added by RWE Power totalled €1,915 million, representing the largest contribution within the RWE Group. This was an increase of €626 million year on year, and was primarily due to the improved earnings of our German power generation operations.

RWE Dea made a value contribution of €277 million. This is a year-on-year increase of €11 million, which is largely due to the reduction in the cost of capital. As RWE Dea steps up its capital expenditure on exploration, its ROCE is negatively affected. Capex immediately increases capital employed, whereas it takes some time for development to bring discoveries onstream and increase earnings.

Value added by RWE Supply & Trading amounted to €331 million. This was €191 million below the comparable figure for 2007. One reason was the decline in the operating result. Another factor was the increase in capital employed, in part due to the acquisition of a 50% stake in the LNG transportation company Excelerate.

RWE Energy made a value contribution of €731 million, surpassing the year-earlier figure by €263 million. Major drivers were the positive earnings trend and the reduction in the cost of capital.

Value added by RWE npower amounted to €30 million, despite a significant drop in earnings. Sterling's weakness—one of the main reasons for the decline in earnings—led to a reduction in capital employed as well. This had a stabilizing effect.

In its year of inception, RWE Innogy was unable to earn its cost of capital. The company's value contribution amounted to -€66 million. This is because the extensive investments in the expansion of our renewables-based generation portfolio have not yet resulted in commensurate earnings contributions.

Detailed information on the calculation of the value management concept's key figures can be found on pages 221/222 of this report.

Reconciliation to net income: one-off charge due to American Water. The reconciliation from the operating result to net income is characterized by one-off charges. These were predominantly related to discontinued operations (American Water). Furthermore, we had lower capital gains compared with 2007. In addition, the consequences of the financial market crisis affected asset management. The drop in the effective tax rate had a positive impact.

Non-operating result € million	2008	2007	+/- € million
Capital gains	89	339	-250
Impairment losses	–	–	–
Restructuring, other	-574	-488	-86
Non-operating result	**-485**	**-149**	**-336**

In the year under review, the non-operating result decreased by €336 million to –€485 million. Its components developed as follows:

- Capital gains totalled €89 million and were thus markedly down on the figure achieved a year earlier (€339 million). The latter included the book gain on the sale of our Dutch gas grids. Furthermore, we had transferred a 25% stake in rhenag Rheinische Energie AG to RheinEnergie AG in 2007. In 2008, we divested another 8.23% in rhenag, which resulted in a capital gain.

- The result stated under "Restructuring, other" decreased although there were substantial negative effects in 2007. It dropped by €86 million to –€574 million. This was in part due to a special item relating to the accounting treatment of derivative transactions, which are concluded to hedge the prices of forward contracts (underlying transactions). Pursuant to IFRS, these derivatives are accounted for at fair value at the corresponding balance sheet date, whereas the underlying transactions (which show the exact opposite reaction) are only recognized with an effect on profit or loss later on, when they are realized. This results in short-term effects on earnings, which are neutralized over time. Since the one-sided disclosure of changes in the fair value of derivatives does not reflect economic reality, we have been recognizing the changes in the non-operating result since the interim financial statements for the first half of 2008. These derivatives caused us to incur a charge of €404 million as of December 31, 2008. In addition to the effect of derivatives described above, the "Restructuring, other" item also includes the amortization of RWE npower's customer base. It amounted to €279 million, and was therefore lower than 2007's comparable figure (€325 million) for currency-related reasons. Changes made to nuclear provisions resulted in €143 million in income (2007: €178 million).

Financial result € million	2008	2007	+/- € million
Interest income	807	855	-48
Interest expenses	-965	-1,334	369
Net interest	**-158**	**-479**	**321**
Interest accretion to non-current provisions	-738	-771	33
Other financial result	-579	112	-691
Financial result	**-1,475**	**-1,138**	**-337**

The financial result decreased by €337 million to –€1,475 million. The decline is primarily attributable to "Other financial result," which deteriorated markedly, dropping by €691 million to –€579 million. Contributing factors included the write-down of securities and losses from the sale of securities. These led to additional charges of €110 million and €250 million compared with 2007, reflecting the ramifications of the financial crisis. In the previous year, the "Other financial result" was unusually high, partially due to income from the reduction of our interest in Heidelberger Druckmaschinen AG (€142 million). Furthermore, we had benefited from a one-off effect stemming from the externalization of our pension obligations: At the end of March 2007, we had transferred €7.9 billion in funds earmarked to finance pension commitments to a trustee (RWE Pensionstreuhand e.V.) within the scope of a contractual trust arrangement (CTA) and netted them against provisions for pensions. The deconsolidation of special funds implemented in this context led to €155 million in one-off income. The negative development witnessed in the "Other financial result" is contrasted by a €321 million improvement in net interest. One factor that came to play here was that our average net financial debt over the course of fiscal 2008 was lower than in 2007. The interest accretion to non-current provisions also displayed positive development. It was down by €33 million. This was primarily due to the decline in provisions for pensions in connection with the CTA.

Our continuing operations generated income before tax amounting to €4,866 million, 7 % less than in 2007.

The effective tax rate was down eleven percentage points to 29 %. This is mainly due to the fact that German income tax rates were cut as part of the 2008 German corporate tax reform. Furthermore, we successfully concluded tax litigation cases in the UK and Germany.

Income from continuing operations after tax improved by 9 % to €3,443 million. The RWE Group's discontinued operations (American Water) closed the period with a loss of €567 million, which was largely caused by the IPO of American Water. When we floated 39.5 % of the shares in the US water utility, we recognized an impairment loss and wrote down the value of our remaining stake in the company accordingly.

The minority interest totalled €318 million, substantially more than in fiscal 2007. Some of the companies in which entities outside the RWE Group hold a minority stake posted considerable rises in income. This holds true for RWE Energy's regional companies, among others. In addition, the minority interest in American Water is subsumed under this item.

The RWE Group's net income declined by 4% to €2,558 million. At €4.75, our earnings per share were essentially unchanged. The number of RWE shares outstanding decreased as a result of the share buyback programme concluded in May. There was an average of 538.4 million shares outstanding in the year under review, compared with 562.4 million a year earlier.

Reconciliation to net income		2008	2007[1]	+/- in %
Operating result	€ million	6,826	6,533	4.5
Non-operating result	€ million	-485	-149	-225.5
Financial result	€ million	-1,475	-1,138	-29.6
Income from continuing operations before tax	€ million	**4,866**	**5,246**	**-7.2**
Taxes on income	€ million	-1,423	-2,081	31.6
Income from continuing operations	€ million	**3,443**	**3,165**	**8.8**
Income from discontinued operations	€ million	-567	-274	-106.9
Income	€ million	**2,876**	**2,891**	**-0.5**
Minority interest	€ million	318	224	42.0
Net income[2]	€ million	**2,558**	**2,667**	**-4.1**
Recurrent net income	€ million	**3,367**	**2,985**	**12.8**
Earnings per share	€	4.75	4.74	0.2
Recurrent net income per share	€	6.25	5.31	17.7
Effective tax rate	%	29	40	–

1 Figures partially adjusted (see commentary on page 60).
2 RWE shareholders' share in net income.

Recurrent net income improved by 13%. The key figure that is decisive for our dividend policy is recurrent net income. It does not include the non-operating result. Major non-recurrent effects in the financial result, income taxes and income from discontinued operations are also excluded from recurrent net income. Accordingly, the impairment of American Water is not included in this figure. In the year under review, recurrent net income totalled €3,367 million, 13% more than in 2007.

Planned efficiency enhancements vs. 2006 € million (accumulated)	2007	2008	2009	2010	2011	2012
	100	**200**	**450**	**700**	**900**	**1,200**

Efficiency-enhancement programme: 2008 target achieved. RWE initiated a programme to improve efficiency in 2007. It was expanded considerably in fiscal 2008 and includes measures to reduce costs and increase revenue, which should gradually improve our annual earnings by €1.2 billion by the end of 2012. The baseline year is 2006. One of the goals we are pursuing with the project is enhanced performance of our German electricity and gas grid business, which will partially compensate for the effect of the tariff cuts mandated by the network regulator. Further savings are to 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 taking extensive measures to improve the technical availability of our power plants, among other things. We planned to generate a cumulative earnings contribution of €200 million with the programme in the 2007/2008 period. This goal was achieved.

Capital expenditure on property, plant and equipment € million	2008	2007[1]	+/- € million
RWE Power	1,455	1,127	328
RWE Dea	606	505	101
RWE Supply & Trading	–	3	-3
RWE Energy	1,405	1,147	258
RWE npower	610	587	23
Water Division	–	635	-635
Other, consolidation	378	61	317
RWE Innogy	290	–	290
RWE Group	**4,454**	**4,065**	**389**

1 Figures partially adjusted (see commentary on page 60).

Capital expenditure in the energy business up 30%. The RWE Group spent €5,693 million in capital in the year under review. American Water is no longer included in this figure. The €4,227 million recorded in the previous year, which still included the US water utility, was exceeded by 35%. The increase is predominantly the result of capital expenditure on financial assets, which at €1,239 million was far above 2007's level (€162 million). Our capital spending on property, plant and equipment totalled €4,454 million, up 10% year on year. Excluding American Water, it was 30% higher. Nevertheless, capital expenditure on property, plant and equipment lagged our expectations, in part because power plant projects experienced delays. In February 2008, we had forecast capital expenditure on property, plant and equipment in the order of €6 billion.

Capital expenditure on financial assets € million	2008	2007[1]	+/- € million
RWE Power	1	67	-66
RWE Dea	–	–	–
RWE Supply & Trading	321	1	320
RWE Energy	104	55	49
RWE npower	1	–	1
Water Division	–	9	-9
Other, consolidation	812	30	782
RWE Innogy	812	–	812
RWE Group	**1,239**	**162**	**1,077**

1 Figures partially adjusted (see commentary on page 60).

Capital spending by RWE Power amounted to €1,456 million—up €262 million on the previous year. Almost all of this money was spent on property, plant and equipment. The major project was the 2,100-MW dual-block lignite-fired power plant in Neurath near Cologne, Germany. Substantial delays occurred due to a severe work-related incident in October 2007. We commented on this in our interim report for the first three quarters of 2007. Based on our current plans, the two units are scheduled to go online in 2011. Another investment focus was the 875-MW combined-cycle gas turbine power station in Lingen, Germany. This project did not progress as rapidly as originally planned. However, we still intend to commission this power station before year-end. Another important project is the construction of the 1,530-MW hard coal dual block in Hamm, Germany. It is scheduled for completion by 2011. Furthermore, RWE Power did preparatory work for the hard coal twin unit facility planned in Eemshaven, Netherlands.

RWE Dea's capital expenditure increased by €101 million to €606 million. One point of focus was the development of existing discoveries in preparation for production, mainly of gas fields in Egypt and Norway. In addition, we stepped up our exploration activity considerably. In so doing, we concentrated on gas and oil exploration in North Africa and Norway.

RWE Supply & Trading spent €321 million in capital, all of which was dedicated to financial assets. The single-largest item was the acquisition of a 50% interest in Excelerate Energy, the US liquefied natural gas transport specialist.

RWE Energy's capital expenditure amounted to €1,509 million compared with €1,202 million a year earlier. Spending on property, plant and equipment was up 22% to €1,405 million. This included investment in grid connections for new power plants and the modernization of power lines and transformer stations. RWE Energy channelled some 80% of its capital expenditure on property, plant and equipment to the expansion and modernization of our grid infrastructure. In addition, the division invested in increasing gas storage capacity. RWE Energy's capital expenditure on financial assets amounted to €104 million. The single-largest item was the acquisition of a 100% stake in Dutch-based Powerhouse Holding B.V., a web-based trading system for distributed energy. Furthermore, RWE Energy raised its shareholding in the Velbert municipal utility (Germany) by 19.5 percentage points to 39.5%.

RWE npower spent €611 million on investments, up from €587 million in the previous year. Capital expenditure was almost exclusively on property, plant and equipment. The biggest project was the construction of the 1,650-MW combined-cycle gas-fired power plant in Staythorpe which began in 2007. The facility is scheduled for commissioning in 2009/2010. In addition, we carried out preparatory work for the planned gas-fired power station in Pembroke. Further funds were spent on retrofitting the Aberthaw hard coal-fired power plant with a flue gas desulphurization unit.

RWE Innogy made good progress in expanding its renewable generation base in its first year. The company's capital expenditure totalled €1,102 million, of which €812 million went to financial assets. Among other things, we took a 50% interest in the construction and operation of the Greater Gabbard wind farm off the south eastern coast of England and acquired all the rights in the German North Sea Windpower 3 offshore wind farm (renamed "Innogy Nordsee 1"). Furthermore, we acquired wind power operator Urvasco Energía (now "Iberian Removables Corporación") and established a joint venture with Fri-El Green Power for the development of wind and biomass projects in Italy (see page 56). RWE Innogy's capital expenditure on property, plant and equipment amounted to €290 million. Centre stage was taken by wind power projects, including the construction of the 90-MW Rhyl Flats offshore wind farm off the coast of Wales, which we intend to complete in 2009.

Workforce[1]	Dec 31, 2008	Dec 31, 2007[2]	+/- in %
RWE Power	17,505	17,238	1.5
RWE Dea	1,144	1,091	4.9
RWE Supply & Trading	781	660	18.3
RWE Energy	28,699	28,323	1.3
RWE npower	12,747	11,975	6.4
Other[3]	5,032	4,152	21.2
RWE Group	**65,908**	**63,439**	**3.9**
Germany	39,220	38,283	2.4
Outside Germany	26,688	25,156	6.1

1 Converted to full-time positions.
2 Figures partially adjusted (see commentary on page 60).
3 Including RWE Innogy, RWE IT, RWE Service and RWE Consulting.

Employee headcount up 4%. As of the balance-sheet date, the RWE Group employed 65,908 people (converted to full-time positions), 60% (39,220) of whom worked in Germany. As in the previous year, American Water is not included in these figures. The workforce expanded by 2,469 employees, or 4%, compared to December 31, 2007. Company acquisitions added 846 staff members. Operating staff changes added 1,623 employees, 539 of whom work in Germany. We created new jobs within the scope of our investment programme dedicated to the expansion and modernization of our electricity generation capacity. This mainly affected RWE Power and RWE Innogy. RWE npower increased its headcount in sales and customer service. The internal reclassification of activities, e.g., the transfer of subsidiaries to RWE Innogy, had an additional impact on employee numbers. As in prior years, we trained far more people than we needed. By December 31, 2008, 2,999 young adults were in a professional training programme at RWE. Staff figures do not include trainees.

Group purchasing further improved. With the exception of raw materials sourcing, our Group Purchasing Department at RWE Service coordinates the procurement of goods and services. We have uniform processes and a comprehensive supplier management system and apply best practise principles. In 2002, we launched a savings programme aiming to improve the conditions we receive from our suppliers over the long term. We have already reduced our procurement costs substantially. This was achieved in part through groupwide pool purchasing, the improvement of procurement processes, the use of electronic invitations to tender and auctions as well as advanced training programmes for our purchasing staff.

Raw materials purchasing is handled by RWE Power, RWE Dea and RWE Supply & Trading. In 2008, the amount of hard coal procured to generate electricity totalled 19.0 million metric tons of hard coal units (HCU) (previous year: 23.3 million metric tons). 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 13.9 million metric tons of HCU (previous year: 18.1 million metric tons), and RWE npower purchased 5.1 million metric tons (previous year: 5.2 million metric tons). The considerable decline in Germany is due to the reduced utilization of our hard coal power stations (see page 61). Purchases in the UK were also down, despite the fact that RWE npower produced more electricity from hard coal; there, we reduced inventories. We cover over 60% of coal demand from our own German hard coal-fired power plants from domestic production sources. Russia is RWE npower's major supplier country. Over 80% of the hard coal used in our UK power plants is imported from there.

RWE sources lignite from proprietary opencast mines. In the Rhineland, our main mining region, we produced 96 million metric tons of lignite in 2008 (previous year: 100 million metric tons). Our power plants used 85 million metric tons to generate electricity, and we used 11 million metric tons to manufacture refined products. Our gas purchasing is pooled in RWE Supply & Trading. Production companies in Russia, Norway and the Netherlands are among the RWE Group's major gas suppliers.

1.7 KEY FIGURES BY DIVISION AT A GLANCE

RWE Power		2008	2007[1]	+/- in %
External revenue	€ million	1,435	1,329	8.0
Intra-group revenue	€ million	9,982	8,125	22.9
Total revenue	€ million	11,417	9,454	20.8
EBITDA	€ million	3,521	3,072	14.6
Operating result	€ million	3,142	2,617	20.1
Return on capital employed (ROCE)	%	24.2	19.6	–
Weighted average cost of capital (WACC) before tax	%	9.5	10.0	–
Value added	€ million	1,915	1,289	48.6
Capital employed	€ million	13,031	13,393	-2.7
Capital expenditure	€ million	1,456	1,194	21.9
Property, plant and equipment	€ million	1,455	1,127	29.1
Financial assets	€ million	1	67	-98.5
		Dec 31, 2008	Dec 31, 2007	
Workforce[2]		17,505	17,238	1.5

1 Figures partially adjusted (see commentary on page 60).
2 Converted to full-time positions.

RWE Dea		2008	2007	+/- in %
External revenue	€ million	1,765	1,496	18.0
Intra-group revenue	€ million	211	198	6.6
Total revenue	€ million	1,976	1,694	16.6
EBITDA	€ million	747	755	- 1.1
Operating result	€ million	494	492	0.4
Return on capital employed (ROCE)	%	27.3	28.3	–
Weighted average cost of capital (WACC) before tax	%	12.0	13.0	–
Value added	€ million	277	266	4.1
Capital employed	€ million	1,806	1,736	4.0
Capital expenditure	€ million	606	505	20.0
Property, plant and equipment	€ million	606	505	20.0
Financial assets	€ million	–	–	–
		Dec 31, 2008	Dec 31, 2007	
Workforce[1]		1,144	1,091	4.9

1 Converted to full-time positions.

RWE Supply & Trading		2008	2007[1]	+/- in %
External revenue	€ million	6,321	3,793	66.6
Intra-group revenue	€ million	20,489	13,617	50.5
Total revenue	€ million	26,810	17,410	54.0
EBITDA	€ million	484	534	-9.4
Operating result	€ million	429	532	-19.4
Return on capital employed (ROCE)	%	41.8	–	–
Weighted average cost of capital (WACC) before tax	%	9.5	10.0	–
Value added	€ million	331	522	-36.6
Capital employed	€ million	1,027	99	–
Capital expenditure	€ million	321	4	–
Property, plant and equipment	€ million	–	3	–
Financial assets	€ million	321	1	–
		Dec 31, 2008	Dec 31, 2007	
Workforce[1]		781	660	18.3

1 Converted to full-time positions.

RWE Energy		2008	2007[1]	+/- in %
External revenue	€ million	30,435	26,877	13.2
Intra-group revenue	€ million	2,111	1,596	32.3
Total revenue	€ million	32,546	28,473	14.3
EBITDA	€ million	2,986	2,802	6.6
Operating result	€ million	2,480	2,355	5.3
Return on capital employed (ROCE)	%	12.1	11.2	–
Weighted average cost of capital (WACC) before tax	%	8.5	9.0	–
Value added	€ million	731	468	56.2
Capital employed	€ million	20,578	20,964	-1.8
Capital expenditure	€ million	1,509	1,202	25.5
Property, plant and equipment	€ million	1,405	1,147	22.5
Financial assets	€ million	104	55	89.1
		Dec 31, 2008	Dec 31, 2007	
Workforce[2]		28,699	28,323	1.3

1 Figures partially adjusted (see commentary on page 60).
2 Converted to full-time positions.

RWE npower		2008	2007[1]	+/- in %
External revenue	€ million	8,618	8,920	-3.4
Intra-group revenue	€ million	10	5	100.0
Total revenue	€ million	8,628	8,925	-3.3
EBITDA	€ million	714	870	-17.9
Operating result	€ million	534	724	-26.2
Return on capital employed (ROCE)	%	10.1	11.3	–
Weighted average cost of capital (WACC) before tax	%	9.5	10.0	–
Value added	€ million	30	82	-63.4
Capital employed	€ million	5,303	6,424	-17.5
Capital expenditure	€ million	611	587	4.1
Property, plant and equipment	€ million	610	587	3.9
Financial assets	€ million	1	–	–
		Dec 31, 2008	Dec 31, 2007	
Workforce[1]		12,747	11,975	6.4

1 Converted to full-time positions.

1.8 FINANCIAL POSITION AND NET WORTH

The ups and downs on financial and commodity markets highlighted RWE's traditional strengths: a strong balance sheet, high and stable cash flows from operating activities and financial discipline. These strengths enable us to stay on course for growth despite the financial market crisis. And they are the foundation of our good standing on the debt market. As in the past, the leading rating agencies have given us a high credit rating despite our plan to acquire the Dutch-based utility Essent.

Central financing. At RWE, Group financing is handled by the corporate headquarters, RWE AG. Only in specific cases do our subsidiaries raise capital directly, especially if it is economically advantageous to make use of local credit and capital markets. Furthermore, RWE AG acts as co-ordinator when Group companies assume a liability: The company co-ordinates and 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.

Financial flexibility. We primarily meet our financing needs with high and stable cash flows that we generate from our operating activities. In addition, we have access to a number of financing instruments which we can use flexibly. One of our major tools is the Debt Issuance Programme (DIP) for long-term refinancing on the capital market. At the end of 2008, the nominal volume of bonds outstanding that we had issued through the DIP amounted to €10.2 billion. When we made our takeover bid for Essent in January 2009, the Executive and Supervisory Boards decided to increase the DIP's scope from €20 billion to €30 billion. We will be able to cover the financing need arising upon the acquisition of the Dutch-based energy utility with a bridge loan guaranteed by banks. The line of credit was set at €9 billion. A €3.6 billion credit line will serve as an additional liquidity reserve. €1.6 billion of it will be available to us until October 2009, and €2.0 billion will be available until 2011. We have not used this line of credit so far. Furthermore, we have had a commercial paper programme totalling US$5 billion for short-term financing on the money market since 2002. As of December 31, 2008, US$1.2 billion in RWE commercial paper was outstanding.

Neither the aforementioned financing programmes, nor the credit facility, contain specific financial covenants such as interest coverage, leverage or capitalization ratios that could trigger actions, such as acceleration of repayment or provision of additional collateral. Likewise, they do not contain rating triggers.

Credit rating remains high. 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 (A1 and A). Subsequent to our takeover offer for

Dutch-based utility Essent in January 2009, the two agencies announced that they would review our ratings. We had expected this. Since then, Standard & Poor's has confirmed its rating for RWE, but lowered the outlook from "neutral" to "negative." Moody's is currently looking into a possible downgrade. It is yet to announce its result. Over the long term, we are aiming for the following minimum ratings: A (Standard & Poor's) and A2 (Moody's). The following table provides an overview of our credit ratings at the end of January 2009:

Credit rating	Moody's	Standard & Poor's
Long-term	A1 / negative outlook[1]	A / negative outlook
Short-term	P-1[1]	A-1

1 Under review for potential downgrade (last updated February 13, 2009).

In 2008, our interest expenses (including those for hedges) amounted to 4.6% of the RWE Group's average financial liabilities. This was much lower than in 2007 (5.8%) when they still included American Water. The cost of the US water utility's refinancing is much more expensive than the Group average cost of debt. Amongst the reasons for the decrease in interest expenses was the lower level of interest rates in the euro, dollar and Sterling zones compared to 2007. We have financial debt in all three of these currencies.

Net debt € million	Dec 31, 2008	Dec 31, 2007[1]	+/- in %
Cash and cash equivalents	1,249	1,922	-35.0
Marketable securities	8,052	11,302	-28.8
Other financial assets	4,832	2,125	127.4
Financial assets of continuing operations	**14,133**	**15,349**	**-7.9**
Bonds, notes payable, bank debt, commercial paper	11,839	12,005	-1.4
Other financial liabilities	1,644	1,280	28.4
Financial liabilities of continuing operations	**13,483**	**13,285**	**1.5**
Net financial assets of continuing operations	**650**	**2,064**	**-68.5**
Provisions for pensions and similar obligations	2,738	3,565	-23.2
Capitalized surplus of plan assets over benefit obligations	–	507	–
Provisions for nuclear waste management	9,465	9,053	4.6
Mining provisions	2,866	2,822	1.6
Net debt of continuing operations	**14,419**	**12,869**	**12.0**
Net debt of discontinued operations	4,240	3,645	16.3
Net debt of the RWE Group	**18,659**	**16,514**	**13.0**

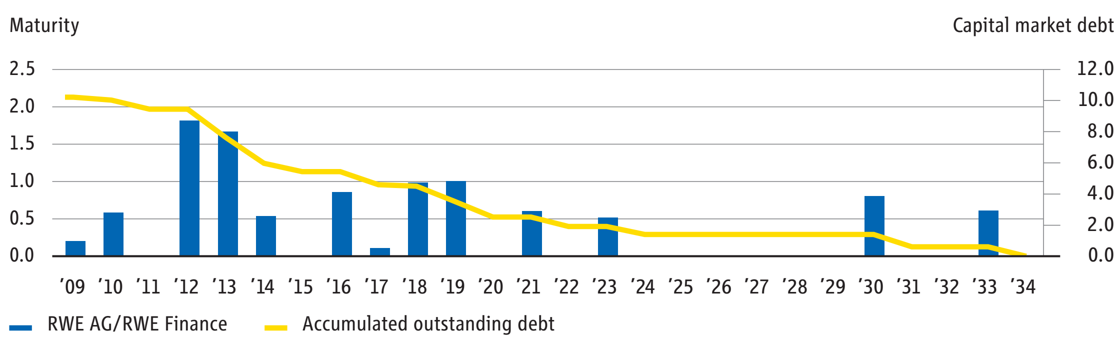
1 Figures partially adjusted (see commentary on page 60).

Net debt up on previous year. As of December 31, 2008, our net debt amounted to €18.7 billion. We have given this figure a new definition: In the past, net debt equalled net financial debt plus provisions for pensions. In 2008, we started including provisions for nuclear waste management and mining damage. The surplus of plan assets over benefit obligations is subtracted. To ensure comparability, we have also calculated the prior-year figure using the new definition.

The RWE Group's net debt was up €2.1 billion from the end of 2007. We had originally expected to decrease it further over the course of the year, on condition that we sell the majority of American Water by the end of 2008. This would have allowed us to deconsolidate the US water company's debt. As explained on page 53, this has not happened yet. Therefore, we were unable to fully offset the debt-increasing effects caused by the share buyback (€2.5 billion) or the dividend payments (€2.0 billion). Capital expenditure also contributed to the rise in liabilities. Our cash flow from operating activities of €8.9 billion exceeded the year-earlier level and had a counteracting impact. On balance, currency effects reduced debt by €0.9 billion. The weakness of Sterling played a major role.

RWE successfully returned to the bond market. RWE issued new bonds for the first time since 2004. A total of €2 billion was placed via RWE Finance B.V. in November 2008. Another €3 billion followed in February 2009, partially in order to finance the planned acquisition of Essent. All of the issuances were several times oversubscribed. The nominal volume of bonds issued by RWE amounted to €10.2 billion at the end of 2008 and was therefore slightly lower than in 2007 (€10.7 billion). American Water is not included in these figures. The weighted average remaining term to maturity of RWE's bonds outstanding was nine years at the end of 2008. €0.2 billion in bonds come due in 2009.

Maturity profile of the RWE Group's capital market debt in € billion (as of December 31, 2008)



Repayment of Essent bridge loan using bonds. We backed the €9.3 billion takeover offer for Dutch utility Essent in January 2009 with €9 billion in interim financing guaranteed by ten major banks, and with our own cash reserves. The loans will come due one year after the offer is made. We have the right to extend the term for half of the total sum by an additional year. Since we have always pursued a forward-looking and long-term financing strategy, we have already started redeeming part of the interim financing by issuing bonds. Our goal is to fully replace the credit facility with long-term capital market debt.

RWE Group's capital market debt as of Dec 31, 2008 by remaining term to maturity		0–3 years	4–7 years	8–12 years	> 12 years
Nominal volume	€ billion	0.8	4.0	2.9	2.5
Relative share of total volume of capital market debt	%	8	39	28	25

Share of euro-based financial debt increased to 59%. By the end of 2008, our interest-bearing financial debt totalled €12.5 billion. This does not include American Water. Including currency hedges, at the end of the year under review, 59% of our financial debt was in euros, 35% in Sterling and 6% in US dollars. Our share of debt denominated in euros was much higher than in 2007 (excluding American Water). In contrast, the share denominated in Sterling dropped by a similar order. This shift is largely due to foreign exchange effects. Furthermore, new issuances and redemptions resulted in a net rise in eurobonds.

Cash flow statement[1] € million	2008	2007	+/- in %
Cash flows from operating activities	8,853	6,085	45.5
Impact of the change in working capital	1,687	-222	–
Cash flows from investing activities	-3,584	-4,483	20.1
Cash flows from financing activities	-5,907	-2,458	-140.3
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	-35	-16	-118.8
Total net changes in cash and cash equivalents	-673	-872	22.8
Cash flows from operating activities	8,853	6,085	45.5
Minus capital expenditure on property, plant and equipment and on intangible assets	-4,454	-4,065	-9.6
Free cash flow	**4,399**	**2,020**	**117.8**

1 Figures for 2008 exclusively relate to continuing operations.

Cash flows from operating activities markedly up on previous year. In fiscal 2008, we generated €8,853 million in cash flows from operating activities. This was 45% more year on year. American Water's cash flows are no longer included in figures for 2008, but are still included for 2007. Cash flows rose considerably due to the improved operating result earned by our German power generation business. In addition, at RWE Power, we benefited from the fact that a large part of our expense for CO_2 certificates will not have an effect on profit or loss until 2009. Cash flows from operating activities benefited from another special item resulting from the early fixing of the price for parts of our electricity generation via forward sales on the European Energy Exchange (EEX) in Leipzig, Germany. By concluding these types of hedges, we aim to limit the short-term influence of volatile commodity prices on our earnings. On the balance sheet date, prices on the electricity market for large parts of this generation were lower than the prices established in the forward contracts. Our contracting partners were required to provide us with payments to make up the difference ("variation margins"). Netting them with the variation margins paid by us results in a net cash flow of €1,753 million and led to a corresponding change in working capital.

Cash flows from investing activities (including cash investments) were €3,584 million higher than proceeds from the disposal of assets and the sale of companies. Our cash investments include the transfer of additional assets to RWE Pensionstreuhand e.V. as part of contractual trust arrangements in November 2008. This resulted in a negative cash flow of €1.3 billion. Cash flows from financing activities were -€5,907 million. This was largely attributable to the share buyback (€2.5 billion), the provision of margins and collateral for forward transactions (€2.3 billion), dividend payments (€2.0 billion) and the redemption of two bonds (€1.6 billion). The November 2008 bond issuance (€2.0 billion) had a counteracting effect.

Cash flows from operating activities, minus capital expenditure on property, plant and equipment, result in free cash flow. It amounted to €4,399 million, and was more than double the previous year's figure. The significant increase in cash flows from operating activities was the only reason.

Balance sheet structure	Dec 31, 2008		Dec 31, 2007[1]	
	€ million	in %	€ million	in %
Assets				
Non-current assets	41,763	44.7	41,360	49.6
Intangible assets	11,202	12.0	11,882	14.2
Property, plant and equipment	21,762	23.3	20,038	24.0
Current assets	51,667	55.3	42,060	50.4
Receivables and other assets[2]	31,433	33.6	18,309	21.9
Assets held for sale	8,710	9.3	8,619	10.3
Total	**93,430**	**100.0**	**83,420**	**100.0**
Equity and liabilities				
Equity	13,140	14.1	14,659	17.6
Non-current liabilities	36,793	39.4	36,796	44.1
Provisions	21,072	22.6	21,281	25.5
Financial liabilities	11,154	11.9	10,046	12.0
Current liabilities	43,497	46.5	31,965	38.3
Other liabilities[3]	28,769	30.8	17,116	20.5
Liabilities held for sale	6,714	7.2	5,897	7.1
Total	**93,430**	**100.0**	**83,420**	**100.0**

1 Figures partially adjusted (see commentary on page 60).
2 Including financial accounts receivable, trade accounts receivable, and tax refund claims.
3 Including trade accounts receivable and payable.

Balance sheet structure affected by changes in the market value of commodity derivatives. As of December 31, 2008, our balance sheet total amounted to €93.4 billion. It was up €10.0 billion on the level at the end of 2007. This is mainly because the market value of our derivatives has risen. It was up €7.8 billion on the assets side and €7.7 billion on the equity and liabilities side. This primarily relates to commodity derivatives. Our energy trading business also had a major effect on current receivables and liabilities. Accounts receivable from sureties (variation margins and collateral) increased by €2.4 billion, while trade accounts receivable were up by €1.6 billion. This was contrasted by a comparable increase in current liabilities. Current marketable securities decreased by €3.1 billion largely because we sold a substantial amount of them. We used the proceeds to finance the dividend payments and our share buyback as well as to redeem capital market debt, among other things. On balance, changes in foreign exchange rates reduced the balance sheet total by €2.6 billion. The weakness of Sterling had a major impact.

The rise in the balance sheet total and our share buyback programme played a substantial role in reducing the RWE Group's equity ratio from 17.6 % to 14.1 %. Equity and non-current liabilities covered 120 % (2007: 124 %) of our non-current assets at the balance sheet date. This is proof of RWE's solid finance and capital structure.

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

RWE AG is the management holding company of the RWE Group. It handles general management tasks such as corporate strategy, corporate finance and corporate accounting. RWE AG's situation is largely determined by the Group's activities.

The financial statements of RWE AG, which have been issued an unqualified audit opinion by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, 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 RWE AG and are also available on the Internet.

Financial statements. The financial statements of RWE AG are prepared in accordance with the German Commercial Code and the German Stock Corporation Act. A brief overview is provided below:

Balance sheet of RWE AG (abridged) € million	Dec 31, 2008	Dec 31, 2007
Non-current assets		
Financial assets	30,298	29,546
Current assets		
Accounts receivable from affiliated companies	9,870	5,542
Other accounts receivable and other assets	788	925
Marketable securities and cash and cash equivalents	4,834	4,779
Total assets	**45,790**	**40,792**
Equity	9,416	8,400
Provisions	7,341	6,988
Accounts payable to affiliated companies	26,029	23,515
Other liabilities	3,004	1,889
Total equity and liabilities	**45,790**	**40,792**

Income statement of RWE AG (abridged) € million	2008	2007
Net income from financial assets	3,751	4,130
Net interest	-961	-1,210
Other income and expenses	330	802
Profit from ordinary activities	**3,120**	**3,722**
Taxes on income	-285	-777
Net profit	**2,835**	**2,945**
Reconciliation to distributable profit	-427	-1,173
Distributable profit	**2,408**	**1,772**

Assets. The net worth of RWE AG is determined by the management of investments and the activities it undertakes for the Group companies. The holding company holds the shares in the operating companies and handles financing for them. This is reflected in corresponding accounts receivable from, and payable to, affiliates, which rose considerably due to an increased need for, and higher flows of, financial resources in individual companies. Working capital includes 31.7 million shares bought back in the first half of 2008.

The €3.5 billion in provisions for pensions included in the provisions are not limited to coverage for the vested benefits of the parent company's staff, but also include coverage for the vested benefits of subsidiaries' current and former employees. RWE AG was reimbursed for pension expenses by the companies concerned. This caused a corresponding reduction of income from investments.

As of December 31, 2008, RWE AG's balance sheet total was higher than in 2007, but the equity ratio remained at 20.6%.

Financial position. RWE AG's financial situation is determined by the procurement of funds for its subsidiaries' ongoing business activities. The subsidiary RWE Finance B.V. handles most of RWE AG's external refinancing on the capital market by issuing bonds backed by RWE AG. In a difficult capital market environment, we successfully placed two bonds with a total volume of €2.0 billion in November 2008 and two further bonds with a total volume of €3.0 billion at the beginning of February 2009. As of December 31, 2008, RWE bonds and commercial paper outstanding amounted to €10.2 billion and €0.8 billion, respectively. Proceeds from the sale of 39.5% of American Water were used to pay down external financial debt.

Earnings position. RWE AG's earnings are largely determined by the earnings generated by its subsidiaries. Income from financial assets, which was primarily contributed by RWE Power AG and RWE Energy AG, was 9% down year on year. Our earnings contributions were affected by the one-off effects of the valuation of participations. Furthermore, securities on RWE AG's books had to be written down in connection with the financial crisis. Net interest improved again, because financial debt continued to decline over the course of the year under review. In contrast, the combined total of "other income" and "other expenses" fell. This was mainly because the tax paid by subsidiaries was lower and capital gains on the sale of securities were smaller than in 2007. The tax expense was also down year on year, largely due to the reduction in tax rates resulting from the German 2008 corporate tax reform and the release of a tax provision after a succesful lawsuit.

The Supervisory and Executive Boards of RWE AG will propose to the Annual General Meeting on April 22, 2009, that a dividend of €4.50 per share be paid for fiscal 2008. Relative to the Group's recurrent net income, this results in a payout ratio of 71%. It is therefore within the target range of 70% to 80% envisaged for the 2008 financial year.

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. 120, Para. 3, Sentence 2 and Sec. 175, Para. 2, 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. 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 December 21, 2007, RW Energie-Beteiligungsgesellschaft mbH & Co. KG, Dortmund, informed us that it held 16.089% of RWE Aktiengesellschaft'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. 5 of the Articles of Incorporation of RWE Aktiengesellschaft. According to Sec. 16, Para. 5 of the Articles of Incorporation, unless otherwise provided for by law or in the Articles of Incorporation, the 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 therefore 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 April 17, 2008, the Executive Board was authorized to purchase shares of any class in RWE until October 16, 2009, 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. They may then be called in, transferred to third parties within the scope of mergers or acquisitions, or sold in another manner, as long as the sale is made in exchange for cash and at a price that is not significantly lower than the price quoted for common shares bearing the same rights at the time of sale. The authorization may be exercised in part or in full.

Pursuant to Sec. 4, Para. 2 of the Articles of Incorporation, the Executive Board is authorized to increase the company's capital stock with the Supervisory Board's approval by up to €287,951,360.00 until April 16, 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 (authorized 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 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.

RWE AG's syndicated credit lines have a change of control clause. It is a contractual provision which grants a contracting party certain rights (most importantly the right to termination) in the event of a change of either control or the majority shareholder at the other contracting party.

Executive Board members have a special right of termination in the event of a change of control. On execution of the 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 not be less than twice their total contractual annual compensation and shall not be more than three times their total contractual annual compensation. Since Dr. Jürgen Großmann was granted this special right of termination before the last amendment to the German Corporate Governance Code, on exercise of his special right of termination, he 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.

The 2005 long-term incentive plan (Beat) for the Executive Board and executives of RWE AG and of affiliated companies includes a provision for a change of control. In such events, all holders of performance shares under the Beat programme 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. The latter is determined when the takeover offer is made, in line with the plan conditions.

The authorization to conduct share buybacks, the authorized capital, the provision governing changes of control over the syndicated credit lines, the provisions effective in the event of a change of control in the Executive Board members' contracts, and the compensation regulations for the 2005 long-term incentive plan (Beat) that prescribe compensation for performance shares in the event of a change of control, are in line with the generally accepted German capital market standards.

1.10 INNOVATION

The energy industry faces enormous challenges: People demand that energy be affordable and its supply reliable. At the same time, CO_2 emissions must be significantly reduced. Research and development is key to mastering these challenges and we have the "energy to lead" in this field as well. Our prime objective is to increase efficiency and reduce emissions from electricity generated from fossil fuels.

Reorganization of research and development in the RWE Group. In April 2008, we created a unit responsible for developing our strategy in the field of research and development (R&D) and coordinating all of the Group's R&D activities, including patents. Operational implementation remains in the hands of our subsidiaries.

We can only remain competitive over the long term if we constantly invest in new technologies and refine existing ones. In this field, we co-operate with partners in plant engineering and the chemical industry. As a result, the activities are only partially reflected in our R&D costs, which amounted to €105 million in the 2008 financial year. In light of the growing importance RWE accords to research and development work, we intend to increase our budget in this area.

Last fiscal year, 330 employees were entrusted with R&D work throughout the Group either full or part time—60 more than in 2007. This was in part due to the initiation of a number of new R&D projects.

Research and development		2008	2007	2006	2005	2004
R&D costs	€ million	105	74	73	55	114
R&D employees		330	270	273	223	224

Climate protection drives the development of new electricity generation technologies. Our competitiveness depends on whether we succeed in bringing electricity generation based on fossil fuels—especially coal—in line with the goal of protecting the climate. One of the keys is the capture and storage of carbon dioxide produced by power stations. We are currently preparing to build a power plant in which coal is converted to a gaseous state, the CO_2 is separated, and the electricity is generated in gas and steam turbines. This is referred to as IGCC (Integrated Gasification Combined Cycle) technology. We reported on this project in detail on pages 54/55.

Another method of producing climate-friendly electricity besides IGCC is the removal of carbon dioxide from flue gas. This technique captures up to 90% of the carbon dioxide contained in the flue gas. The advantage of post-combustion CO_2 scrubbing is that many existing power plants can be retrofitted for this purpose. In 2007, RWE Power joined forces with the chemical company BASF and plant engineering firm Linde to refine this technology. Within the scope of this co-operative venture, we are constructing a pilot plant in Niederaussem, Germany, where lignite-fired power plants are located. We plan to test improved CO_2 scrubbing agents developed by BASF for large-scale application, starting as early as the middle of 2009. Our objective is to put the method to commercial use by 2020. The "REAplus" project will benefit us in this area as well: We teamed up with Austrian Energy & Environment, an energy and environmental technology system supplier, to develop a high-performance flue gas desulphurization unit at the same location. The cleaner the flue gas, the better the capture of carbon dioxide.

In November 2008, we commissioned an algae harvesting plant for capturing carbon dioxide in Niederaussem. We "feed" the algae with CO_2 from the power plant over an area covering approximately 600 square metres. The micro algae used are single-cell plant-like organisms which grow via photosynthesis by ingesting carbon dioxide and water. One major advantage of algae is that they grow much faster than land-based plants. This enables them to convert carbon dioxide to biomass much more rapidly. We are exploring further ways to use the algae biomass produced in this manner. One conceivable application would be in biogas plants.

We also want to adapt carbon capture technologies for use in our hard coal power stations. RWE npower is playing a pioneering role in this field. The company is testing the use of washing solutions based on ammonia derivatives to capture CO_2 in a test combustion unit at our Didcot site. Another technique being examined in the same plant is the "oxyfuel" method. This is the third technology used to capture carbon dioxide besides ICGG and post-combustion CO_2 scrubbing. It involves burning hard coal or lignite with pure oxygen. The resultant flue gas has a high concentration of CO_2, which is relatively easy to remove. Furthermore, RWE npower has established a joint venture with Peel Energy and Dong Energy. Together, the three companies intend to build a large-scale carbon capture and storage demonstration facility in the United Kingdom.

Once carbon dioxide has been removed during the generation process, the gas must be prevented from escaping. To this end, it has to be stored in rock formations far below the surface of the earth. Since June 2008, thousands of tons of carbon dioxide have been injected into an 800 metre deep layer of sandstone in the vicinity of Ketzin, Brandenburg, within the scope of the EU's CO_2SINK research project. The goal is to have 60,000 metric tons of carbon dioxide stored there by 2010. This project will allow us to learn about the underground dispersion behaviour of carbon dioxide and examine whether the rock structure changes.

Capturing and storing carbon dioxide reduces efficiency when generating electricity. This is one of the reasons we constantly work on increasing the efficiency of our power plants. The demonstration facility for drying lignite before the combustion process at our Niederaussem site, which is being commissioned, serves this purpose. The method used here—fluidized bed drying with integrated waste heat usage—improves the efficiency of lignite-based electricity production by some four percentage points. This technology was developed and patented by RWE. We have already granted the first licence for external use in an Australian lignite project. Efficiency enhancements of a similar order can also be achieved using what is known as the 700 degree power plant. The "Component Test Facility for a 700°C Power Plant" (COMTES700), a test facility in the Scholven hard coal-fired power station in Gelsenkirchen, Germany, brings us a big step closer to large-scale deployment. Our engineers are working with partners in Germany and abroad to test materials and power plant components that can withstand temperatures of 700 degrees Celsius and high pressure. The project is being subsidized by the European Union. We expect it to produce results this year. Lignite drying and higher steam temperatures will enable us to achieve efficiencies exceeding 50% when generating electricity with lignite and hard coal over the medium term. The EU average for hard coal power plants is 38%, which is far below this figure.

Nuclear energy, which is free of CO_2, also makes an indispensable contribution to protecting the climate. It currently accounts for about a quarter of Germany's electricity generation. We are working with other utilities on projects that help ensure the safe and reliable use of our nuclear power stations over the long term. One of our points of focus is especially robust electrical components. In addition, we are working on proving the age resistance of pipes and containers more accurately. These measures are coordinated by VGB Power Tech, the European technical association for power and heat generation. A new point of focus for R&D emerged from our involvement in European new build projects: The objective is to come up with a method to comprehensively assess and optimize the safety features of new nuclear power stations. We support research and instruction in the field of nuclear energy in Germany to secure and grow expertise. For example, at Aachen Technical University, we finance three nuclear chairs.

Expansion and further development of renewable energy base. Besides enlarging the generation base using established technologies, our strategy in the field of renewables-based energy also encompasses in-house research and development work as well as the construction of demonstration plants.

We are focusing on finding new ways to generate electricity and heat from biological resources. Our first biogas plant to feed gas into the grid is being built in the community of Güterglück in Saxony-Anhalt, Germany. At Grevenbroich-Neurath, Germany, a team of scientists is helping us identify ways to improve the efficiency of our 716-kW biogas facility in a project run by the Ruhr University in Bochum, Germany. Wind power is also on our R&D agenda. The building specifications of wind farms at sea are very demanding. To make rapid progress in this area, we participated in the "Offshore

Wind Accelerator" (OWA) initiative in which the British Carbon Trust pools the competencies of five leading energy companies.

Furthermore, RWE Innogy is investing in technologies that can be used to produce electricity from tidal and wave movements. Our strategy also envisages acquiring stakes in young companies developing promising technologies. In September 2008, RWE Innogy spent €7.5 million to acquire a minority interest in Quiet Revolution. The UK firm specializes in the development and construction of small wind power units, e.g. roof installations.

Expanding installed renewable energy capacity poses a challenge for power utilities in numerous respects. More of this significantly fluctuating electricity will be fed into the grid in the future. Therefore, it is important to develop new efficient storage concepts early on. Against this backdrop, RWE Power and General Electric (GE) have begun working on the development of a pressurized-air storage power station with heat recovery: When electricity supply is high, air is compressed and forced into subterranean cavities. This compressed air can be used to generate electricity when needed.

New technologies today secure raw material supplies tomorrow. RWE Dea's upstream business provides a host of ways in which to implement R&D measures. One of our goals is to maintain the high success rates of our exploration wells. To this end, we must improve our ability to assess the indications of hydrocarbon deposits. We are conducting extensive geological studies in North Africa for this purpose. We are also looking into the possibility of obtaining clearer graphical representations of field structures enabling us to interpret them more accurately. In the field of oil and gas production, RWE Dea employs state-of-the-art techniques and refines them constantly.

Another of RWE Dea's fields of activity deals with methane hydrates. This resource is considered the energy source of the future. Methane hydrates are ice-like masses, which are created when gas bonds with water under high pressure and low temperatures. Large gas hydrate reserves can be found in permafrost regions and under ocean beds. Two of RWE Dea's research ventures are exploring ways to use them. One of the research projects is opening up entirely new horizons for climate protection: It is examining the possibility of CO_2-neutral methane extraction through the simultaneous storage of carbon dioxide in hydrate form.

The demands placed on the electricity grid are rising. Other R&D activities are dedicated to ensuring the safe, economic and environmentally friendly operation of our electricity and gas grids. For instance, we are investigating ways to record and assess the present state of our major network components more precisely. This will ensure that maintenance work is carried out in a timely fashion. In addition, we are exploring ways to enable our customers to use the grid in entirely new ways. An example is the "E-DeMA" project, which is being promoted by the German Ministry of Economics. The acronym is German and stands for "Development and Demonstration of Decentrally Networked Energy Systems en Route to the E-energy Marketplace of the Future." This joint undertaking, involving companies and research institutions, was launched in November 2008. Electricity customers in test regions are connected to an open electronic marketplace where they can communicate directly with energy traders, distribution system operators and other players. We can benefit from the consumers' more active participation and increased level of communication with utilities like RWE to develop innovative products and services. We are also taking a novel approach concerning the grid with our "Mülheim Counts" pilot project: By the end of 2010, 100,000 households will receive 'smart' power meters with which they can constantly monitor their energy consumption on the Internet. This will help our customers save energy and costs.

Electromobility spares resources and the environment. In electromobility, we have tapped into yet another promising area of R&D. September saw RWE and Daimler form one of the world's largest initiatives for the development and testing of mobility concepts for daily use. This model project will be carried out in Berlin, Germany. Daimler will develop the electric cars while RWE builds a customer-friendly infrastructure with some 500 "electric service stations." As part of the undertaking, we are working on a billing system based on intelligent communication between the vehicle and the charging stations. By enlarging the electric mobility footprint, we intend to improve environmental protection: With electricity as a fuel, renewable, CO_2-free energy can be used in road traffic.

1.11 DEVELOPMENT OF RISKS AND OPPORTUNITIES

The global financial and economic crisis exposes RWE to risks. Falling industrial production could cause the demand for electricity to decline. Our earnings would suffer if electricity wholesale prices remained low for a long time. However, the utility sector is relatively crisis-proof, and our markets are among the most politically and economically stable in the world. Moreover, the economic crisis offers us opportunities: As a financially strong company with a good credit standing, we can initiate projects other companies can no longer finance.

The proactive management of risks and opportunities is an important element of our business activity. The RWE Group has a groupwide risk-management system for the early identification, as well as standardized reporting, assessment, control and monitoring of risks. We also identify opportunities and associated earning potential.

Organization of risk management in the RWE Group. Responsibility for the RWE Group's risk management system sits with the Executive Board of RWE AG. It establishes the rules and minimum standards that ensure groupwide risk management. The corporate "Group Risk Management" department reports directly to the Chief Financial Officer and exercises control and co-ordination functions. Its tasks include developing groupwide specifications for methods and processes, regular reporting, and monitoring all risks. Our Group companies ensure that the groupwide risk management guidelines are implemented uniformly, under the technical supervision of the corporate department.

In addition, the following committees handle corporate risk management tasks:

- **Risk Committee:** This body handles the tracking and monitoring of commodity price risks and management of the credit risks arising from trading, sales and purchasing activities. The committee convenes once a month. This ensures close monitoring of those risks that are pivotal to us. The CFO of RWE AG is the Chairman of the Risk Committee. He is supported by the heads of the Group Risk Management, Group Finance and Value Chain Management departments. The CFOs of RWE Power, RWE Dea, RWE Energy and RWE npower, as well as the managing directors in charge of finance at RWE Supply & Trading and RWE Innogy, also sit on the Risk Committee. They ensure uniform compliance with groupwide risk management directives in the companies. They are assisted in this by the respective subsidiaries' risk controlling departments. Organizationally, they are strictly separated from the operating units.

- **Risk Management Committee:** This body is responsible for implementing, monitoring and refining the risk management system. It is largely composed of the heads of the corporate departments of RWE AG's Finance Department. The Risk Management Committee is chaired by RWE AG's Group Risk Management Department.

- **Asset Management Committee:** Its task is to manage risks associated with investments in securities. This body, to which the CFO of RWE AG, the head of corporate finance and the CFOs of RWE Power, RWE Dea, RWE Energy and RWE npower belong, defines, among other things, the asset strategy, taking the earnings potential and risks of long-term capital investments into account. This includes selecting suitable asset classes (bonds, stocks, etc.) and the allocation of the company's funds to the individual asset categories.

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 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 and Group levels. Risks that share the same cause are aggregated to one position. If a risk can be reduced by taking countermeasures, the residual risk is reported together with the risk-reduction measures. A risk's damage potential is defined in relation to the operating result and equity of the business unit concerned and the Group as a whole. Risks with a high probability of occurrence or damage potential are mitigated by taking operational measures. Where necessary, we take them into account by taking precautionary steps on the balance sheet, e.g., impairments or provisions. We evaluate and manage opportunities as part of our regular planning process.

We prepare standardized 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 effectiveness of our risk management system.

Overall assessment of the risk and opportunity situation by executive management: The political environment in the European energy industry will continue to be a challenge to us and harbours substantial earnings risks. The general economic climate worsened significantly in 2008. The crisis faced by the global financial system, which led to a collapse in world economic growth at the end of 2008, will also result in risks for a utility like RWE. For instance, economically-induced reductions in industrial production may result in lower demand for electricity. Low electricity prices over long periods would negatively affect our earnings. The earnings risk to our asset portfolio, our refinancing risks and our counterparty default risk have increased substantially due to the turbulence in financial markets. In 2008, we reacted to these risks by taking intensified risk management measures. One example of this is the closer tracking of our business partners' creditworthiness. However, the current economic situation may provide opportunities for us as well. For instance, RWE continues to be considered a relatively safe bond issuer and is thus in a position to finance projects, the implementation of which has become much more difficult for other companies. As an energy utility, we are active in a sector in which demand has relatively low fluctuation. The markets in which we operate rank among the most politically and economically stable in the world.

In addition, we largely sell our generation forward, thus hedging short-term price movements. In Germany, we have sold forward almost all of our generation for 2009 and over 70% of our generation for 2010. Further opportunities arise from the lower prices of power plant components—above all in the field of renewable energies. At present, there are no identifiable risks that could jeopardize 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 the RWE Group's asset, financial, earnings and liquidity 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 is of central importance to our earnings situation, 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. However, opportunities arise from counteracting price trends. In our upstream business, changes in the market price of oil and gas can influence our earnings. Another area exposed to risk is the supply business. This is in part because it is possible that increasing procurement costs may not be fully passed through to end-customer prices, or because changes in temperature may lead to unexpected fluctuation in demand. We assess the price risks to which we are exposed on the procurement and supply markets taking account of current forward prices and expected price volatility. Commodity risks faced by generation and supply companies are managed by following hedging rules established by RWE AG. In the generation business, we limit risks by selling most of our electricity early on, via forward contracts and hedging the price of fuels and emissions certificates needed for this output.

  RWE Supply & Trading plays a central role when it comes to hedging commodity price risks. The company is the RWE Group's interface to the world's wholesale markets for energy and energy commodities, while serving as an internal transaction partner for hedging commodity risks. It markets large portions of the Group's generation position and purchases the fossil fuels and CO_2 emissions certificates needed to produce electricity. Through its role as internal transaction partner, it limits the earnings risks stemming from price swings on energy markets for the generation and supply businesses and creates a stable basis of calculation. RWE Supply & Trading thus pools the risk and value added from commodity transactions for the Group and pools the expertise for these transactions centrally. RWE Supply & Trading also uses commodity derivatives based on contracts that are settled physically (delivery) and financially (cash settlement) to minimize risk in the procurement and sales businesses. The trading activities are not exclusively oriented towards limiting risks. RWE Supply & Trading undertakes proprietary trading in adherence with limits, in order to make use of changes in prices on energy markets.

The RWE Group's integrated trading and risk management system for energy trading is firmly aligned with best practice as applied to the trading business. Transactions are concluded with third parties only if certain credit risk limits can be complied with. Groupwide guidelines provide structures and processes for the treatment of commodity risks and associated credit risks in respect to third parties and within the Group. The commodity price risks in our generation and supply companies are constantly monitored and reported to the responsible bodies, including the Risk Committee of RWE AG. Furthermore, the Executive Board of RWE AG is kept informed of our consolidated risk positions in the field of commodities by way of quarterly reports.

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. The central risk controlling parameter is the Global VaR, which limits trading activities of RWE Supply & Trading and may not exceed €40 million. 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 Global VaR. In fiscal 2008, RWE Supply & Trading's Global VaR averaged €12 million, and the daily maximum was €17 million. However, our risk analysis is not only based on the amount of VaR. We also factor in extreme scenarios, determine the influence they can have on liquidity and earnings, and take suitable measures if necessary.

- **Financial risks:** Fluctuations in 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. As explained earlier, the Asset Management Committee coordinates the management of risks arising from investments in securities. The Group Finance Department handles the operational implementation of the financial risk management system. It is also responsible for reporting on this risk category.

  Due to our international activities, currency risk management is very important. Group companies are obliged to hedge all currency risks via RWE AG. The parent company determines the net financial position for each currency and hedges it with external market partners if necessary. 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, as was the highest VaR achieved in a single day.

  Interest rate management is also ascribed significant importance. Our interest rate risks primarily stem from our interest-bearing investments and financial debt. Negative changes in value caused by unexpected interest rate movements are hedged with non-derivative and derivative financial instruments. In 2008, the average VaR for the interest rate risk associated with our financial debt and related hedges was €129 million. As of December, it totalled €147 million and was thus not much higher than the average for the year, despite the financial market crisis. The average VaR for interest-bearing investments including hedges was €53 million (December: €46 million) and for share investments it was €21 million (December: €27 million).

Risks and opportunities from changes in the value of securities are controlled by a professional fund management system. The Group's financial transactions are recorded using centralized risk management software and monitored by RWE AG. This enables the balancing of risks across individual companies. Range of action, responsibilities and controls are set forth 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. Our risk management system is designed to keep our exposure to these risks manageable. In this context, we take into account the fact that the current financial crisis might lead to an increase in our counterparty default risk. Credit risk management is governed by a groupwide credit risk guideline. The Risk Committee is in charge of monitoring credit risks throughout the Group. Its operating requirements are implemented by risk controlling units at the parent company level (RWE AG) and in the Group companies.

  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 insofar as economically feasible. In the financial and energy trading activities, we conclude credit transactions largely with banks and trading partners of good creditworthiness. We determine their credit standing using an internal assessment method, which has been supplemented with an early warning indicator in light of the financial market crisis. As a rule, trading transactions are concluded on the basis of framework agreements, e.g., those published by the European Federation of Energy Traders (EFET). We measure the credit risks of the energy trading and financial activities on a daily basis.

- **Liquidity risk:** Liquidity risks arise if liquidity reserves are no longer sufficient to meet financial obligations in a timely manner. At RWE, such obligations result above all from the refinancing of financial liabilities. Furthermore, we must put up cash collateral if contracts valued at current market prices result in a loss. Despite the current financial market crisis, 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 Programme and Debt Issuance Programme (see page 86). Our careful planning ensures that we are liquid at all times.

- **Risks and opportunities associated with corporate strategy:** Decisions on acquisitions and investments are associated with risks and opportunities since capital is employed and tied up long term. When a company is acquired, problems can arise in connection with the integration of employees, processes and technologies. RWE has specific accountability provisions and approval processes in place to prepare and implement strategic decisions concerning investments and acquisitions. The same applies to divestments such as the sale of our US water activities. Closely monitoring both our markets and competitors helps us record strategic risks and opportunities adequately and identify them early on.

- **Continuity of business activities:** We operate technologically complex and interconnected production plants in all parts of our value chain. Earnings risks can arise from uninsured damage to 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 address these risks through high safety standards as well as regular audit, maintenance and servicing work. If appropriate, insurance policies also limit possible effects of damage.

- **Regulation:** 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. This represents a substantial risk due to the EU-wide CO_2 emissions trading system. Risks can arise above all from increases in the cost of procuring CO_2 certificates. We must assume that the generators in our core markets, i.e., Germany and the UK, will no longer be allocated free certificates in the third emissions trading period (2013 to 2020). The heads of state of the EU agreed on this in December 2008. RWE thus anticipates that CO_2 costs will be much higher than in the current trading period, which will last until 2012. We intend to continue reducing our emissions and make our power generation portfolio more flexible primarily through our investment programme. Furthermore, we limit CO_2 risks through climate-protection projects in developing and newly industrializing countries within the scope of the Kyoto "Clean Development Mechanism" (CDM) and "Joint Implementation" (JI).

  Our German electricity and gas grid companies are exposed to earnings risks largely arising from incentive-based regulation in effect since January 2009. Uncertainty exists in part because some of the parameters of the regulatory framework have not been finalized. One of the outstanding issues is the mechanism for determining how to take grid operator energy procurement costs into account. We intend to partially offset the effects of regulation on our earnings by taking measures to cut costs and enhance efficiency throughout RWE Energy.

In Germany, risks can also arise from the stricter monitoring of anti-competitive pricing practices, which entered into force at the end of 2007. Therefore, our pricing in the supply business might be subject to review.

- **IT security:** Our business processes are supported by efficient IT systems. Risks are associated with the availability of networks and IT solutions as well as with the security of our data. We mitigate these risks by regularly investing in hardware and software, high security standards and limited access privileges. RWE has established a mandatory groupwide process for engineering, managing and auditing IT projects in order to manage IT risks during the development of IT solutions designed to support business processes. Our IT is largely based on standard, commercially available software. IT operations are run in modern data centres. Our IT infrastructure is subject to a groupwide security directive and continuously updated.

- **Human resources:** Competition for the best talent is becoming increasingly fierce. To secure and strengthen our position in this area, 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 lot 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 substitutes are in place and planning for successors early on.

- **Legal procedures:** Individual RWE Group companies are involved in litigation and arbitration proceedings due to their operations or sale of companies, and out-of-court claims have been filed against some of them. However, we do not expect any major negative repercussions on the RWE Group's economic or financial position. Furthermore, Group companies are directly involved in various procedures with public authorities or are at least affected by their results.

  Raw materials production and power generation activities might be curtailed by risks arising from approval processes for our opencast mines and nuclear power plants. Furthermore, there is a risk of financial loss when capital is spent on the construction of power plants in the run-up to local planning decisions made by public authorities. We take precautionary measures against this by preparing our applications for approval with great care and ensuring that approval processes are handled competently. In light of our extensive growth programme and numerous investments in replacement plants, the number of our ongoing approval processes is especially high at present.

In the German end-customer business, we are affected by legal procedures concerning the effectiveness of price mechanisms. This may result in burdens for us.

In May and December of 2006, the EU Commission conducted follow-up inquiries at several energy companies throughout Europe. This affected RWE AG and other RWE Group companies in Germany. The EU Commission then filed requests with companies including RWE for information on individual energy market issues. Risks may arise from the investigations, some of which are still ongoing.

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 the conversion ratios and the amount of cash paid in compensation. In our opinion, associated risks are low, as the conversion ratios and cash compensation were calculated by independent experts. If a different legally enforceable decision is reached, the compensation will be carried out by making an additional cash payment to the affected shareholders, including those who are not directly involved in the conciliation proceedings.

In summary, due to its uniform, company-wide risk management practice, the RWE Group is capable of counteracting all aforementioned risks and taking advantage of opportunities as they arise.

1.12 OUTLOOK FOR 2009

We are raising our mid-term earnings targets despite the financial and economic crisis: We want to increase the operating result by an average of 5 to 10% per annum until 2012 on condition that electricity wholesale prices maintain a certain level. An average improvement of 10% per annum is envisioned for recurrent net income. We expect our operating result for 2009 to be in the order of last year.

World economic crisis continues. In 2009, the global economy is likely to contract, owing to the financial crisis and the impact it is having on the real economy. However, the measures initiated by numerous countries to reinvigorate the economy and support banks have laid an initial foundation for alleviating the confidence crisis. The situation in the Eurozone will probably remain difficult throughout the year. Based on current forecasts, which have a great element of uncertainty, the Eurozone's real gross domestic product (GDP) will decline by some 2%. Estimates for the German economy are of the same order. Investment in property, plant and equipment is set to decline significantly. Foreign trade—traditionally the engine of Germany's economy—cannot be expected to provide support since exports will also fall far below last year's level. The UK economy has been especially hard hit by the financial crisis and is still trying to cope with weakness in the property sector. UK economic output might drop by as much as 3% in 2009. In common with the Eurozone, the UK economy is not expected to recover before 2010. The implications of the financial crisis and shrinking global demand are being felt increasingly in Central Eastern Europe as well, though the region as a whole is still expected to post marginal growth.

Fuel prices much lower. Pressure from demand on world energy markets has dissipated due to the weak economy. As a result, commodity prices are currently far below last year's average. In light of the unfavourable economic outlook for 2009, we do not anticipate that they will recover quickly. At the end of January 2009, a one-month Brent crude forward cost between US$46 (delivery in March) and US$55 (delivery in December). The price curve indicates that market participants are counting on a recovery. Nevertheless, it is unlikely that 2009 Brent quotations will match the 2008 average (US$97). The same applies to gas prices which track developments on the oil market. From our current perspective, hard coal will probably also be cheaper than in 2008. In Rotterdam spot trading at the end of January, a metric ton cost US$74 (including freight and insurance to Rotterdam). This was far below the 2008 average (US$148). German BAFA prices are also expected to record a substantial decline.

Economic crisis affects CO_2 emissions trading: low need for certificates expected. We anticipate that prices in European CO_2 emissions certificate trading will be significantly down on 2008. Certificates for the current year sold for only €12 per metric ton of CO_2 at the end of January. Market participants expect reduced production from energy-intensive facilities to bring a large number of additional certificates onto the market. At the end of January, certificates from CO_2-reducing activities in developing and emerging countries, known as "Certified Emission Reductions" (CERs), cost €10 per metric ton of CO_2. In light of the low price level, barely any such projects are being initiated at present.

Effects of commodity slump on 2009 procurement costs. The significant decrease in commodity prices will cause RWE Dea's gas and oil production revenue to drop in 2009. However, our electricity generation will not be affected significantly until 2010. RWE Power and RWE npower have sold forward nearly all of their generation output for 2009. In principle, when concluding forward contracts, we hedge the volume and price of the required fuel at the time the contract is signed. This also applies to the purchase of CO_2 certificates. As a result, costs incurred to purchase gas, hard coal and emissions allowances have largely been influenced by price peaks on forward markets in the past, as has our electricity revenue. We have no fuel price risk exposure from lignite since we produce this fuel in our own opencast mines. Uranium required to run our nuclear power stations has been secured via long-term purchase agreements. In the nuclear power generation sector, fuel procurement costs typically account for a small portion of total generation costs.

Our ability to forecast procurement costs is limited by the fact that fuel used by our power plants depends on their load factors. This is in part determined by the development of spot prices on electricity and fuel markets, and power plant outages can also occur. We believe that savings can again be realized when purchasing materials and services in 2009.

Collapse of prices for fuel and emissions allowances drives development on electricity market. The low level of prices for hard coal, power plant gas and CO_2 certificates is reflected in declining electricity prices. As explained earlier, since we sold generation forward early on, this will not have a material effect on our earnings for 2009. We have also sold forward most of our 2010 electricity production (already more than 70% in Germany). Therefore, we will only partially be affected by the current commodity price trends next year. We believe that prices paid for raw materials—and with them electricity prices—will recover over the medium term. Market signals indicate this as well. At the end of January, the forward price for 2010 base-load electricity deliveries in German wholesale trading was €51 per MWh. The same contract for the following years traded at €54 (2011), €58 (2012) and €64 (2013).

Strategy Agenda 2012: "More Growth, less CO_2." We made good progress in implementing our strategy in the last financial year (see pages 32 to 40). In early 2009, we underscored our plans by making a takeover offer for Essent, the leading Dutch energy utility. We are confident of being able to bring this transaction to a successful conclusion in the third quarter. This would enable us to achieve three goals at once: obtain a leading position on the Benelux market, improve our CO_2 balance, and substantially strengthen our position in the converging North West European energy market. This is in line with the objective of our Strategy Agenda 2012, which aims to strengthen RWE as one of Europe's five largest energy utilities.

On completion of the Essent acquisition, we want to focus on integrating the company, generating organic growth, and taking measures to avoid CO_2. Concurrently, we will make the RWE Group's business processes and structures more efficient. One of the focal points is our German operations: Increasingly fierce competition in electricity and gas supply requires us to review our regional organization and create a uniform, nationwide platform. Further organizational adjustments will be made to our German grid business due to the introduction in January 2009 of incentive-based regulation and EU transmission network regulations.

Upward adjustment to mid-term earnings targets. We are confident that we will exceed the earnings goals we have set ourselves so far. Therefore, we have raised the benchmark even higher:

- We intend to increase the operating result by an average of 5 to 10 % (instead of 5 %) per year through 2012. This does not take into account the planned acquisition of Essent. Given the strong fluctuation in commodity prices, this target depends on our expectation that the average realized price for German electricity forwards will be at least €60 per MWh in this period.
- On this basis, we want to see an increase in recurrent net income, the parameter for determining the dividend payment in the order of an average 10 % per year to 2012 (instead of 5 to 10 %).
- In August 2008, we significantly expanded our efficiency-enhancement programme, which was originally scheduled to run until the end of 2010. We are planning steps to reduce costs and increase revenue that will gradually improve our annual earnings by a total of €1.2 billion by 2012 (instead of €600 million by 2010) compared with 2006 levels.

Mid-term targets 2009 to 2012	
Operating result	5 to 10 % average annual growth
Recurrent net income	10 % average annual growth
Efficiency enhancements	€1.2 billion improvement in annual earnings vs. 2006

Capex campaign for profitable organic growth. Investments in infrastructure are key to enabling our future growth. We are implementing the biggest capex programme in RWE's history, which averages €6.5 billion per year until 2012. About half of it has been earmarked for projects promoting organic growth and efficiency enhancements. First, we want to cement and maximize the market positions we command in our two largest markets, i.e., Germany and the UK. Centre stage will be taken by investments in renewable energies and new large-scale power plants with which we want to replace old facilities or gain market share. The Netherlands are another point of focus, with our power plant project in Eemshaven. In the field of nuclear power, we are pursuing a longer-term growth strategy on the European power plant market. We successfully participated in the bidding processes for new build projects in two Eastern European markets, Bulgaria and Romania. We expect to reach definitive decisions on our involvement next year. In parallel, we are cooperating with E.ON to examine a possible entry into future new build projects in the UK. We will spend significant amounts of capital on our electricity and gas grids as well as on customer service. The new German grid regulation will provide us with a largely stable regulatory framework for the next five years.

At the same time, we are making preparations to tap new markets. This will involve projects through which we will establish footholds in the growth regions of South Eastern Europe, including Turkey and Greece. These markets are attractive for us, because they possess more long-term growth potential than our more mature markets, due to relatively old infrastructure and rising demand for electricity and gas. Furthermore, they offer us the possibility of broadening the geographic spread of operations in our Group.

Double-digit growth in earnings from renewable energy and gas and oil production planned. We intend to grow through investments, especially in the field of renewables-based energy. RWE Innogy's rapid establishment and expansion created the structural basis necessary for this. Our focus on gradual organic growth has proven advantageous in light of the current financial market crisis and recession. We largely develop in-house projects. We will benefit from the prices of wind turbine components, which are falling at present. The fact that numerous project engineering firms are looking for partners with know-how and robust balance sheets also presents us with opportunities. We expect that RWE Innogy will deliver double-digit annual earnings growth starting in 2010. The company wants its operating result to pass the €500 million mark within the next five years. This represents a roughly ten-fold increase over 2008.

We are also in a phase of strong investment activity as regards our gas and oil production. RWE Dea aims to double hydrocarbon output by 2012/2013. We want to triple gas production. This will further reduce our dependency on gas purchases and reflects the increasing significance of gas in electricity generation. Expenses associated with this growth strategy had an impact on the financial statements for fiscal 2008 and will again, in 2009, and subsequent years. However, the new production projects will result in considerable earnings improvements over the long term. RWE Dea aims to achieve an operating result of about €900 million by 2013. The prerequisite for this is that oil forwards for delivery in 2013 do not fall below the US$67 per barrel witnessed at the end of January.

Expanded gas procurement. We will capitalize on new opportunities by entering into the global market for liquefied natural gas (LNG) and the international large-scale pipeline business. Examples of this are the expansion of Excelerate Energy's activities and the construction of the Asian-European Nabucco gas pipeline, in which we are involved. We intend to gradually increase our position as a buyer and supplier of gas on the midstream market by 2012, from its current level of 40 to 60 billion cubic metres per year.

Preparing for 2013—through increased earning power and sustainable CO_2 avoidance. EU emissions trading causes the cost of power production to rise considerably. As the framework conditions for CO_2 emissions trading will be even more demanding from 2013 onwards (see pages 49/50), it is especially important to us to achieve the financial targets mentioned earlier. Concurrently, we will reduce the CO_2 intensity of our power production significantly. All our large-scale capex projects in the field of electricity generation will make a contribution. We have identified the potential to reduce our 2008 emissions by 20% during the period ending in 2012. We believe that a total reduction of over 30% is conceivable by 2015. The key tools for achieving this are the replacement of existing emission-intensive power stations, the increase of renewable energy generation capacity, the continued operation of German nuclear power plants, and use of CO_2 avoidance projects outside our core markets within the scope of the Kyoto "Clean Development Mechanism" (CDM) and "Joint Implementation" (JI).

Selective acquisition strategy. The planned takeover of Essent will be our biggest step in terms of growth via acquisition for the next few years. We are not ruling out further acquisitions, but if we make any, they will be of a smaller order. We are exploring how we can establish footholds by acquiring stakes in local energy companies, especially in the south east of Europe. However, we consider acquisitions only if our financial criteria are met. The major yardstick is the internal rate of return (IRR). It must at least correspond to the cost of capital, plus an added return.

Forecast for 2009: marginal changes to the reporting structure. The following changes apply to our financial reporting for 2009. To ensure comparability with prior-year figures, we will adjust them accordingly:

- So far, RWE Innogy has been assigned to "Other, consolidation" at the Group level. We will state this company as a separate division from now on.
- In the future, RWE Transportnetz Strom will no longer belong to RWE Energy. It will be transferred to RWE AG. This will prepare us for the stricter European regulations governing the separation of transmission grids from the rest of the energy business. RWE Transportnetz Strom will be reported under "Other, consolidation."
- RWE Key Account will be transferred from RWE Energy to RWE Supply & Trading. Key accounts generally look to the formation of prices on the wholesale market when conducting their purchasing activities. Therefore, this combination will benefit service levels and realize synergies.
- Another adjustment relates to the calculation of EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization): From 2009 onwards, our operating income from investments will be included in this figure as well. We expect that income from investments will increase in the next few years.

As mentioned before, we expect to complete the acquisition of Essent in the third quarter. This is subject to Essent shareholders accepting our takeover offer and antitrust authorities approving the deal. Our outlook for 2009 does not include this transaction.

Outlook € million	2008	2009 forecast vs. 2008
External revenue	48,950	Above previous year
EBITDA	8,773[1]	In the order of last year's level
Operating result	6,826	In the order of last year's level
RWE Power	3,142	Above previous year
RWE Dea	494	Significantly below previous year
RWE Supply & Trading	486[1]	Above previous year
RWE Energy	2,286[1]	Matching previous year's level
RWE npower	534	Significantly below previous year
RWE Innogy	55	Below previous year
Recurrent net income	3,367	In the order of last year's level

1 Figures adjusted (see commentary on this page).

Revenue expected to be higher year on year. External revenue earned by the RWE Group in 2009 is anticipated to surpass last year's level. The growth in revenue will be largely driven by electricity price increases, with which we pass through higher procurement costs to our customers. Furthermore, we expect to see a continued rise in electricity generated in accordance with the Renewable Energy Act (EEG) fed into our German grid. In contrast, realized oil and gas prices are likely to be lower than in 2008.

Stable earnings trend expected despite Biblis outage. The world financial and economic crises will affect our business operations to a relatively small extent. The RWE Group's earnings are expected to maintain their high level. However, we expect our electricity generation to be hard hit compared with 2008. The reasons are the planned outages of the two units at Biblis and the rise in fuel procurement costs. In addition, we expect lower oil and gas prices to depress earnings in our upstream business. This will be contrasted by the positive impact of higher realized electricity wholesale prices. Furthermore, we anticipate that we will be able to stabilize our earnings in the regulated German grid business through further cost reductions. As explained on page 79, we expect our efficiency-enhancement programme to make an increasing contribution to earnings. The target for 2009 is €450 million, compared to the reference year (2006). The point of focus is to improve the performance of our regulated German electricity and gas grid activities. In addition, we plan to improve the technical availability of our power plants.

We expect EBITDA in the order of last year (€8,773 million including operating income from investments). The same applies to the operating result (2008: €6,826 million) and recurrent net income (2008: €3,367 million).

Operating result by division:

RWE Power is expected to post another improvement in its operating result. It has already sold forward more than 90% of its German 2009 generation. Since most of the forward sales were made in 2007 and 2008, we are still benefiting from wholesale electricity prices which recorded a significant increase until the middle of last year. However, we also anticipate substantial burdens: From our current point of view, the outage planned for the Biblis power station is estimated to reduce earnings by some €0.6 billion. Block A is expected to be offline for six-and-a-half months (end of February to mid-September) and Block B for four months (end of January to end of May). In addition, costs will be higher as a result of higher fuel prices. From our present point of view, they will increase by between €0.5 and 0.6 billion. Expenses arising from the shortage of CO_2 certificates are anticipated to be €0.1 billion higher than in 2008 (€1.1 billion). We expect that RWE Power will have to buy about 40% of the CO_2 certificates it needs in Germany this fiscal year or obtain them via CDM/JI projects insofar as possible. We expect operating and maintenance costs to rise in 2009 as well.

RWE Dea expects its operating result to worsen considerably—above all due to the significant decline in crude oil and gas prices. We are working intensively to explore and develop fields in view of our goal of doubling gas and oil production by 2012/2013. Therefore, exploration costs are expected to remain high.

RWE Supply & Trading anticipates an improvement in its operating result. This is based on an adjusted prior-year figure, which already includes RWE Key Account. Forecasts for the trading business are subject to substantial uncertainty. Irrespective of its future business trend, RWE Supply & Trading will benefit from the fact that some of the successful trading transactions concluded in earlier years will be reflected in the IFRS operating result this year.

Our forecast for RWE Energy envisages the division closing the year with an operating result matching last year's level, excluding the effects of the reclassification of RWE Transportnetz Strom and RWE Key Account. Incentive-based regulation in effect since January 2009 places high demands on our German electricity and gas grids. To limit the impact this will have on earnings, RWE Energy plans to implement further extensive cost reductions, focussing on Germany. In addition, we intend to improve earnings in our electricity and gas supply businesses. We will continue to pursue our value-oriented sales policy to this end. At the same time, we want to limit customer losses and win customers both within and outside our traditional supply regions by developing and marketing innovative products. The range covers everything from fixed-price offers to private customers, with terms of several years, through portfolio management, to auctions of power plant tranches to industrial enterprises and municipal utilities. Moreover, we will expand our web-based sales subsidiary eprimo. The company aims to have signed up one million electricity and gas customers by 2010. At the end of January, it served 436,000.

RWE npower's operating result is expected to be significantly down year on year. If Sterling remains weak, currency effects will hamper earnings. From our current point of view, the generation business will continue to display positive development. Income from the short-term position management of our power plants is unlikely to match the unusually high level achieved in 2008. Costs incurred in connection with emissions trading are expected to roughly equal those of 2008. RWE npower will probably have to purchase approximately 35 % of the CO_2 certificates it requires on the market. The market environment for our electricity and gas supply businesses remains very difficult. Fierce competition harbours substantial risks. In addition, government programmes that oblige UK utilities to promote energy savings for homes and local authorities and provide assistance to low-income customers will probably result in additional burdens. The additional expense compared with 2008 could amount to some €100 million. Moreover, the UK recession is causing bad debt to rise across all customer segments. Furthermore, staff costs will increase as RWE npower expands its sales force.

RWE Innogy is not yet expected to be able to increase the operating result earned from the renewable energy business this year. We anticipate that it will be marginally down year on year, although we will commission additional generation capacity in 2009 and thus improve our earnings power. This is because our extensive investment programme involves high start-up costs and additional staff recruitment. However, we expect this division to post double-digit percent increases in its operating result from 2010 onwards.

Dividend payout ratio between 50 and 60%. Our dividend proposal for fiscal 2009 will return to the usual payout ratio of 50 to 60%, following the increased payout ratio for 2008. The basis for calculating the payout ratio is recurrent net income, which is adjusted for one-off effects.

Capital expenditure on property, plant and equipment markedly up year on year. We will clearly step up capital expenditure on property, plant and equipment in 2009. The greatest rise is planned for RWE Power. Construction of the twin-unit hard coal power plant in Hamm, Germany, started in 2008. This year, we intend to begin building another power station of this type in Eemshaven, Netherlands. Work on the gas-fired power station in Lingen, Germany, and on the dual-block lignite power plant in Neurath, Germany, is already progressing well. The commissioning of these two plants is scheduled for 2009 and 2011, respectively. Power station component costs recorded a substantial rise before the beginning of the worldwide recession. By securing components at an early stage, we were able to limit the rise in prices associated with our large-scale projects. Our upstream subsidiary, RWE Dea, will invest more in gas production—above all in Algeria and Egypt. RWE Energy has increased its capex budget as well. We will spend some 80% of these funds on the grid business. Other funds have been earmarked for gas storage projects. RWE npower plans to record the highest percentage increase in capital expenditure. Our main projects in the UK are two new gas-fired power stations. We launched the new build project in Staythorpe in 2007. One of the total of four units is scheduled to go online this year. We will begin building a large-scale power station in Pembroke shortly. The last pending approval was obtained in February. RWE Innogy's capital spending will post a disproportionately high rise as well. The focus will be on the construction of wind farms. The biggest projects are offshore wind farms off the coast of the UK. All in all, excluding American Water, the RWE Group's capital expenditure on property, plant and equipment will reach an order of magnitude of €6.5 billion in 2009. This would represent an increase of almost 50% compared to 2008.

Net debt up year on year. Even setting aside the planned acquisition of Essent, we expect net debt to increase further in the current financial year. The drivers will be the strong rise in capital expenditure and the planned dividend increase in April. This will be contrasted by a continued high level of cash flows provided by operating activities. In addition, we aim to sell the majority of the shares in American Water by the end of the year, which would allow us to deconsolidate the US company's net debt of €4.2 billion. Thanks to the good reputation we have as bond issuer, we always have access to short- and long-term financing sources. Only €0.2 billion in bonds will mature in 2009.

Employee headcount: significant rise expected. This financial year, we anticipate that our workforce will expand by about 2,500 employees. All divisions will create jobs as they implement their investment programmes.

Research and development: increasing activity along the value chain. We will continue to grow spending on research and development (R&D). As before, we will focus on projects to improve efficiency of and reduce emissions from electricity generation. More than half of our R&D budget has been earmarked for this. Detailed information on our major R&D projects is presented on pages 96 to 100.

Forward-looking statements. This annual 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 materialize or additional risks arise, actual performance can deviate from the performance expected at present. Therefore, we cannot assume responsibility for the accuracy of these statements.

2.0 OUR RESPONSIBILITY

Environmental expenditure in 2008

€2.1 billion

RWE employs

3,000 apprentices

CO_2 avoidance goal by 2012

20%

2.1 SUPERVISORY BOARD REPORT

Dear Shareholders,

In fiscal 2008, the Supervisory Board fulfilled all of the duties imposed on it by German law and the company's articles of association. It regularly advised the Executive Board on running the company and monitored business management measures. It was consulted on all decisions of fundamental importance to RWE. The Executive Board informed the Supervisory Board of all the material aspects of business developments, major events and transactions as well as of the current earnings situation, exposure to risk and risk management regularly, extensively and in a timely manner both in writing and verbally.

In the year under review, the Supervisory Board convened four ordinary and two extraordinary meetings. All of the Supervisory Board members attended at least half of the meetings. The average participation rate exceeded 90%. The Supervisory Board passed the resolutions required of it by law and the Articles of Association. The decisions were made on the basis of reports and draft resolutions submitted by the Executive Board. The Supervisory Board was also informed of projects and transactions of special importance or urgency in a timely manner between meetings. When necessary, it was asked for approval by circular or in committee meetings. The Chairman of the Supervisory Board was constantly in touch with the members 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 Supervisory Board's main topics of debate was the IPO of American Water at the end of April 2008, through which 39.5% of the shares in the company were sold. The Supervisory Board's Executive Committee had approved the transaction in its meeting on April 21, 2008. The Executive Committee and the Supervisory Board's plenary had concerned themselves with the IPO and progress made in preparatory work in the run-up to the transaction. At its session on September 18, 2008, the Supervisory Board's debate centred on the preparation for the placement of a second tranche of shares in American Water.

RWE's planned acquisition of the Dutch-based energy utility Essent N.V. was also the subject of thorough debate. On January 12, 2009, the two companies agreed the conditions for a binding cash offer by RWE to Essent shareholders for the purchase of all of the shares in Essent, excluding its distribution grid and waste management business. The Supervisory Board's Executive Committee had approved RWE's binding offer in its extraordinary meeting on December 18, 2008.

Furthermore, the RWE Group's extensive investment programme was the subject of in-depth discussion at several meetings, focusing on large-scale projects for the expansion and modernization of the power plant portfolio in Germany and abroad. Two especially important projects are the 2,100-MW dual-block lignite-fired power station in Neurath, located near Cologne, Germany, and the 1,530-MW hard coal twin-unit power plant in Hamm, Germany. Another major project is the planned 1,560-MW hard coal-fired dual-block power station in Eemshaven, the Netherlands. In addition, RWE intends

Dr. Thomas R. Fischer
Chairman of the Supervisory Board of RWE AG

to become involved in the construction and operation of a new nuclear power station in Belene, Bulgaria. Besides the aforementioned power plant projects, debates addressed RWE's participation in the consortium for the construction and operation of the "Nabucco" international gas pipeline. The pipeline will connect major gas reserves of the Caspian region, the Near and Middle East, and other regions with the European market in 2014.

Our discussions also focussed on the political and regulatory framework in the energy policy arena. Centre stage was taken by the shaping of the European CO_2 emissions trading scheme from 2013 onwards, among other things. The unbundling of ownership of the grid business from other activities of integrated energy utilities desired by the EU Commission was also debated extensively. The Supervisory Board kept abreast of the abuse proceedings brought by the EU Commission against RWE Transportnetz Gas GmbH. As set out in detail on page 56, RWE has agreed on a solution with the Commission: The Group has made a commitment to sell its German gas transmission grid to a party independent from RWE; in exchange, the EU will end the proceedings. The Supervisory Board had discussed the proposed compromise with the Executive Board at length in the run-up to the agreement with the EU.

Other topics of deliberation. The Supervisory Board concerned itself repeatedly with the state of the deliberations regarding the reorganization of the RWE Group, focusing on the German supply and grid activities. The €2.5 billion RWE share buyback programme which has since been concluded was the subject of consultation at the sessions on February 20 and April 17, 2008. In its meetings on May 31, 2008, and December 11, 2008, the Executive Board reported on the sample audit of the financial statements of RWE Aktiengesellschaft and the Group for the period ended December 31, 2007, conducted by Deutsche Prüfstelle für Rechnungslegung (DPR). The sample audit was completed by DPR on October 30, 2008, without a single error having been discovered. In addition, the progress and interim results of the compliance audit performed within the Group were discussed in several sessions.

Last financial year, the Supervisory Board also debated material acquisition and divestment projects and passed the necessary resolutions requiring approval in its committees and in the plenum. The Executive Board provided us with regular reports on revenue and earnings, measures to reduce costs, and the development of energy prices. In our session on December 11, we concerned ourselves with the Executive Board's planning for 2009, the forecast for 2010 and 2011 and the long-term prognosis through to 2018. 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 in the chapter on "Boards and Committees" on page 225. These committees are mainly 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 Supervisory Board is informed in detail of the work done by the committees by their chairmen.

The **Executive Committee** convened two ordinary and four extraordinary meetings in the 2008 financial year. It discussed material investment projects and—in cases where issues were urgent and their treatment could not be postponed until the next Supervisory Board meeting—it passed the required resolutions of approval. In addition, it did preparatory work for the Supervisory Board debates. The main subjects of the committee's preparations were the 2007 financial statements of RWE Aktiengesellschaft and the Group, the dividend payout policy, the company's strategic orientation, and the budget for 2009.

The **Audit Committee** convened four times in 2008. It discussed the quarterly reports, the half-year financial statements and the annual financial statements at length and prepared the award of the audit contract to the independent auditor. A substantial amount of time was dedicated to discussing the findings of the audits conducted by Internal Auditing and the audit planning for 2008, with due regard to the determination of the focal points of the audit. The Audit Committee discussed the half-year and quarterly reports with the Executive Board and the independent auditor prior to their publication. It also debated the compliance framework within the RWE Group as well as the progress and interim results of the compliance audit within the RWE Group. Moreover, the Audit Committee monitored the progress and results of the sample audit conducted by DPR. The Committee concerned itself with the transfer of additional assets of Group companies to RWE Pensionstreuhand e.V. and RWE Pensionsfonds AG. The Audit Committee was informed by the Executive Board of the precautionary measures taken in connection with the financial crisis, preparations for the implementation of the impending law for the modernization of accounting and the accounting treatment of RWE Supply & Trading GmbH's trading activities. The independent auditor was present at all of the meetings, participated in some of the debates, and reported on the audit and/or the audit-like review of the quarterly financial reports, the half-year financial statements and the annual financial statements.

The **Personnel Affairs Committee** held three meetings. Debates primarily addressed the compensation system and the amount of remuneration paid to members of the Executive Board. Furthermore, the Committee prepared the Supervisory Board's personnel-related decisions.

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.

The same applies to the **Nomination Committee,** which was established in 2007.

Financial statements for fiscal 2008. The financial statements of the parent company, which were prepared by the Executive Board in compliance with the German Commercial Code, the financial statements of the Group, which were prepared in compliance with International Financial Reporting Standards (IFRSs), the combined review of operations for RWE Aktiengesellschaft and the Group, and the accounts were scrutinized by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and were issued an unqualified auditor's opinion. The auditors were elected by the AGM on April 17, 2008, 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 audit 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 February 24, 2009. The independent auditor attended the meeting, presented the material results of the audit, and was available to answer questions. The Audit Committee concerned itself in depth with the financial statements of RWE Aktiengesellschaft and the Group, as well as audit reports during its meeting on February 23, 2009, 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 it adopted the financial statements of RWE Aktiengesellschaft and the Group for the period ended December 31, 2008. The 2008 annual financial statements are thus adopted. The Supervisory Board concurs with the appropriation of profits proposed by the Executive Board, which anticipates a dividend payment of €4.50 per share.

Changes in personnel on the Supervisory and Executive Boards. Effective at the end of the day on March 31, 2008, the employee representative Erich Reichertz retired from the Supervisory Board. He was succeeded by Andreas Henrich as of April 1, 2008. The employee representative Simone Haupt also retired from the Supervisory Board, effective as of the end of the day on November 30, 2008. Her seat was filled by Manfred Weber as of December 1, 2008. We thank Mr. Reichertz and Ms. Haupt for their involved, constructive cooperation and for their commitment for the benefit of the company.

With effect from the end of the day of December 31, 2008, Berthold Bonekamp retired from the Executive Board of RWE Aktiengesellschaft because he reached the agreed retirement age. We thank him for his successful commitment to the RWE Group over nearly three decades and appreciate everything he has accomplished for the company. In its meeting on September 18, 2008, the Supervisory Board appointed Dr. Leonhard Birnbaum to succeed Mr. Bonekamp on the Executive Board of RWE Aktiengesellschaft as of October 1, 2008.

At its meeting on February 24, 2009, the Supervisory Board appointed Dr. Rolf Martin Schmitz to the Executive Board of RWE AG as of no later than July 1, 2009. Dr. Schmitz will be responsible for the German generation, grid and supply businesses.

We thank the Executive Board and the RWE Group's entire staff for their huge commitment. The work they did in fiscal 2008 was decisive for the company's success yet again.

The Supervisory Board

Thomas R. Fischer

Dr. Thomas R. Fischer
- Chairman -

Essen, February 24, 2009

2.2 CORPORATE GOVERNANCE

Responsible, transparent corporate governance designed to create sustainable value is of significant importance for RWE. We fully complied with the recommendations of the German Corporate Governance Code again in fiscal 2008. We have been doing so unconditionally for six years.

Comprehensive implementation of the Code. The RWE Group primarily uses the recommendations of the German Corporate Governance Code (the Code) as the yardstick for responsible corporate governance. The Code aims to strengthen the confidence placed by domestic and international investors, customers, employees and the public in German listed companies. It is prepared by the German Corporate Governance Code Government Commission, which 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.

The current version of the Code is dated June 6, 2008. It contains several new provisions compared with the preceding version. For instance, the Government Commission included the suggestion to limit Executive Board severance approved in 2007 in the list of recommendations, thus strengthening its binding force. In addition, the accountability and responsibility of the Supervisory Board as a whole concerning compensation issues was strengthened. The Code now recommends that the Supervisory Board's plenum decide on and review the Executive Board's compensation system and material contractual provisions. Another new element is the recommendation for the Supervisory Board or its Audit Committee to discuss the half-year and quarterly financial reports with the Executive Board prior to publication.

RWE has accepted and implemented all of the new elements. The provisions governing severance caps, which have been upgraded to recommendations, were taken into account when concluding Executive Board member contracts in the year under review. In its meeting on December 11, 2008, on suggestion from the Personnel Affairs Committee, the Supervisory Board confirmed the Executive Board compensation system and the material contractual elements by a resolution. It will regularly review the compensation from now on. Furthermore, our Audit Committee will discuss the half-year and quarterly financial reports with the Executive Board prior to publication, in accordance with the Code's recommendations. The scheduled review of the efficiency of the Supervisory Board's work was initiated. It deals with the cooperation of the Supervisory Board and its committees with the Executive Board as well as the work done in its meetings.

We therefore continue to comply with all of the recommendations of the current version of the Code and—with just a few exceptions—consider the suggestions included therein. In February 2009, RWE issued an unqualified statement of compliance for the seventh time in a row.

Our listed Group company, Lechwerke AG, is also putting the German Corporate Governance Code into practice, taking account of the specifics of its inclusion in the Group. Deviations from the Code's recommendations have been disclosed in Lechwerke AG's statement of compliance.

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

- In fiscal 2008, 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 contracts were concluded between RWE AG and members of the Supervisory Board. Executive Board and Supervisory Board members had no conflicts of interest.

- Executive Board members again purchased RWE common shares. No sales occurred in the year under review. We distributed information on share transactions by Executive Board members in accordance with Sec. 15a of the German Stock Corporation Act (WpHG) throughout Europe in compliance with statutory regulations. The following is a breakdown of the transactions:

Transaction date	Name	Reason for mandatory disclosure/function	Type of financial instrument	Transaction (purchase/sale)	Price per share/€	Number of shares	Total volume €
Jan 21, 2008	Dr. Jürgen Großmann	Exec. Board Member	RWE common share	Purchase	86.8000	20,000	1,736,000.00
Feb 25, 2008	Dr. Jürgen Großmann	Exec. Board Member	RWE common share	Purchase	80.9200	25,000	2,023,000.00
Mar 14, 2008	Dr. Rolf Pohlig	Exec. Board Member	RWE common share	Purchase	79.3834	1,312	104,151.02
Mar 14, 2008	Dr. Ulrich Jobs	Exec. Board Member	RWE common share	Purchase	79.3834	1,312	104,151.02
Mar 14, 2008	Alwin Fitting	Exec. Board Member	RWE common share	Purchase	79.3834	1,312	104,151.02
Mar 14, 2008	Berthold Bonekamp	Exec. Board Member	RWE common share	Purchase	79.3834	1,312	104,151.02
Apr 22, 2008	Dr. Jürgen Großmann	Exec. Board Member	RWE common share	Purchase	73.6500	5,000	368,250.00
Sep 5, 2008	Dr. Jürgen Großmann	Exec. Board Member	RWE common share	Purchase	68.5800	35,000	2,400,300.00
Sep 5, 2008	Dr. Jürgen Großmann	Exec. Board Member	RWE common share	Purchase	68.7600	40,000	2,750,400.00
Oct 14, 2008	Dr. Ulrich Jobs	Exec. Board Member	RWE common share	Purchase	62.6100	1,000	62,610.00
Oct 15, 2008	Dr. Leonhard Birnbaum	Exec. Board Member	RWE common share	Purchase	59.0000	1,000	59,000.00
Oct 27, 2008	Dr. Leonhard Birnbaum	Exec. Board Member	RWE common share	Purchase	54.2000	1,000	54,200.00

- The number of shares in the company and related financial instruments directly or indirectly held by members of the Executive and Supervisory Boards is below 1% of the shares issued by RWE.

We publish further information on our corporate governance practices on the Web at "www.rwe.com/investorrelations". It provides access to our articles of association, the bylaws of the Supervisory Board and the Executive Board, all statements of compliance and corporate governance reports and all the reports on RWE's code of conduct.

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:

RWE Aktiengesellschaft complies with all of the recommendations of the German Government Corporate Governance Code Commission issued in the August 8, 2008, version of the Code. Likewise, from the last statement of compliance on February 20, 2008, to August 8, 2008, RWE Aktiengesellschaft has complied with all of the recommendations of the version of the Code issued on July 20, 2007, and since August 9, 2008, has complied with all of the recommendations of the August 8, 2008, version of the Code.

Essen, February 24, 2009
RWE Aktiengesellschaft

On behalf of the Supervisory Board

Dr. Thomas R. Fischer

On behalf of the Executive Board

Dr. Jürgen Großmann   Dr. Rolf Pohlig

2.3 COMPENSATION REPORT

For us, transparent reporting on Executive and Supervisory Board compensation is one of the core elements of good corporate governance. In the following passages, we have provided information on the principles of the compensation system as well as on the structure and the payments. The 2008 Compensation Report takes into account the provisions of the version of the German Commercial Code and fully complies with the recommendations of the German Corporate Governance Code. The Compensation Report is part of the Combined Review of Operations and the Corporate Governance Report.

Executive Board Compensation

Compensation structure. The compensation of Executive Board members is determined by the Personnel Affairs Committee, and its structure is established 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. It takes into account not only their personal performance, but also the company's business situation, its performance and prospects for the future.

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 roughly 40 % for the fixed component and 60 % for the variable component. The variable component consists of a company bonus, accounting for 70 %, and an individual bonus, accounting for 30 %. The company bonus is based on the Group's value added. If the figures budgeted for the fiscal year in question are achieved, the degree to which the target has been achieved is 100 %. The degree to which the target has been achieved as regards the company bonus can amount to between 50 % and 150 %. The personal bonus depends on the degree to which the goals agreed between the Chairman of the Supervisory Board and each Executive Board member at the beginning of the financial year have been achieved. The maximum degree to which this target can be achieved is 120 %.

Above and beyond this, Executive Board members receive non-cash compensation 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. This income is added to the variable compensation.

The short-term compensation components paid to members of the Executive Board for fiscal 2008 are as follows:

Short term Executive Board compensation in 2008	Non-perfomance-based compensation		Performance-based compensation		Non-cash and other remuneration		Payment for exercise of mandates[1]		Other payments		Total	
€ '000	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Dr. Jürgen Großmann	2,700	675	4,315	959	47	11	20	23	2,000	0	9,082	1,668
Dr. Leonhard Birnbaum (since Oct 1, 2008)	170	0	307	0	5	0	0	0	0	0	482	0
Berthold Bonekamp	720	680	1,254	1,058	62	68	47	85	0	0	2,083	1,891
Alwin Fitting	680	587	1,174	925	17	17	52	61	0	0	1,923	1,590
Dr. Ulrich Jobs	680	300	1,084	487	23	14	148	17	0	0	1,935	818
Dr. Rolf Pohlig[2]	700	700	1,232	1,155	33	29	40	35	0	480	2,005	2,399
Total	**5,650**	**2,942**	**9,366**	**4,584**	**187**	**139**	**307**	**221**	**2,000**	**480**	**17,510**	**8,366**

1 Income from the exercise of mandates is added to variable compensation.
2 Dr. Rolf Pohlig received a lump-sum payment of €480,000 as compensation for benefits from his former employer, to which he is no longer entitled.

Instead of a pension commitment, the Chairman, Dr. Jürgen Großmann receives an annual €2,000,000, which was paid for the first time in 2008.

The short-term compensation components include a total of €317,000 which was paid for the exercise of management board mandates at subsidiaries. These sums were paid by the respective subsidiaries.

Long-term incentive compensation. In addition—with the exception of the Chairman of the Executive Board, Dr. Jürgen Großmann, and Dr. Leonhard Birnbaum, who was only appointed to the Executive Board effective October 1, 2008—performance shares were awarded to members of the Executive Board as part of the Beat 2005 long-term incentive plan ("Beat" for short). Performance shares are granted on condition that the Executive Board members invest in RWE 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 three-year waiting period. Any necessary notifications of directors' dealings in relation to this were submitted and published.

The "Beat" programme supplements the compensation system with a long-term incentive component by rewarding the sustainable contribution made by executives to the company's success. The company's performance is measured using 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 consists of the conditional right to receive a pay-out in cash following a waiting period of 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 corresponds to the average RWE share price during the last 20 trading days prior to expiration of the programme, the number of conditionally allocated performance shares, and the pay-out factor. Payment for Executive Board members is limited to three times the value of the performance shares as of the grant date for the 2005 tranche, and one-and-a-half times this value for all subsequent tranches.

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

Long-term incentive share-based payment	Beat: 2008 tranche	
	No.	Fair value upon grant € '000
Berthold Bonekamp	22,472	500
Alwin Fitting	33,708	750
Dr. Ulrich Jobs	33,708	750
Dr. Rolf Pohlig	33,708	750
Total	**123,596**	**2,750**

The long-term incentive 2005 Beat tranche was paid out as follows in the year under review:

Long-term incentive share-based payment	Beat: 2005 tranche payout € '000
Berthold Bonekamp	3,000
Alwin Fitting	559
Total	**3,559**

Executive Board members still hold performance shares from the Beat programme's 2006 and 2007 tranches from Executive Board activity in previous years. These allocations are not part of total compensation for the 2008 financial year. Instead, they are part of total compensation for fiscal 2006 and 2007 and as such are presented in the compensations reports for these two prior years. The following overview of these allocations is voluntary and aims to convey a complete picture of the compensation history.

Long-term incentive share-based payment	Beat: 2006 tranche	
	No.	Fair value upon grant € '000
Berthold Bonekamp	57,208	1,000
Alwin Fitting	57,208	1,000
Total	**114,416**	**2,000**

Long-term incentive share-based payment	Beat: 2007 tranche	
	No.	Fair value upon grant € '000
Berthold Bonekamp	30,012	750
Alwin Fitting	30,012	750
Dr. Ulrich Jobs	30,012	750
Dr. Rolf Pohlig	30,012	750
Total	**120,048**	**3,000**

German Accounting Standard (DRS) 17 mandates that the portion of the total expense recognized for share-based payments allocable to Executive Board members must be disclosed and itemized. The following expenses were recognized for long-term incentive share-based payments in the period under review:

Allocation to expenses for long-term incentive share-based payments 2006/2007/2008 tranches	2008 € '000	2007 € '000
Dr. Leonhard Birnbaum[1]	71	0
Berthold Bonekamp	1,551	1,669
Alwin Fitting	1,640	672
Dr. Ulrich Jobs	663	226
Dr. Rolf Pohlig	477	185
Total	**4,402**	**2,752**

1 The allocation to expenses was made for the period prior to his appointment to the Executive Board.

Total compensation. In total, the Executive Board received €17,510,000 in short-term compensation components in fiscal 2008. In addition to this, long-term compensation components from the 2008 tranche of the Beat programme amounting to €2,750,000 were allocated. Total compensation of the Executive Board for fiscal 2008 thus amounts to €20,260,000.

Employment termination benefits. Benefits due in the event of a termination of Executive Board activity are detailed below.

Pension commitments. The members of the Executive Board—with the exception of its Chairman, Dr. Großmann—received pension commitments (direct commitments), which grant them entitlement to a life-long pension and 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 occasioned 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 the 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 the development of 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 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 credited to the pension payments.

The current service cost of pension commitments in fiscal 2008 totalled €436,000. As of the end of the year under review, the present value of the defined benefit obligation was €11,048,000. 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 agreed retirement age (60)[1] € '000		Current service cost € '000		Defined benefit obligation € '000	
	Age	2008	2007	2008	2007	2008	2007
Dr. Leonhard Birnbaum (since Oct 1, 2008)	42	245	0	0	0	402	0
Berthold Bonekamp	58	324	324	131	152	3,617	3,218
Alwin Fitting	55	283	283	140	134	2,696	2,658
Dr. Ulrich Jobs	55	245	156	101	116	2,784	1,717
Dr. Rolf Pohlig[2]	56	252	252	64	73	1,549	1,511
				436	**475**	**11,048**	**9,104**

1 Based on compensation qualifying for pensions as of December 31, 2008.
2 Past service cost for 2007: €1,438,000.

As regards Executive Board members, vested pension benefits from earlier employment relationships and years of service for previous employers which have been recognized 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 (the applicable version of Section 29 of the German Securities Transfer Act (WpÜG)) 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 last amendment to the German Corporate Governance Code. On exercise of his 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.

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. Total annual compensation is the sum resulting from the fixed component and the value of payment in kind at the time of the termination as well as the company bonus and the personal bonus of the past financial year. This provision applies to all new employment contracts and contract extensions and for the first time to Dr. Leonhard Birnbaum.

Other commitments. By mutual agreement, Berthold Bonekamp ended his mandate as member of the Executive Board early, as of December 31, 2008. As contractually agreed, Berthold Bonekamp will receive all the payments and benefits due to him from his employment contract, which will end on March 31, 2009, consisting of fixed compensation and bonus. The payment required on this basis of calculation in order to fulfil the employment contract, which was originally concluded with a date of expiry of March 31, 2009, amounts to €180,000. The bonus for this period amounts to €341,000. From April 1, 2009, onwards, Berthold Bonekamp is entitled to an early company pension in accordance with the contractual arrangements. The performance shares granted until the agreed exit date shall remain valid, in line with the plan conditions.

Supervisory Board compensation

The compensation of the Supervisory Board is set forth 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 at the end of 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 total compensation and the committee chairperson receives twice the total 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	2008 base compensation		2008 committee compensation		Total	
€ '000	Fixed	Variable	Fixed	Variable	2008	2007
Dr. Thomas R. Fischer, Chairman	120	297	0	0	417	326
Frank Bsirske, Deputy Chairman	80	198	0	0	278	217
Dr. Paul Achleitner	40	99	20	50	209	163
Werner Bischoff	40	99	20	50	209	163
Carl-Ludwig von Boehm-Bezing	40	99	40	99	278	218
Heinz Büchel	40	99	20	50	209	163
Dieter Faust	40	99	20	50	209	163
Simone Haupt (until Nov 30, 2008)	37	91	18	45	191	163
Andreas Henrich (since Apr 1, 2008)	30	74	0	0	104	0
Heinz-Eberhard Holl	40	99	20	50	209	163
Dr. Gerhard Langemeyer	40	99	20	50	209	163
Dagmar Mühlenfeld	40	99	20	50	209	125
Erich Reichertz (until Mar 31, 2008)	10	25	0	0	35	109
Dr. Wolfgang Reiniger	40	99	0	0	139	136
Günter Reppien	40	99	20	50	209	163
Karl-Heinz Römer	40	99	0	0	139	27
Dagmar Schmeer	40	99	1	3	143	109
Dr. Manfred Schneider	40	99	20	50	209	163
Dr.-Ing. Ekkehard D. Schulz	40	99	20	50	209	163
Uwe Tigges	40	99	20	50	209	163
Prof. Karel Van Miert	40	99	0	0	139	109
Manfred Weber (since Dec 1, 2008)	3	8	0	0	11	0
Total	**920**	**2,277**	**279**	**697**	**4,173**	**3,169**

In total, the emoluments of the Supervisory Board amounted to €4,173,000 in fiscal 2008. Additionally, certain Supervisory Board members were paid compensation totalling €256,000 for exercising mandates at subsidiaries.

2.4 WORKFORCE

The demands placed on modern personnel policy are high: identify and recruit talent; promote and improve existing skill sets; offer flexibility and increase satisfaction; retain employees over the long term. We rise to these challenges. Work models which are more family friendly, personalized career-progression concepts for young talent and the integration of people with severe handicaps take centre stage.

Family-conscious personnel policy. Being able to reconcile one's job and family is of fundamental importance when it comes to retaining staff within RWE and is essential to the lasting success of our company. Family awareness is a fixture of RWE's personnel policy. In the year under review, the Group companies RWE Energy, RWE Rhein-Ruhr, RWE Dea, RWE Systems (now RWE Service) and enviaM received the Basic Certificate for Family Friendliness as a result of the "berufundfamilie" ("workandfamily") audit conducted by the Hertie Foundation. RWE AG and RWE Westfalen-Weser-Ems were certified as early as 2006 and 2007. We expect RWE Power to attain certification shortly.

Our employees have a host of ways to strike a healthy work-life balance, including part-time work schemes, home office work as well as daycare and children's holiday camps organized by RWE. Staff on parental leave are kept abreast of developments within and outside the company and employees taking care of relatives can request special unpaid leave. RWE is one of the first DAX companies to reimburse its employees for missed child support payments caused by taking on a foreign assignment for the company and thus losing the legal right to them. Those who return to work after taking parental leave or caring for a relative receive reintegration assistance through the "Back to Business" seminar.

The working world is becoming increasingly complex. Flexible work time models are of great value nowadays: More and more employees wish to tailor their working hours to personal needs. Our flexi-time systems allow them to administer their own work hour accounts: They can amass time credits and redeem them by taking time off when they have small workloads. We supplement this by offering home office arrangements: Whenever work allows, staff members can spend part of their contractually agreed office hours working from home. This makes it easier for them to reconcile demands placed on them by their jobs and families because they do not have to spend time going to and from work, among other things. RWE sets standards in the field of child care as well, for example by referring nannies and places in day care centres.

Training, recruitment and further development at all levels. RWE ensures that the Group can continue to meet its need for qualified budding professionals through its job training programmes. In addition to the curriculum, our training programmes offer a host of ways to gain further qualifications. Young people can participate in demanding projects or complete part of their apprenticeships in one of RWE's Group companies outside Germany.

We also enable and promote the combination of a training programme with a course of study in a variety of fields. RWE employs approximately 3,000 apprentices. In the year being reviewed, about 1,000 young people embarked on a training programme with an RWE company. We offer roughly three times as many apprenticeships as required to cover our own needs.

We encourage the interest of students in our Group through the RWE academic programme. This helps us recruit the staff we need and improves our image at universities. In 2008, activities focussed on granting scholarships for courses of importance to our company. We chose to give 31 students a monthly sum of €500 over a maximum of four semesters. In addition, every scholarship recipient benefits from the experience and advice of an RWE executive acting as a mentor, who provides insight into the company's daily business and challenges his or her protégé's expertise. A sophisticated extra-curricular programme provides stimulus to develop the scholarship holders' individual strengths and introduces them to RWE's business processes and sites. This enables them to put their knowledge into a practical context.

We identify and promote talent systematically and purposefully. Advancing the next generation of executives is of major importance to us. This is the only way we can ensure lasting, successful staffing of managerial positions from within our own ranks and offer our employees bright prospects for their personal development. We support outstanding talent throughout the Group. We take long-term action to develop our future executives in order to prepare them for their future tasks. The programmes run by RWE Group companies have certain common themes: They lay the cornerstone for leadership; improve communication skills; teach conflict management; motivate candidates to reflect on their future roles in management and strengthen entrepreneurial thinking and action. Since 2003, talented people at RWE AG have been selected to participate in our "Junior Development Programme." The programme focuses on supervising individuals and groups, facilitating discussions, change and conflict management, and controlling systems. Some 60 employees have completed the programme so far.

Our qualification management system is a tool that enables us to record, analyze and direct our staff's skills. Our staff enter their qualifications into the system themselves, based on a groupwide, standardized catalogue that includes all of the qualifications that are of relevance to the Group. Job requirements have been defined for every position, against which we compare employee skills. This way, we can identify action to add qualifications where necessary and initiate special personnel development measures early on. At the same time, we can see where staff needs emerge that cannot be served with in-house personnel, thus requiring recruitment activity on the external labour market.

We are developing simulations of various future scenarios. They will help us identify risks in personnel management early on and put us in a position to take measures to prevent impending staff shortages effectively. One way to do this is by engaging in personnel marketing activities or offering internal development programmes.

Employee shares—sharing success. Our staff participate in the company's commercial success. Part of their compensation is linked to it. Our white collar workers' personal commitment is rewarded through performance-based compensation components. Furthermore, we offer our workforce the opportunity to become involved in the company directly by subscribing to employee shares under favourable conditions. In 2008, a total of 20,500 staff members purchased 377,000 shares—an average of 18 shares per participant. All in all, 51% of eligible subscribers participated in the programme. Costs related to the issuance of employee shares amounted to €1.8 million in the year under review. Our staff currently own some 1% of RWE's subscribed capital.

We endeavour to create a working environment in which all employees receive the same recognition. Our Group employs people with a number of different skills and qualifications, including 2,270 severely handicapped individuals. RWE cultivates and promotes a working environment in which all employees receive the same recognition. We intend to step up our efforts concerning disabled persons' affairs and the integration of people with ailments. This is why we initiated the "The Energy to Lead Disabled Policy" programme. We will make more use of ways to create ergonomic, handicap-friendly workplaces. An example of this is RWE Power's participation in the "Jobs without Barriers" initiative launched by the German Ministry of Labour and Social Affairs. We offer teenagers with hearing impairments a barrier-free training programme as a stepping stone to a career requiring qualifications.

2.5 SUSTAINABILITY

What can we do to combat climate change without jeopardizing the security and economic viability of electricity supply? Will RWE have access to enough skilled staff 20 years from now? How can our employees reconcile work and life better? Sustainable action requires that these questions be asked. Our answers are designed to raise the acceptance of RWE among our customers, staff and investors, while setting the stage for economic success the day after tomorrow.

Organizing sustainability management. RWE has been building a comprehensive sustainability management system since 1998. Its proven structures were applied to the more extensive field of corporate responsibility (CR). The result is an all-encompassing network that includes all affected areas. CR measures are coordinated by the Group holding company. CR strategy implementation is handled by the CR Coordination Committee. The chairman of this body is the RWE AG Executive Board member responsible for sustainability. The management board members and managing directors in charge of sustainability at RWE Power, RWE Innogy, RWE Dea, RWE Supply & Trading, RWE Energy, RWE npower and RWE Service also sit on the Coordination Committee. They receive support from a team of CR officers from RWE AG and its subsidiaries who ensure that CR measures are implemented throughout the Group.

Our CR strategy. To do justice to our entrepreneurial responsibility, we must constantly adapt to new requirements. This is why the development of RWE's sustainability strategy is an ongoing process. We are currently focusing on ten fields of activity which are of utmost priority to RWE in our view and in the view of our stakeholders, including politicians, environmental organizations, employee representatives and investors. These include climate change, the limited availability of resources and the ensuing rise in the price of energy over the long term. Topics concerning the industry as a whole such as demographic change in our core markets and mounting demands placed on health and safety at work are further issues to which we accord high importance. In addition, we do charitable work wherever we have business operations. The following passage presents a selection of activities. Further information can be found in RWE's sustainability report entitled "Our Responsibility," which appears every two years and was last published in April 2008.

(1) Climate protection. We have already provided a detailed report on the special significance climate protection has for RWE on pages 36/37. The focal points of our climate-protection strategy are the modernization of our power plant portfolio, the increased use of renewable energy, climate protection projects in developing and newly industrializing countries, and the use of technologies for the capture and storage of carbon dioxide produced when generating electricity. Furthermore, we are pushing for lifetime extensions for our nuclear power plants, promoting innovations such as electromobility (see page 100) and helping our customers improve their energy efficiency.

(2) Energy efficiency. We associate climate protection and resource conservation not only with the production of energy, but also with its use. Efficiency is of the essence here, too. Our Germany-wide media campaign entitled “An Idea from RWE” promotes products and services with which our customers can significantly reduce both energy consumption and costs. The campaign is part of the energy efficiency programme we launched in the spring of 2007 to which we intend to allocate €150 million. The programme includes a free “energy check” for city halls and municipal properties, which we have been offering to all the communities in our German supply areas since the beginning of 2008. There is a similar initiative for hospitals and other welfare institutions. This is encouraging widespread building modernization projects. Moreover, we help our municipal partners realize savings in street light operation by retrofitting street lights with energy-efficient light bulbs. We also strive to be a role model in terms of energy efficiency ourselves and we are currently working on steps to reduce energy consumption in our own buildings. We also want to be trailblazers with our vehicle fleet: We will gradually replace some 10,000 vehicles with low-emission and low-consumption models. Be it compact cars or vans, in the future, we will only buy vehicles bearing the certified environmental “Eco Test” seal. In so doing, we want to lower our vehicle fleet’s CO_2 emissions by 20% by 2012.

(3) Security of supply. Our customers rely on the energy they need being available around the clock now and in the future. To secure supplies, RWE draws on a balanced and wide-ranging generation portfolio, comprising nuclear, coal, gas and renewable energy. The availability of coal and nuclear power has been secured over the long term. We can cover demand for decades with our approved German lignite production alone. We aim to secure a more diversified and flexible portfolio of natural gas. Last year, we successfully expanded our exploration activities in both Europe and North Africa. We are also carrying out gas shipping and regasification projects. In addition, we are participating in the Nabucco consortium for the construction of a pipeline that is to connect Central Europe with Caspian and Iranian gas reserves. Since security of supply can only be ensured if power transmission and distribution are reliable, we will spend €3 billion extending our transmission grid by more than 800 kilometres by 2017, making future wind-based generation from Northern Germany available to consumption hotspots.

(4) Research and development. The only way to implement our climate-protection strategy is to use cutting-edge technologies. Last financial year, research and development (R&D) costs amounted to €105 million. We will increase our R&D budget in the years to come. Detailed information on the RWE Group’s research and development activities is provided on pages 96 to 100 and on the internet at “www.rwe.com/RandD”.

(5) Pricing. Our customers expect to receive top-notch service, products that satisfy their needs and—most importantly—fair prices from us. The debate on rising energy prices has a substantial impact on our reputation in the public eye and influences the regulatory context. Against this backdrop, we have developed a host of new products tailored to the demands of homes and commercial operations: Private customers who opt for our "Treuestrom" offer receive electricity at a fixed price for three years. We have been offering a similar price guarantee with our "ProKlima" tariff since November 2008. Customers who choose this latter product can also rest assured that the electricity they buy is generated from sources which produce practically no CO_2. We have also supplemented our gas product range with a tariff offering a three-year price guarantee. Moreover, people willing to settle for slightly less service can buy electricity and gas under more favourable conditions throughout Germany via the eprimo Internet portal. This diversity is not only proof of our customer orientation, but also a clear commitment to competition.

At the same time, our electricity pricing ensures enhanced transparency: We started publishing real-time data on power production on the Internet at "www.rwetransparent.com"—for every power plant as well as by fuel type. Real-time data on our electricity generation is of significant importance to market participants, from power producers and grid operators to energy traders and supply companies. The fact that transparency breeds trust also holds true as regards our private customers. The composition of their electricity bills is explained to them under a dedicated menu item.

(6) Social responsibility. Our company's performance is not expressed in terms of commercial success alone. It is also reflected in the manner in which we take on social responsibility at the local level, both as employer and customer and as promoters of social volunteering. We have awarded far more than €1 billion in contracts to companies located in North Rhine-Westphalia solely for the construction of the new twin-unit lignite-fired power station in Neurath, close to Cologne, Germany. Our day-to-day business is another means, besides large-scale projects, by which we contribute to creating value in regions in which we operate, e.g., by contracting services, procuring commodities and consumables, and offering jobs in our operating units. We take our responsibility to young people very seriously, offering around three times as many apprenticeships as required to meet our own needs.

For us, assuming regional responsibility also means supporting charitable work—especially when it comes to the projects of our own employees. “People Make It Possible” is the motto of RWE’s groupwide “Companius” initiative. Established in September 2007, the umbrella organization promotes the active commitment of RWE staff to charitable purposes. Our social volunteers can qualify for €500 and—in special cases—up to €2,000 to support their projects. Furthermore, RWE Companius, often working hand in hand with charitable organizations, also develops its own projects in which RWE employees can become involved. As well as giving RWE’s social engagement a new face, RWE Companius has given this field of activity a boost: Since the launch in September, over 1,500 staff have submitted more than 1,800 projects. This makes RWE Companius one of the biggest volunteering institutions in Germany.

In the UK, RWE npower has been promoting its employees’ social involvement for years. As in the past, more than one tenth of the staff did pro bono work in 2008. Through its volunteers, RWE npower helps a series of charitable organizations such as “The National Trust,” which refurbishes and maintains historic buildings, industrial monuments and gardens. In addition, the company organizes major donation campaigns for institutions like the Macmillan Cancer Fund and helps the underprivileged heat their homes with dedicated programmes such as “Spreading Warmth” and “Health through Warmth.”

The future of our society largely depends on the future it offers children and young adults. This was one of the guiding principles of the RWE Youth Foundation, which in January 2009 was folded into the RWE Foundation, which has since continued its work. In co-operation with experienced project partners, we ensure that young underprivileged people do not become marginalized and that youths in structurally weak regions receive vocational training. In addition to the RWE Youth Foundation’s traditional advancement areas, the RWE Foundation also oversees our charitable activities aimed at supporting schools, institutions of higher learning, universities and cultural development.

(7) Supply chain. Safeguarding human rights, humane working conditions and the war against corruption may be a matter of course for us, but does the same hold true for our suppliers? Our sense of responsibility is not limited to the confines of our plant premises. 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. According to the code, we are forbidden from maintaining business relationships with suppliers who are publicly known to infringe the fundamental ethical principles set forth by the UN “Global Compact” initiative. We focus especially on the purchase of fuel—above all hard coal—by RWE Supply & Trading. This RWE subsidiary has systematically subjected our suppliers to intensive scrutiny since 2007. The risk that fundamental environmental and social standards might be neglected is usually much lower in the procurement of plants and complex components, because suppliers in this sector almost exclusively come from OECD member states.

(8) Demographic development. In most of the European markets in which RWE is active, low birth rates are causing the population's average age to rise. This poses manifold challenges for companies such as RWE. Given the Group's current age structure, the number of employees leaving the company due to attrition can be expected to rise considerably after 2015. For us, this translates into a loss of both knowledge and experience. In addition, the number of suitable up-and-coming staff will decline steadily: Recruitment has already become much more competitive than it was several years ago. With this in mind, we develop programmes we can use to identify future personnel needs. The results are a basis for planning staff deployment according to our needs and ensuring the continued availability of qualified employees. We already take advantage of many ways to win young talent for RWE and create a working environment that meets their expectations. This also includes striking a healthy work life balance. The fact that a rising number of RWE companies receive certification from the German "berufundfamile" ("workandfamily") audit proves that we are charting the right course in this respect. In the last few years, the audit has become a recognized seal of high-quality family-conscious personnel policy, under the patronage of the German Family and Economics Ministries (also see the commentary on page 136).

Development of lost time accidents[1]	2008	2007	2006	2005
RWE Power	7.3	8.8	9.3	10.9
RWE Dea	0.5	1.1	2.5	4.3
RWE Supply & Trading	0.9	0.0	0.0	0.0
RWE Energy	6.2	6.8	9.3	13.3
RWE npower	4.2	2.1	1.6	2.4
RWE Innogy	7.5	–	–	–
RWE AG[2]	2.6	3.2	0.0	0.0
RWE Group	**5.3**	**6.1**	**7.7**	**10.3**

1 Number of work accidents per million work hours resulting in an absence of more than one day.
2 Including RWE Service and RWE IT from 2008 onwards.

(9) Occupational health and safety. We want our employees to return home just as healthy as when they leave for work. This is the ambition that drives us to constantly improve occupational safety and health protection within the RWE Group. As we strive for "zero accidents," we intend to pass an important milestone by 2012: Our aim is to reduce the number of work-related lost time accidents to 3.0 for every million work hours. In fiscal 2008, the accident rate was 5.3, recording a drop for the seventh straight year. This figure includes all accidents occurring at work or on business trips which result in more than one day of missed work. This significant downward trend proves that RWE and its workforce are becoming increasingly safety-conscious. To make even more progress in this area, in early 2008, we launched the groupwide "Sicher voRWEg" ("The Energy to Lead Safely") initiative. Its objective is to refine occupational safety and health protection practices and spread them throughout the organization. "Sicher voRWEg" kicked off by instructing all managerial staff.

They are responsible for informing their teams of RWE's uniform occupational safety and health protection philosophy and having it reflected in daily routines. "Sicher voRWEg" also applies without restriction to personnel seconded to RWE by outside companies. For instance, RWE Power introduced a safety ID for all external personnel: All third-party employees setting foot on any of our sites have to provide proof that they are familiar with our safety regulations. Despite all these efforts, twelve employees—including eight external workers—were fatally injured when working on RWE premises in 2008. We mourn those who have died and use the lessons learned from these sad incidents to develop and take further preventive measures.

Prevention is also our primary concern in health management, and we go above and beyond legally required medical care in this regard. We want to enable our employees to behave in a health-conscious manner. With this goal in our sights, we rolled out two campaigns in 2008: to provide protective skin care and to detect intestinal cancer early on. Furthermore, we made managerial staff aware of the need for health-conscious action through a series of seminars entitled "Health as a Managerial Task/Healthy Leadership." In order to prevent muscle tightness, back pain and bad posture, the ailments most frequently suffered by office workers, we offer our personnel special chiropractic lessons and give them pointers on how to ensure a healthy posture when behind the desk. Programmes such as "In Zukunft rauchfrei" ("A Smoke-Free Future") and "Prima Klima" ("Great Climate") against avoidable stress at work also help us show our employees the road to a healthier lifestyle.

Environmental expenditure	Cost		Capital expenditure		Total	
€ million	2008	2007	2008	2007	2008	2007
Clean air	265	239	88	90	353	329
Nature and landscape protection	79	76	15	3	94	79
Water protection	192	184	15	13	207	197
Waste disposal	168	196	8	4	176	200
Noise abatement	12	10	2	2	14	12
Brownfield sites, soil contamination	5	6	0	1	5	7
Climate protection	98	130	1,168	817	1,266	947
Total	**819**	**841**	**1,296**	**930**	**2,115**	**1,771**

(10) Environmental protection. We have already written in detail about the efforts we undertake to reduce the effects our electricity generation has on the climate. Environmental protection has a number of additional facets that are factored into our decision-making and work processes—related to both the planning of new projects and the operation of our plants. We are extremely careful to take necessary environmental action when carrying out these projects and do so over long periods of time. In 2008, we were able to start expanding the lignite opencast mine in Hambach, Germany, (near Cologne) towards the southwest, after a planning and approval process lasting more than 20 years. We complied with all requirements and limits when operating our plants in the year under review. This is crucial to avoiding interruptions in our processes and maintaining public acceptance. Action we take to conserve nature and landscapes largely comprises the recultivation of lignite opencast mining sites. In addition, when laying and designing power lines, we ensure that any intrusion into the natural surroundings is kept to a minimum. This also applies to our upstream operations, e.g., the production of oil in the German mudflats, which is classified as environmentally sound by nature protection associations. In the 2008 financial year, we spent a total of €2,115 million on environmental protection. This was 19% more than in 2007 (€1,771 million). These figures include climate-related measures, which accounted for more than half of the outlay. In addition to operating costs incurred, some of our capital expenditure was devoted to environmental protection. The highlight is our programme for the modernization of existing, and the replacement of old, power plants in Germany and the strong rise in investment in renewable energies.

RWE—a sustainable investment. Financial markets are placing mounting demands on not only corporate transparency, but also on sustainability. We gladly rise to the occasion through annual publication of reports on our projects, the degree to which they have been implemented, and key performance indicators. We do this in detail in our sustainability report, which is scrutinized by independent auditors. This is released every two years and alternates with a briefer status report. These publications and additional up-to-date information can also be found on the Web at "www.rwe.com/Responsibility".

In 2008, we received several distinctions for our sustainability strategy and high degree of transparency. RWE qualified for the Carbon Disclosure Leadership Index, the first global climate protection index, for the second time since 2006. We received certification for our transparent information on emissions-related issues. The index was established by the "Carbon Disclosure Project" (CDP). The CDP is a group of large institutional investors formed to make corporate CO_2 emissions and climate-protection strategies transparent to the financial market. Information on this furnished by the companies is available on the World Wide Web at "www.cdproject.net".

We were also recognized in September 2008: Our company was included in the internationally renowned Dow Jones Sustainability Index (DJSI) for another twelve months. RWE is the only German utility to have been included in the DJSI without interruption since its inception in 1999. The Dow Jones Sustainability indices are established and published by SAM Sustainable Asset Management in cooperation with Dow Jones Indexes. They are widely recognized as the world's prime index group for sustainable corporate performance. The funds licensed according to DJSI criteria account for nearly US$6 billion.

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, 13 February 2009

The Executive Board

Jürgen Großmann   Leonhard Birnbaum   Alwin Fitting   Ulrich Jobs   Rolf Pohlig

4.0 CONSOLIDATED FINANCIAL STATEMENTS

External revenue up 15%

€48.95 billion

Cash flows from operating activities of continued operations rises to

€8,853 million

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4.1 INCOME STATEMENT[1]

€ million	Note	2008	2007
Revenue (including natural gas tax/electricity tax)	(1)	**48,950**	**42,507**
Natural gas tax/electricity tax	(1)	1,450	1,454
Revenue		**47,500**	**41,053**
Changes in finished goods and work in progress		112	47
Other own work capitalized		92	81
Other operating income	(2)	933	1,232
Cost of materials	(3)	32,686	26,533
Staff costs	(4)	4,415	3,951
Depreciation, amortization, and impairment losses	(5)	2,246	2,257
Other operating expenses	(6)	3,403	3,885
Income from operating activities of continuing operations		**5,887**	**5,787**
Income from investments accounted for using the equity method	(7)	372	447
Other income from investments	(7)	82	150
Financial income	(8)	1,862	2,430
Finance costs	(8)	3,337	3,568
Income from continuing operations before tax		**4,866**	**5,246**
Taxes on income	(9)	1,423	2,081
Income from continuing operations		**3,443**	**3,165**
Income from discontinued operations		-567	-274
Income		**2,876**	**2,891**
Minority interest		318	224
Net income/income attributable to RWE AG shareholders		**2,558**	**2,667**
Basic and diluted earnings per common and preferred share in €	(29)	**4.75**	**4.74**
of which: from continuing operations in €		(5.96)	(5.23)
of which: from discontinued operations in €		(-1.21)	(-0.49)

1 Prior-year figures adjusted.

4.2 BALANCE SHEET[1]

Assets € million	Note	Dec 31, 2008	Dec 31, 2007
Non-current assets			
Intangible assets	(10)	11,202	11,882
Property, plant and equipment	(11)	21,762	20,038
Investment property	(12)	180	153
Investments accounted for using the equity method	(13)	3,268	2,421
Other non-current financial assets	(14)	681	1,011
Financial receivables	(15)	1,314	1,338
Other receivables and other assets	(16)	1,192	1,427
Income tax assets	(17)	555	588
Deferred taxes	(18)	1,609	2,502
		41,763	**41,360**
Current assets			
Inventories	(19)	2,540	2,352
Financial receivables	(15)	4,419	1,702
Trade accounts receivable	(20)	10,415	8,816
Other receivables and other assets	(16)	16,106	7,534
Income tax assets		493	257
Marketable securities	(21)	7,735	10,858
Cash and cash equivalents	(22)	1,249	1,922
Assets held for sale		8,710	8,619
		51,667	**42,060**
		93,430	**83,420**

Equity and Liabilities € million	Note	Dec 31, 2008	Dec 31, 2007
Equity	(23)		
RWE Group interest		11,587	13,925
Minority interest		1,553	734
		13,140	**14,659**
Non-current liabilities			
Provisions	(25)	21,072	21,281
Financial liabilities[2]	(26)	11,154	10,046
Other liabilities	(28)	2,984	3,584
Deferred taxes	(18)	1,583	1,885
		36,793	**36,796**
Current liabilities			
Provisions	(25)	5,685	5,713
Financial liabilities	(26)	2,329	3,239
Trade accounts payable	(27)	11,031	8,054
Income tax liabilities		112	93
Other liabilities	(28)	17,626	8,969
Liabilities held for sale		6,714	5,897
		43,497	**31,965**
		93,430	**83,420**

1 Prior-year figures adjusted.
2 Of which interest-bearing: €10,983 million (previous year: €9,886 million).

4.3 CASH FLOW STATEMENT[1]

€ million	Note (33)	2008	2007
Income		2,876	2,891
Depreciation, amortization, impairment losses, write-backs		2,381	2,512
Changes in provisions		794	425
Changes in deferred taxes		778	661
Income from disposal of non-current assets and marketable securities		196	-631
Other non-cash income/expenses		141	449
Changes in working capital		1,687	-222
Cash flows from operating activities of continuing operations		**8,853**	**6,085**
Cash flows from operating activities of discontinued operations		473	
Cash flows from operating activities		**9,326**	**6,085**
Intangible assets/property, plant and equipment/investment property			
Capital expenditure		-4,454	-4,065
Proceeds from disposal of assets		106	112
Acquisitions and investments			
Capital expenditure		-1,155	-155
Proceeds from disposal of assets/divestitures		1,071	765
Changes in marketable securities and cash investments		2,179	-1,140
Cash flows from investing activities of continuing operations (before transfer to contractual trust arrangements)		**-2,253**	**-4,483**
Transfer to contractual trust arrangements		-1,331	
Cash flows from investing activities of continuing operations (after transfer to contractual trust arrangements)		**-3,584**	**-4,483**
Cash flows from investing activities of discontinued operations		-767	
Cash flows from investing activities		**-4,351**	**-4,483**
Net change in equity incl. minority interest		-2,497	-14
Dividends paid to RWE AG shareholders and minority interests		-2,005	-2,199
Issuance of financial debt		6,641	5,577
Repayment of financial debt		-8,046	-5,822
Cash flows from financing activities of continuing operations		**-5,907**	**-2,458**
Cash flows from financing activities of discontinued operations		290	
Cash flows from financing activities		**-5,617**	**-2,458**
Net cash change in cash and cash equivalents		-642	-856
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents		-35	-16
Net cash change in cash and cash equivalents from discontinued operations		4	
Net change in cash and cash equivalents		**-673**	**-872**
Cash and cash equivalents at beginning of the reporting period		1,922	2,794
Cash and cash equivalents at end of the reporting period		**1,249**	**1,922**

1 Prior-year figures adjusted.

4.4 STATEMENT OF RECOGNIZED INCOME AND EXPENSES[1]

€ million	Note	2008	2007
Income		**2,876**	**2,891**
Currency translation adjustment		-70	55
Fair valuation of financial instruments available for sale	(30)	-230	-426
Fair valuation of financial instruments used for hedging purposes	(30)	555	326
Actuarial gains and losses of defined benefit pension plans and similar obligations	(25)	-859	184
Other comprehensive income		**-604**	**139**
Total comprehensive income		**2,272**	**3,030**
of which: attributable to RWE AG shareholders		(1,851)	(2,844)
of which: attributable to minority interests		(421)	(186)

1 Figures stated after taxes.

4.5 NOTES

Statement of Changes in Equity[1]

Note (23) € million	Subscribed capital of RWE AG	Additional paid-in capital of RWE AG	Retained earnings and distribut-able profit	Own shares	Accumulated other comprehensive income		RWE Group interest	Minority interest	Total
					Currency translation adjust-ments	Fair value measure-ment of financial instruments			
Balance at Dec 31, 2006 (as reported)	**1,440**	**1,288**	**10,557**		**220**	**-66**	**13,439**	**672**	**14,111**
Changes in accounting policies			-425				-425	-26	-451
Balance at Jan 1, 2007 (adjusted)	**1,440**	**1,288**	**10,132**		**220**	**-66**	**13,014**	**646**	**13,660**
Repayment of equity								-14	-14
Dividends paid[2]			-1,968				-1,968	-145	-2,113
Income			2,667				2,667	224	2,891
Other comprehensive income			211		57	-91	177	-38	139
Total comprehensive income			2,878		57	-91	2,844	186	3,030
Other changes			35				35	61	96
Balance at Dec 31, 2007	**1,440**	**1,288**	**11,077**		**277**	**-157**	**13,925**	**734**	**14,659**
Balance at Dec 31, 2007 (as reported)	**1,440**	**1,288**	**11,283**		**277**	**-157**	**14,131**	**787**	**14,918**
Changes in accounting policies			-206				-206	-53	-259
Balance at Jan 1, 2008 (adjusted)	**1,440**	**1,288**	**11,077**		**277**	**-157**	**13,925**	**734**	**14,659**
Capital paid in								3	3
Settlement of conciliation proceedings		-130	130						
Share buybacks				-2,500			-2,500		-2,500
Dividends paid[2]			-1,689				-1,689	-190	-1,879
Income			2,558				2,558	318	2,876
Other comprehensive income			-876		-165	334	-707	103	-604
Total comprehensive income			1,682		-165	334	1,851	421	2,272
Other changes								585	585
Balance at Dec 31, 2008	**1,440**	**1,158**	**11,200**	**-2,500**	**112**	**177**	**11,587**	**1,553**	**13,140**

1 Prior-year figures adjusted.
2 Due to the reclassification of minority interests to other liabilities as per IAS 32, the total dividends paid do not correspond to the dividends paid to RWE AG shareholders and minority interests as reported in the cash flow statement.

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 December 31, 2008 were approved for publication on February 13, 2009 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. As in the previous year, RWE is voluntarily applying IFRS 8 "Operating Segments".

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

Several balance sheet and income statement items have been combined in order to improve 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 2008 fiscal year (January 1 to December 31).

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.

Internal control systems, the use of uniform directives throughout the Group, and our programmes for basic and advanced staff training 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 auditors are discussed in detail by the Audit Committee and at the Supervisory Board's meeting on financial statements with the independent auditors present. The results of the Supervisory Board's examination are presented in the report of the Supervisory Board (pages 120 to 124 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 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.

A collective listing of the Group's investments in accordance with Sec. 313, Para. 2, Nos. 1 to 4 and Para. 3 of the German Commercial Code (HGB) will be published in the electronic Federal Gazette (Bundesanzeiger). Material consolidated investments, investments accounted for using the equity method, and other investments are listed on pages 218 to 220 of this annual report.

In the year under review, 19 companies domiciled in Germany and 23 companies outside of Germany were consolidated for the first time. Five companies, all of which are headquartered outside of Germany, are no longer included in the scope of consolidation. Seven companies domiciled in Germany and two outside of Germany were merged. Eight associates, including seven outside of Germany, were accounted for using the equity method for the first time. Three investments in Germany, which had been accounted for using the equity method in the previous year, were sold or are no longer accounted for using the equity method on the basis of materiality. First-time consolidation and deconsolidation generally take place when control is transferred.

Scope of consolidation	Germany Dec 31, 2008	Foreign countries Dec 31, 2008	Total Dec 31, 2008	Total Dec 31, 2007
Fully consolidated companies	152	166	318	290
Investments accounted for using the equity method	66	28	94	89

A total of €280 million was used to acquire companies which were consolidated for the first time (previous year: €19 million).

Corporate acquisitions. The following share acquisitions were significant:

On June 6, 2008, RWE Innogy acquired 100 % of the voting shares in Iberian Renovables Corporación, S.A. (previously Urvasco Energía), Spain, for a total payment of €239 million. This resulted in recognition of the following assets and liabilities:

Key balance-sheet items of Iberian Renovables Corporación € million	IFRS carrying amounts prior to first-time consolidation	IFRS carrying amounts (fair value) upon first-time consolidation
Non-current assets	116	312
Current assets	34	34
Non-current liabilities		62
Current liabilities	156	156
Net assets	**-6**	**128**
Acquisition cost		239
Goodwill		**111**

Within the scope of the purchase price allocation, operating rights amounting to €164 million were capitalized under non-current intangible assets. The €111 million in goodwill capitalized mainly reflects the probability that operating licenses will be issued in the future.

Since first-time consolidation in June 2008, the company has contributed €22 million to Group revenue and €0 million to Group income.

Above and beyond this, RWE Energy also acquired 100% of Powerhouse Holding B.V., domiciled in the Netherlands, for payment amounting to €41 million. This resulted in recognition of the following assets and liabilities:

Key balance-sheet items of Powerhouse Holding € million	IFRS carrying amounts prior to first-time consolidation	IFRS carrying amounts (fair value) upon first-time consolidation
Non-current assets	2	42
Current assets	10	10
Non-current liabilities		10
Current liabilities	10	10
Net assets	**2**	**32**
Acquisition cost		41
Goodwill		**9**

The goodwill of €9 million stems mainly from anticipated future economic benefits. Since first-time consolidation, the acquired company has contributed €126 million to Group revenue and €1 million to Group income.

In accordance with the regulations of IAS 32, acquisition of the 20.03% of remaining shares in RWE Westfalen-Weser-Ems AG, Dortmund, for a purchase price of €800 million, was already recognized in the balance sheet in the previous years.

With regard to investments accounted for using the equity method, the following significant acquisitions took place:

- Excelerate Energy LP, USA, acquisition of 49.5%, €314 million in acquisition costs
- Fri-EL S.p.A., Italy, acquisition of 50%, €231 million in acquisition costs
- Greater Gabbard Offshore Winds Limited, UK, acquisition of 50%, €178 million in acquisition costs
- Stadtwerke Velbert GmbH, Germany, increased stake by 19.5 percentage points to 39.5%, €22 million in acquisition costs

Discontinued operations. With initiation of the sale of American Water Works Company Inc., Wilmington/Delaware, USA, the companies previously recognized in the Water Division have been stated as discontinued operations since December 31, 2007.

On April 23, 2008, RWE sold 58 million shares in American Water on the New York Stock Exchange at a price of US$ 21.50 per share. Furthermore, approximately five million additional shares were sold to the underwriters at the aforementioned issuance price as a result of their exercise of an over-allotment option ("greenshoe").

Following this sale, the remaining stake in American Water was about 60.5% as of December 31, 2008. Therefore, RWE still holds the majority of the voting rights. The carrying amount of American Water's assets and liabilities allocable to the shares sold is stated in the balance sheet under minority interest.

In accordance with IFRS 5, discontinued operations are recognized at the lower of the carrying amount and the fair value less costs to sell. The majority of the fair value adjustment occurred on the basis of the issue price upon placement of the shares.

Recognition at fair value less costs to sell is essentially based on the official quoted market price of American Water. Consequently, changes in the market price can have a significant impact on the Group's result in the future.

Key figures for the activities of American Water are presented in the following tables:

Key figures for American Water € million	Dec 31, 2008	Dec 31, 2007
Non-current assets	8,432	8,290
Current assets	278	329
Non-current liabilities	5,824	5,210
Current liabilities	890	687

€ million	2008	2007
Revenue	1,589	1,601
Expenses/income	-1,167	-1,382
Ordinary income from discontinued operations before tax	422	219
Taxes on income	-168	-64
Income	254	155
Fair value adjustments	-821	-429
Income from discontinued operations	-567	-274

€ million	2008	2007
Cash flows from operating activities	473	526
Cash flows from investing activities	-767	-634
Cash flows from financing activities	290	58

With regard to subsidiaries and investments accounted for using the equity method, the following share disposals occurred during the year under review:

Subsidiaries:
- rhenag Rheinische Energie AG, stake reduced by 8.23 percentage points to 66.67 %

Investments accounted for using the equity method:
- MEGA Monheimer Elektrizitäts- und Gasversorgung GmbH

Changes in the scope of consolidation resulted in the recognition of €571 million in non-current assets (including deferred taxes), €138 million in current assets (excluding cash and cash equivalents), €78 million in cash and cash equivalents and €388 million in non-current and current liabilities.

The total sales price for divested subsidiaries amounted to €0 million (previous year: €446 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 consolidation are prepared using uniform accounting policies. On principle, subsidiaries with a different balance-sheet date prepare interim financial statements as of the Group's balance-sheet date.

Business combinations are reported according to the purchase method. Pursuant to this method, capital consolidation takes place by offsetting the purchase price against the acquired subsidiaries' revalued prorated net assets at the time of acquisition. 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 recognized within the scope of the purchase price allocation. Acquisition costs not allocated to assets, liabilities, or contingent liabilities are capitalized as goodwill. Negative goodwill from first-time consolidation is included in income.

Capitalized goodwill is not amortized: 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 capitalized goodwill are taken into account when calculating income from disposals. If shares in a subsidiary are sold without losing the ability to control the subsidiary, the residual carrying amount of capitalized goodwill is derecognized proportionally with an effect on income.

Expenses and income as well as receivables and payables between consolidated companies are eliminated. Intragroup profits and losses are eliminated.

These consolidation principles also apply to investments accounted for using the equity method. In relation to these, however, goodwill is not reported separately: it is included in the recognized value of the investment. Such goodwill is not amortized either. 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 also prepared using uniform accounting policies.

Foreign currency translation

In their individual financial statements, the companies measure non-monetary foreign currency transactions at the balance-sheet date using the exchange rate in effect on the date they were initially recognized. 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 recognized 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 at the exchange rate in effect on the balance-sheet date. Differences to previous-year translations are reported in other comprehensive income without an effect on income. Expense and income items are translated using annual average exchange rates. Annual financial statements of Group companies based in a country with hyperinflation are translated according to IAS 29. No material entities were headquartered in such countries in the fiscal year or previous year. When translating the adjusted equity of foreign companies accounted for using the equity method, the same procedure is followed.

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

Exchange rates	Average		Year-end	
in €	2008	2007	Dec 31, 2008	Dec 31, 2007
1 US dollar	0.68	0.72	0.72	0.68
1 pound sterling	1.25	1.46	1.05	1.36
100 Czech korunas	3.99	3.61	3.72	3.76
100 Hungarian forints	0.40	0.40	0.38	0.39
1 Polish zloty	0.28	0.26	0.24	0.28

Accounting policies

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

Software for commercial and technical applications is amortized 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 amortized over the economic life of the power plant in question, 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 have terms of up to 50 years. Capitalized customer relations are amortized over a useful life of up to ten years. Useful lives and methods of amortization are reviewed on an annual basis.

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

Development costs are capitalized 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. Capitalized development costs are amortized over the time period during which the products are expected to be sold. Research expenditures are recognized as expenses in the period in which they are incurred.

An impairment loss is recognized for an intangible asset, if the recoverable amount of the asset is less than its carrying amount. A special regulation applies for the case 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 that are largely independent of cash inflows from other assets or groups of assets. If the asset is a part of a cash-generating unit, the impairment loss is calculated based on the recoverable amount of this unit. If this results in the carrying amount of a cash-generating unit to which goodwill was allocated exceeding the recoverable amount, the allocated goodwill is initially written down by the difference. Impairment losses which must be recognized 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 recognized in prior years has ceased to exist, a write-back is performed, whereby the increased carrying amount resulting from the write-back may not exceed the amortized cost. Impairment losses on goodwill are not reversed.

Property, plant and equipment is stated at depreciated cost. The borrowing cost is not capitalized as part of the cost. 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 recognized as expenses.

Exploratory wells are accounted for at cost, according to the successful efforts method, i.e. expenses for exploration activities are only capitalized for successful projects.

For example, only wells which are related to the discovery of crude oil or natural gas may be capitalized. Seismology and geology expenditures are recognized as expenses. Within the framework of the unit-of-production method, capitalized exploration assets are not depreciated or amortized during the exploration phase, but rather when 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. The depreciation of RWE's typical property, plant and equipment is calculated according to the following useful lives, which apply throughout the Group:

Useful life in years	
Buildings	12 – 80
Technical plants	
Thermal power plants	15 – 20
Wind turbines	up to 20
Electricity grids	20 – 45
Water main networks	20 – 75
Gas and water storage facilities	20 – 70
Gas distribution facilities	14 – 30
Mining facilities	4 – 25
Mining developments	33 – 35
Wells owned by RWE Dea	up to 28

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

Impairment losses for plant, property and equipment are recognized according to the principles described for intangible assets. If the reason for an impairment loss recognized in prior years has ceased to exist, a write-back is performed. In such cases, the increased carrying amount resulting from the write-back may not exceed the depreciated cost.

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 12 to 80 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 for investment property are recognized according to the principles described for intangible assets. If the reason for an impairment loss recognized in prior years has ceased to exist, a write-back is performed. In such cases, the increased carrying amount resulting from the write-back may not exceed the depreciated cost.

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: it is included in the recognized value of the investment. Goodwill is not amortized. An impairment loss is recognized 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 joint ventures/associates not accounted for using the equity method, as well as other investments and non-current marketable securities; these assets are nearly exclusively shown in the category "available for sale". 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 are allocated to this category. Initially and in the following periods, they are measured at fair value as long as such can be determined reliably. They are initially valued on their settlement date. Unrealized gains and losses are stated as other comprehensive income, with due consideration of any deferred taxes. Gains or losses are recognized 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 recognized with an effect on income. Indications of impairment can include significant financial difficulties of the debtor, default or delinquency on payments of interest or principal, or the disappearance of an active market for a financial asset as a result of problems in the financial system.

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 amortized 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 amortized cost. Loans with interest rates common in the market are shown on the balance sheet at nominal value; as a rule, non-interest or low-interest loans are disclosed at their present value discounted using an interest rate that is 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 amortized.

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 utilization of existing loss carryforwards in subsequent years. Deferred taxes are capitalized when it is sufficiently certain that they can be used. The amount of deferred taxes is assessed based on the tax rates that are applicable or expected in the individual countries at the time of realization, with due consideration of the tax regulations valid or adopted as of the balance-sheet date. The tax rate used to calculate deferred taxes in Germany is 30.9%, as in the previous year. This is derived from the 15% corporate tax rate effective from January 1, 2008, the 5.5% solidarity surcharge, and the Group's average local trade tax rate in Germany. 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 realizing a profit on a short-term resale transaction, they are carried at the lower of cost or the net realizable value. Production costs reflect the full costs directly related to production and are determined based on the normal capacity. Specifically, in addition to directly allocable costs, production costs include adequate portions of required materials and production overheads, including production-related depreciation. The borrowing cost is not capitalized as part of the cost. Assessment is generally based on average values. The usage of excavated earth for lignite mining is calculated using the FIFO method.

If the net realizable value of inventories written down in earlier periods has increased, the reversal of the write-down is recognized 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 realizing a profit on a short-term resale transaction are stated at their net realizable value less distribution costs. Changes in value are recognized 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. Unrealized gains and losses are included in other comprehensive income, with due consideration of any deferred taxes. Gains or losses are recognized in the income statement at the time of sale. If there are objective, material indications of a reduction in the value of an asset, an impairment loss is recognized with an effect on income.

Financial assets are derecognized when the contractual rights to cash flows from the asset expire or 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 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 amortized. They are recognized at fair value less costs to sell, as long as this 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.

Income from discontinued operations is reported in the income statement under "Income from discontinued operations". This applies to income from operating activities as well as to gains or losses resulting from the recognition at fair value or from the disposal of these operations.

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

Provisions are recognized 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 individually most likely outcome and are not offset against reimbursement claims. Provisions based on a large number of similar events are stated at the expected amounts of the possible outcomes.

All non-current provisions are recognized 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 recognized. If changes in the discount rate or changes in the estimated timing or amount of the payments result in changes in these 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 recognized immediately through profit or loss. Releases of provisions are credited to the expense account on which the provision was originally recognized.

Provisions for pensions and similar obligations are recognized 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, 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 2005G" 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, and the interest cost and expected return on plan assets are reported in the financial result.

Actuarial gains and losses are fully recognized in the fiscal year in which they occur. They are reported as a component of other comprehensive income outside of profit or loss in a consolidated statement of recognized 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. The contributions to the plan are recognized as expenses and disclosed 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).

Provisions for mining damage are recognized to cover land recultivation obligations and obligations to restore mining damage that has already occurred or been caused. Such risks and obligations are those that exist as of the balance-sheet date or are identifiable when the balance sheet is being prepared. They must be recognized 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 recognized 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. Similar assumptions for foreign subsidiaries are also taken into account.

A provision is recognized to cover the obligation to deliver CO_2 emission allowances to the competent authorities; this provision is measured at the book value of the CO_2 allowances capitalized 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 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. Liabilities from finance lease agreements are measured at the lower of fair value of the leased asset or present value of minimum lease payments. In the periods thereafter, liabilities (except for financial derivatives) are carried at amortized cost.

Deferred income and prepayments from customers are recognized 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 amortized and included in income over the useful life of the corresponding asset. As a rule, this item also includes taxable and non-taxable government grants for capital expenditure on non-current assets, which are recognized 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 put options on minority interests that are recognized in accordance with IAS 32.

Derivative financial instruments are recognized as assets or liabilities. All derivative financial instruments are measured at fair value regardless of their purpose. Changes in the fair value are recognized 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 unrecognized firm commitments are also recognized as fair value hedges. For fair value hedges, changes in the fair value of the hedging instrument or the fair value of the respective underlying transactions are recognized 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 those of the underlying hedged transaction. In this regard, changes in the fair value of the underlying transaction must pertain to the hedged portion of the overall risk. In the event that unrecognized 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, unrealized gains and losses from the hedging instrument are initially stated as other comprehensive income. Such gains or losses are disclosed 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 recognized in equity until this point in time are recognized in the income statement in the period during which the asset or liability affects the income statement. If the transaction results in the recognition of non-financial assets or liabilities, the amounts recognized 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. Unrealized gains and losses from hedges are recognized in other comprehensive income until the investment is sold.

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 recognized in accordance with these rules. The ineffective portion is recognized 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 are not recognized because it is not probable that an outflow of economic benefits will be required to settle the obligations or the amount of which cannot be measured reliably. Contingent liabilities are not recognized on the balance sheet, unless they are assumed within the framework of a business combination. The amounts disclosed in the notes correspond to the exposure at the balance-sheet date.

Management judgments in the application of accounting policies. Management judgments 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 recognized 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.

The explanation of the accounting policies contains a description of the decisions taken by the RWE Group with regard to these items.

Management estimates and judgments. Preparation of consolidated financial statements pursuant to IFRS requires assumptions and estimates to be made, which have an impact on the recognized 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 rate is one of the very important estimates. The discount rate for pension obligations is determined on the basis of yields on senior, fixed-rate corporate bonds on the financial markets as of the balance-sheet date. Due to the current financial market crisis, the yield spreads of corporate bonds compared to government bonds have increased sharply. At the same time, the range of yields on high-quality corporate bonds observed on the market has also widened significantly and these yields are used as the basis for determining the discount rate. The rise in the discount rate has resulted in a reduction in the present value of the pension obligations and an increase in equity. In Germany, an increase or decrease of one percentage point in the discount rate would result in a reduction of €1,057 million or an increase of €1,269 million, respectively, in the present value of the obligations of our pension plans. For the Group companies in the UK, identical changes in the discount rate would reduce or increase pension obligations by €367 million or €451 million, respectively.

The impairment test for goodwill is based on certain assumptions pertaining to the future, which are regularly adjusted. Based on current knowledge, there are not expected to be any changes in these assumptions which would cause the recoverable amounts to fall below the carrying amounts of the cash-generating units in fiscal 2009.

Deferred tax assets are recognized if realization of future tax benefits is probable. Actual future income for tax purposes and hence the actual realizability of deferred tax assets, however, may deviate from the estimation made when the deferred taxes are capitalized.

Further explanation of the assumptions and estimates upon which these consolidated financial statements are based can be found in the notes to the individual items in the financial statements.

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 our assumptions. 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. The broader framework for optimized capital management is determined by the strategic approach of the RWE Group, which is focused on increasing the value of our business over the long term, in the interests of our investors, employees and customers. To achieve this goal, RWE endeavours to constantly optimize its existing operations (“operational excellence”), to safeguard its market position through investment in growth and to broaden its portfolio via acquisitions that create value.

Within the framework of capital management, this strategic approach involves the use of a debt target to actively manage the balance sheet. The target is based on a new definition of net debt (net financial debt including all material non-current provisions, less the surplus of plan assets over benefit obligations) and a debt factor which is derived from this (net debt divided by EBITDA). The target value for fiscal 2010 for the debt factor is 2.8 to 3.4, and is set in harmony with a solid rating. At the end of the period under review, this factor was 2.2 (previous year: 2.1).

Maintaining a solid rating, as a sign of excellent credit quality, is important for the financial flexibility of the RWE Group. The rating is also influenced by a number of other qualitative and quantitative factors. These include aspects such as market conditions, competition, and the political framework, as well as indicators such as profitability and cash flow generation.

At present, the two leading rating agencies, Moody’s and Standard & Poor’s, assign investment-grade ratings (A1/A flat, both with a negative outlook) for the bonds issued by RWE AG and by RWE Finance B.V. with a guarantee by RWE AG. Moody’s is currently considering a possible downgrade. The two agencies give the rating P-1/A-1 for RWE’s short-term credit quality and the Commercial Paper Programme. The review of operations also contains information on the assessment of RWE’s creditworthiness by the rating agencies.

RWE AG is not subject to any capital requirements on the basis of its Articles of Incorporation.

Changes in accounting policies

The International Accounting Standards Board (IASB) has approved a number of changes to the existing International Financial Accounting Standards (IFRSs) and adopted several new IFRSs, which became effective as of January 1, 2008. The RWE Group is applying the following IFRSs in the reporting period for the first time:

“Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)” allows entities under specific conditions to measure certain non-derivative financial assets, which were previously accounted for at fair value, at amortized cost. Additionally, more extensive disclosure on the reclassification of financial assets in the notes to consolidated financial statements is also required. The new regulations became applicable for the first time effective July 1, 2008. The RWE Group's consolidated financial statements were not influenced by this.

IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions" provides guidance on how to apply IFRS 2 to share-based payments, involving a company's own equity instruments or equity instruments of a company from the same group. The first-time application of IFRIC 11 had no impact on the RWE Group's consolidated financial statements.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" addresses detailed issues related to the accounting treatment of pension plans. The first-time application of IFRIC 14 had no impact on the RWE Group's consolidated financial statements.

Additionally, RWE has made the following voluntarily changes to accounting policies:

Application of IAS 19.93A: To increase the transparency of reporting, the RWE Group started fully recognizing actuarial gains and losses from defined benefit pension plans and similar obligations in the period in which they occur as of January 1, 2008, in accordance with IAS 19.93A. This method replaces the 'corridor method.' With the 'corridor method', actuarial gains and losses were recognized as profit or loss over the anticipated average remaining working lives of the qualified employees, to the extent that they exceeded 10% of the greater of the benefit obligation or the fair value of the plan assets. The new method pursuant to IAS 19.93A calls for immediate recognition of all actuarial gains and losses. They are reported as a component of other comprehensive income outside profit or loss, in the statement of recognized income and expenses. After having been reported as part of other comprehensive income for the first time, they are immediately assigned to retained earnings; consequently, they remain outside profit or loss in subsequent periods as well.

Pursuant to IFRS, the comparable figures for 2007 were to be adjusted in line with the new method. This retroactive adjustment increased provisions for pensions and similar obligations as of January 1, 2008 by €69 million (January 1, 2007: €257 million). Moreover, as of January 1, 2008, the surplus of plan assets over benefit obligations reported under non-current other receivables and other assets declined by €266 million (January 1, 2007: €413 million). Due to this change, as of January 1, 2008, assets held for sale increased by €9 million and liabilities held for sale by €22 million. Taking into account the €46 million in deferred tax assets recognized outside profit or loss (January 1, 2007: €96 million), and the €43 million decrease in deferred tax liabilities (January 1, 2007: €123 million), equity declined by a total of €259 million as of January 1, 2008 (January 1, 2007: €451 million). Due to the discontinuation of the amortization of actuarial gains and losses recognized with an effect on income, staff costs for fiscal 2007 decreased by €13 million, and income taxes increased by €5 million. As a result of this transition, income in fiscal 2007 increased by €8 million.

New accounting policies

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have adopted further standards and interpretations, which were not yet mandatory in the 2008 financial year. These IFRSs can only be applied if they are endorsed by the EU, which is still pending in some cases.

Collection of amendments to various IFRSs (2008) "Improvements to IFRSs" is the first standard issued as part of the IASB's "Annual Improvement Process" and includes a number of minor IFRS changes. The amendments seek to specify the rules and eliminate unintended inconsistencies among the standards. Most of the amendments become effective for fiscal years starting on or after January 1, 2009. The impact of the first-time application of these amendments on the RWE Group's consolidated financial statements is currently being reviewed.

IFRS 1 (2008) and IAS 27 (2008) "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate" simplifies the initial recognition of investments in the separate financial statements of entities applying IFRS for the first time. The amendments become effective for fiscal years starting on or after January 1, 2009. Their first-time application will have no impact on the RWE Group's consolidated financial statements.

IFRS 1 (2008) "First-time Adoption of International Financial Reporting Standards" is a restructured version of the previous IFRS 1 with unchanged contents. The first-time application will have no impact on the RWE Group's consolidated financial statements.

Amendment of IFRS 2 (2008) "Vesting Conditions and Cancellations" clarifies the definition of vesting conditions in share-based payments and stipulates that all cancellations of share-based payments should receive identical accounting treatment, regardless of the party responsible for cancellation. This amendment of IFRS 2 becomes effective for the first time for fiscal years starting on or after January 1, 2009. The first-time application is not expected to have a material impact on the RWE Group's consolidated financial statements.

IFRS 3 (2008) "Business Combinations" contains amended regulations on the accounting of business combinations. In particular, these changes involve the scope of application and the treatment of successive share purchases and the introduction of an option allowing non-controlling interests to be measured at fair value or at the proportionate share of net assets. Depending on which option a company exercises, any goodwill is recognized in full or only in proportion to the majority owner's interest. IFRS 3 (2008) becomes effective for the first time for fiscal years starting on or after July 1, 2009. The impact of the first-time application of these amendments on the RWE Group's consolidated financial statements is currently being reviewed.

IAS 1 (2007) "Presentation of Financial Statements" contains new regulations on the presentation of financial statements. Above all, future non-owner changes in equity are to be strictly separated from owner changes in equity, and disclosure on other comprehensive income is to be extended. IAS 1 (2007) becomes effective for the first time for fiscal years starting on or after January 1, 2009. In particular, the application of IAS 1 (2007) will result in changes in the presentation of the income statement and statement of changes in equity in RWE's consolidated financial statements.

IAS 23 (2007) "Borrowing Costs": By revising IAS 23, the IASB abolished the option for the treatment of borrowing costs directly incurred in connection with the acquisition, construction or production of qualified assets. In the future, these borrowing costs must be assigned to the asset's cost and capitalized. IAS 23 (2007) becomes effective for the first time for fiscal years starting on or after January 1, 2009. This change in accounting methods for borrowing costs will be effective from fiscal 2009 and will essentially have an effect on net interest and depreciation.

IAS 27 (2008) "Consolidated and Separate Financial Statements": By revising IAS 27, the IASB changed the regulations on treatment of transactions with non-controlling interests of a group and the treatment in the event of loss of control over a subsidiary. Transactions which result in the 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. Moreover, 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 partial sale. The revised version of IAS 27 becomes effective for the first time for fiscal years starting on or after July 1, 2009. The impact of the application of the new rules on the RWE Group's consolidated financial statements is currently being reviewed.

IAS 32 (2008) and IAS 1 (2008) "Puttable Financial Instruments and Obligations Arising on Liquidation" includes amended rules for differentiating between liabilities and equity. Certain financial instruments that were previously classified as liabilities must be recognized as equity in the future. The new rules become effective for the first time for fiscal years starting on or after January 1, 2009. They are not expected to have a material impact on the RWE Group's consolidated financial statements.

IAS 39 Amendments (2008) "Eligible Hedged Items" provides clarification on issues in relation to hedge accounting. The amendments supplement the principles for designating inflation risks as an underlying transaction and for designating hedging instruments used to hedge a one-sided risk. These amendments become effective for the first time for fiscal years starting on or after July 1, 2009. They are not expected to have a material impact on the RWE Group's consolidated financial statements.

IAS 39 and IFRS 7 Amendments (2008) "Reclassification of Financial Assets – Effective Date and Transition" presents transitional regulations and clarification on the effective date of the option introduced in 2008, according to which certain non-derivative financial assets which were previously designated at fair value can be accounted for at amortized cost. The first-time application is not expected to have a material impact on the RWE Group's consolidated financial statements.

IFRIC 13 "Customer Loyalty Programmes" addresses the accounting of revenue in connection with loyalty award credit programmes offered by manufacturers or service providers directly, or via third parties. This Interpretation becomes effective for the first time for fiscal years starting on or after July 1, 2008. The impact of the first-time application of IFRIC 13 on the RWE Group's consolidated financial statements is currently being reviewed.

IFRIC 15 "Agreements for the Construction of Real Estate" addresses the accounting treatment of real estate sales in cases where a contract is entered into with the purchaser prior to the completion of the construction work. This Interpretation primarily determines the conditions under which IAS 11 and IAS 18 are applicable and the point in time at which the corresponding revenue is realized. This Interpretation becomes effective for the first time for fiscal years starting on or after January 1, 2009. The first-time application is not expected to have a material impact on the RWE Group's consolidated financial statements.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" clarifies uncertainties relating to the currency hedges of foreign operations. Above all, the Interpretation determines the risks that can be hedged, the group companies that are allowed to hold the hedging instrument, and the accounting treatment applicable in the event that the foreign entity is divested. This Interpretation becomes effective for the first time for fiscal years starting on or after October 1, 2008. The RWE Group's consolidated financial statements are not expected to be materially influenced by this.

IFRIC 17 "Distributions of Non-cash Assets to Owners" establishes regulations for the accounting of non-cash dividends. This Interpretation becomes effective for the first time for fiscal years starting on or after July 1, 2009. The first-time application is not expected to have a material impact on the RWE Group's consolidated financial statements.

IFRIC 18 "Transfer of Assets from Customers" regulates the accounting treatment of assets which are transferred by a customer to a company for the purpose of connection to a network or to provide ongoing access to a supply of goods or services. This Interpretation was published on January 29, 2009 and becomes effective for the first time in respect of assets transferred on or after July 1, 2009. The impact of the application of the Interpretation on the RWE Group's consolidated financial statements is currently being reviewed.

The following IFRS, which became effective on January 1, 2008, is not being applied by the RWE Group as it is still pending EU approval:

IFRIC 12 "Service Concession Arrangements" governs the accounting for arrangements in which a public agency concludes a contract with a private company for the supply of public services. In order to provide these services, the private company uses infrastructure which remains under public control. The private company is responsible for the construction, operation and maintenance of the infrastructure. This Interpretation became effective for the first time for fiscal years starting on or after January 1, 2008. The application is not expected to have a material impact on the RWE Group's consolidated financial statements.

Notes to the Income Statement

(1) Revenue (including natural gas tax/electricity tax)

Revenue is recorded when the risk stemming from a delivery or service has been transferred to the customer.

To improve the presentation of business development, RWE reports revenue generated by energy trading operations as net figures, reflecting realized gross margins. By contrast, electricity, gas, coal and oil transactions that are subject to physical settlement are stated as gross figures. Energy trading revenue is generated by RWE Supply & Trading. In fiscal 2008, gross revenue (including energy trading) amounted to €85,043 million (previous year: €65,097 million).

The segment reporting on pages 208 to 211 contains a breakdown of revenue (including natural gas tax/electricity tax) by division and geographical region. Deconsolidations and first-time consolidations increased revenue by a net €358 million.

The item natural gas tax/electricity tax comprises the taxes paid directly by Group companies.

(2) Other operating income

€ million	2008	2007
Release of provisions	133	230
Cost allocations/refunds	62	57
Disposal and write-back of current assets excluding marketable securities	37	43
Disposal and write-back of non-current assets including income from deconsolidation	231	364
Income from derivative financial instruments	134	148
Compensation for damage/insurance benefits	29	14
Rent and lease	28	32
Miscellaneous	279	344
	933	**1,232**

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 €5 million in other operating income is attributable to changes in the scope of consolidation.

(3) Cost of materials

€ million	2008	2007
Cost of raw materials and of goods for resale	28,660	21,484
Cost of purchased services	4,026	5,049
	32,686	**26,533**

The cost of raw materials used also contains expenses for the use and disposal of spent nuclear fuel assemblies as well as €0 million (previous year: €24 million) in taxes paid for RWE Dea's foreign production companies.

Cost of materials in exploration activities amounted to €209 million in the reporting period (previous year: €133 million).

A total of €36,093 million in energy trading revenue (previous year: €22,590 million) was netted out against cost of materials. Changes in the scope of consolidation resulted in an increase of €192 million in the cost of materials.

(4) Staff costs

€ million	2008	2007
Wages and salaries	3,633	3,277
Cost of social security, pensions and other benefits	782	674
	4,415	**3,951**

The cost of pension benefits was €151 million (previous year: €17 million), consisting of €164 million in current service cost (previous year: €178 million), and amortization of past service cost of - €13 million (previous year: - €161 million).

Converted to full-time positions, the RWE Group's average personnel headcount (excluding American Water) amounted to 65,254 (previous year: 63,054). 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, 51,930 were staff covered by collective or other agreements (previous year: 51,340) and 13,324 were staff who were not covered by collective agreements (previous year: 11,714). In addition, on average the Group employed 2,688 trainees (previous year: 2,591).

An increase of €73 million in staff costs is attributable to changes in the scope of consolidation.

(5) Depreciation, amortization, and impairment losses

Depreciation and impairment losses on property, plant and equipment amounted to €1,796 million (previous year: €1,781 million) and to €7 million (previous year: €8 million) on investment property. Intangible assets were written down by €443 million (previous year: €468 million), of which €288 million (previous year: €327 million) pertained to customer relationships in connection with acquisitions from prior financial years. Depreciation, amortization and impairment losses of €1 million (previous year: €1 million) were recognized on property, plant and equipment and intangible assets in relation to exploration activities.

Impairment losses were recognized in the reporting period. These impairment losses amounted to €24 million (previous year: €85 million) on property, plant and equipment, and to €1 million (previous year: €2 million) on investment property. Impairment losses of €1 million (previous year: €3 million) were recorded on intangible assets (without goodwill).

Depreciation, amortization and impairment losses increased by €28 million as a result of changes in the scope of consolidation.

(6) Other operating expenses

€ million	2008	2007
Maintenance and renewal obligations	641	599
Additions to provisions	14	571
Concessions, licenses and other contractual obligations	495	483
Structural and adaptation measures	74	91
Legal and other consulting and data processing services	261	193
Disposal of current assets and decreases in values (excluding decreases in the value of inventories and marketable securities)	298	327
Disposal of non-current assets including expenses from deconsolidation	147	49
Insurance, commissions, freight and similar distribution costs	219	199
General administration	197	189
Advertising	238	192
Expenses from derivative financial instruments	83	141
Lease payments for plant and grids as well as rents	82	94
Postage and monetary transactions	87	85
Fees and membership dues	70	80
Exchange rate losses	11	38
Other taxes (primarily on property)	39	24
Miscellaneous	447	530
	3,403	**3,885**

Exploration activities resulted in other operating expenses of €102 million (previous year: €48 million).

An increase of €45 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	2008	2007
Income from investments accounted for using the equity method	**372**	**447**
of which: amortization and impairment losses on investments accounted for using the equity method	(-17)	(-3)
Income from non-consolidated subsidiaries	1	14
of which: amortization and impairment losses on non-consolidated subsidiaries	(-6)	(-2)
Income from other investments	48	61
of which: impairment of shares in other investments		(-1)
Income from the disposal of investments	28	40
Expenses from the disposal of investments	1	2
Income from loans to investments	41	47
Expenses from loans to investments	35	10
Other income from investments	**82**	**150**
	454	**597**

Income from investments includes impairment losses on other financial assets in the amount of €6 million (previous year: €3 million) and impairment losses on loans to investments amounting to €35 million (previous year: €10 million).

(8) Financial result

€ million	2008	2007
Interest and similar income	807	855
Other financial income	1,055	1,575
Financial income	**1,862**	**2,430**
Interest and similar expenses	965	1,334
Interest accretion to		
Provisions for pensions and similar obligations	97	149
Provisions for nuclear waste management as well as to mining provisions	582	548
Other provisions	59	74
Other finance costs	1,634	1,463
Finance costs	**3,337**	**3,568**
	-1,475	**-1,138**

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

Net interest includes interest income from interest-bearing securities and loans, expenses and income relating to marketable securities, and interest expenses. Net interest also includes shares in profit and dividends from non-current and current marketable securities.

Net interest € million	2008	2007
Interest and similar income	807	855
Interest and similar expenses	965	1,334
	-158	**-479**

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 is composed of financial assets and liabilities, which are allocated to the following categories:

Interest result by category € million	2008	2007
Loans and receivables	465	479
Financial assets available for sale	342	376
Financial liabilities carried at (amortized) cost	-965	-1,334
	-158	**-479**

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 €232 million in gains realized from the disposal of marketable securities (previous year: €572 million). Other finance costs include write-downs of marketable securities due to decreases in their fair value in the amount of €152 million (previous year: €42 million) as well as €436 million (previous year: €266 million) in realized losses from the disposal of marketable securities.

In order to better reflect the economic substance, income and expenses from operative foreign currency hedging transactions are reported in net terms. The previous-year figures were adjusted by €776 million.

(9) Taxes on income

€ million	2008	2007
Current taxes on income	655	1,455
Deferred taxes	768	626
	1,423	**2,081**

Current taxes on income contain €332 million in net tax income (previous year: €65 million) relating to prior periods.

In the previous year, an increase of €190 million in deferred taxes was recognized as an expense due to changes in tax rates, in particular due to the German Corporate Tax Reform Act of 2008.

Due to the utilization of tax loss carryforwards unrecognized in prior years, current taxes on income were reduced by €24 million (previous year: €11 million). Deferred tax expenses decreased by €0 million (previous year: €26 million), due to previously unrecognized tax loss carryforwards that are to be reassessed.

The income tax expense is derived from the theoretical tax expense. A tax rate of 30.9% (previous year: 39.4%) was applied to income from continuing operations before tax. The significant decline in the tax rate results from the German Corporate Tax Reform Act of 2008.

Tax reconciliation € million	2008	2007
Income from continuing operations before tax	**4,866**	**5,246**
Theoretical tax expense	**1,503**	**2,067**
Differences from foreign tax rates	-112	-377
Tax effects on		
Tax-free domestic dividend income	-88	-118
Tax-free foreign dividend income	-28	-24
Other tax-free income	-48	-26
Expenses not deductible for tax purposes	137	150
Accounting for associates using the equity method (including impairment losses on associates' goodwill)	-11	-57
Unutilizable loss carryforwards and/or utilization of unrecognized loss carryforwards and write-downs on loss carryforwards	77	34
Income on the disposal of investments	21	-185
Changes in domestic tax rates		256
Changes in foreign tax rates		-66
Other	-28	427
Effective tax expense	**1,423**	**2,081**
Effective tax rate in %	29.2	39.7

Notes to the Balance Sheet

(10) Intangible assets

€ million	Develop-ment costs	Concessions, patent rights, licenses and similar rights	Customer relationships and similar assets	Goodwill	Pre-payments	Total
Cost						
Balance at Jan 1, 2008	279	1,568	2,802	9,714	5	14,368
Additions/disposals due to changes in the scope of consolidation	3	343	5	332	-18	665
Additions	105	264			20	389
Transfers		2			-2	
Currency translation adjustments	-68	-65	-642	-894	-1	-1,670
Disposals	3	113	1			117
Balance at Dec 31, 2008	316	1,999	2,164	9,152	4	13,635
Accumulated amortization/impairment losses						
Balance at Jan 1, 2008	158	877	1,445	6		2,486
Additions/disposals due to changes in the scope of consolidation	1	1	4			6
Amortization/impairment losses in the reporting period	47	108	288			443
Currency translation adjustments	-35	-23	-376			-434
Disposals	2	65	1			68
Balance at Dec 31, 2008	169	898	1,360	6		2,433
Carrying amounts						
Balance at Dec 31, 2008	147	1,101	804	9,146	4	11,202
Cost						
Balance at Jan 1, 2007	253	1,459	3,050	13,058	40	17,860
Additions/disposals due to changes in the scope of consolidation	-9	-48	9	-2,747	-34	-2,829
Additions	52	217	1		16	286
Transfers		11			-11	
Currency translation adjustments	-16	-25	-258	-597	-6	-902
Disposals	1	46				47
Balance at Dec 31, 2007	279	1,568	2,802	9,714	5	14,368
Accumulated amortization/impairment losses						
Balance at Jan 1, 2007	122	854	1,243	740		2,959
Additions/disposals due to changes in the scope of consolidation	4	-29		-657		-682
Amortization/impairment losses in the reporting period	41	102	327			470
Currency translation adjustments	-9	-9	-125	-77		-220
Disposals		41				41
Balance at Dec 31, 2007	158	877	1,445	6		2,486
Carrying amounts						
Balance at Dec 31, 2007	121	691	1,357	9,708	5	11,882

In the reporting period, a total of €105 million (previous year: €74 million) was spent on research and development. Development costs of €105 million (previous year: €52 million) were capitalized.

Intangible assets in exploration activities with a carrying amount of €320 million were recorded in the reporting period (previous year: €209 million).

Goodwill was allocated to cash-generating units at the segment level to carry out impairment tests. Goodwill breaks down as follows:

Goodwill € million	Dec. 31, 2008	Dec. 31, 2007
RWE Power	404	365
RWE Dea	30	30
RWE Supply & Trading	434	434
RWE Energy	5,253	5,003
RWE npower	2,636	3,876
RWE Innogy	389	
	9,146	**9,708**

The goodwill of RWE Energy includes €668 million recognized in accordance with IAS 32. This goodwill stems from put options granted on minority interests. The previous year's figure of €1,241 million also included the forward purchase of minority interests in RWE Westfalen-Weser-Ems AG, Dortmund; this amount is now included in goodwill in line with the general regulations.

In the reporting period, goodwill increased by €332 million (previous year: decrease of €2,090 million).

Additions of €111 million resulted from acquisitions by RWE Innogy. An increase in the current redemption liabilities on put options resulted in an adjustment of €135 million to the goodwill of RWE Energy without an effect on income. As a result of subsequent adjustments in relation to the merger with VEW AG in 2000, the goodwill of RWE Energy and RWE Power was increased by a total of €130 million.

Due to restructuring within the Group, RWE npower transferred goodwill in the amount of €329 million to the operating segment RWE Innogy.

The goodwill of RWE npower was reduced by €84 million (previous year: €138 million) in accordance with IAS 12.68, as tax benefits from periods prior to first-time consolidation were realized. In the previous year, the disposals of €1,789 million primarily resulted from the classification of American Water as a discontinued operation.

In the year under review and in the previous year, no impairment losses were recognized on goodwill on continuing operations. Currency effects decreased the carrying amount of goodwill by €894 million (previous year: €520 million).

The impairment test involves determining the recoverable amount of the cash-generating units, which corresponds to the maximum of the fair value less costs to sell or the value in use. The fair value reflects the best estimate of the sum 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. As of the balance-sheet date, both the fair value less costs to sell and the value in use of the cash-generating units were above their carrying amounts.

Fair value and value in use are determined on the basis of a business valuation model. Fair value is assessed from an external perspective and value in use from a company-internal perspective. Fair value and value in use are determined based on future cash flows, which, as a rule, are based on the business plan prepared for a period of three years, as approved by the Executive Board and valid when the impairment test is performed. Business plans are based on experience as well as on expected market trends in the future. If available, market transactions or third-party valuations of similar assets in the same sector are taken as a basis for determining the fair value.

Business plans are based on country-specific assumptions regarding the development of key economic indicators such as gross domestic product, consumer prices, interest rates and nominal wages. These estimates are derived from macroeconomic and financial studies, amongst other things.

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, and retail prices for electricity and gas, as well as to the development of market shares and regulatory framework conditions.

The discount rates used for business valuations are determined on the basis of market data and range from 6.1 to 9.8 % for cash-generating units after tax (previous year: 6.5 to 8.5 %). Before tax, the interest rates used range from 8.1 to 17.3 % (previous year: 9.5 to 13.0 %).

RWE extrapolates future cash flows going beyond the detailed planning horizon based on constant growth rates of 0.0 to 0.5 % (previous year: 0.0 to 0.5 %). These figures are derived from experience and future expectations for each division and do not exceed the long-term average growth rates of the markets in which the companies are active. The cash flow growth rates are determined after subtracting the capital expenditure required to achieve the assumed cash flow growth.

(11) 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	Prepayments	Plants under construction	Total
Cost						
Balance at Jan 1, 2008	6,680	57,701	1,955	837	1,715	68,888
Additions/disposals due to changes in the scope of consolidation	48	87	30	17	-14	168
Additions	137	1,454	149	178	2,286	4,204
Transfers	14	674	25	-8	-767	-62
Currency translation adjustments	-153	-911	-81		-255	-1,400
Disposals	114	486	136		12	748
Balance at Dec 31, 2008	6,612	58,519	1,942	1,024	2,953	71,050
Accumulated depreciation/impairment losses						
Balance at Jan 1, 2008	3,397	43,862	1,560	1	30	48,850
Additions/disposals due to changes in the scope of consolidation	6	-166	-4		3	-161
Depreciation/impairment losses in the reporting period	164	1,503	129			1,796
Transfers	-6	1	2			-3
Currency translation adjustments	-54	-453	-57		-1	-565
Disposals	62	399	129			590
Write-backs	4	6			29	39
Balance at Dec 31, 2008	3,441	44,342	1,501	1	3	49,288
Carrying amounts						
Balance at Dec 31, 2008	3,171	14,177	441	1,023	2,950	21,762
Cost						
Balance at Jan 1, 2007	7,516	64,905	2,157	334	1,562	76,474
Additions/disposals due to changes in the scope of consolidation	-995	-8,040	-132		-211	-9,378
Additions	254	1,806	138	541	1,221	3,960
Transfers	100	732	12	-38	-732	74
Currency translation adjustments	-101	-906	-43		-80	-1,130
Disposals	94	796	177		45	1,112
Balance at Dec 31, 2007	6,680	57,701	1,955	837	1,715	68,888
Accumulated depreciation/impairment losses						
Balance at Jan 1, 2007	3,725	45,073	1,642	0	0	50,440
Additions/disposals due to changes in the scope of consolidation	-532	-1,789	-74			-2,395
Depreciation/impairment losses in the reporting period	290	1,518	168		59	2,035
Transfers	23	4	-4			23
Currency translation adjustments	-46	-167	-26	1		-238
Disposals	58	775	146		29	1,008
Write-backs	5	2				7
Balance at Dec 31, 2007	3,397	43,862	1,560	1	30	48,850
Carrying amounts						
Balance at Dec 31, 2007	3,283	13,839	395	836	1,685	20,038

Of additions/disposals due to changes in the scope of consolidation, in the previous year - €6,865 million resulted from classification as assets held for sale.

The carrying amount of property, plant, and equipment for exploration activities was €292 million in the reporting period (previous year: €212 million).

Property, plant and equipment were subject to restrictions in the amount of €99 million (previous year: €59 million) in the form of land charges and chattel mortgages. Of the carrying amount of property, plant and equipment, €76 million (previous year: €82 million) was attributable to assets leased under finance leases. These assets were principally comprised of technical plant and equipment with a total value of €66 million (previous year: €71 million). Disposal of property, plant and equipment resulted from the sale and decommissioning of plants.

(12) Investment property

€ million	
Cost	
Balance at Jan 1, 2008	333
Additions	4
Transfers	35
Disposals	6
Balance at Dec 31, 2008	366
Accumulated depreciation/impairment losses	
Balance at Jan 1, 2008	180
Depreciation/impairment losses in the reporting period	7
Transfers	3
Disposals	4
Balance at Dec 31, 2008	186
Carrying amounts	
Balance at Dec 31, 2008	180

€ million	
Cost	
Balance at Jan 1, 2007	438
Additions	
Transfers	-74
Disposals	31
Balance at Dec 31, 2007	333
Accumulated depreciation/impairment losses	
Balance at Jan 1, 2007	213
Depreciation/impairment losses in the reporting period	8
Transfers	-23
Disposals	18
Balance at Dec 31, 2007	180
Carrying amounts	
Balance at Dec 31, 2007	153

As of December 31, 2008, the fair value of investment property amounted to €285 million (previous year: €264 million). The fair value of investment property is derived from the current market prices of comparable real estate or determined using internationally accepted valuation methods such as the discounted cash flow method. €81 million of the fair value (previous year: €79 million) was based on valuations made by independent appraisers. Rental income in the reporting period amounted to €22 million (previous year: €15 million). Direct operating expenses totalled €9 million (previous year: €8 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	Dec 31, 2008		Dec 31, 2007
€ million	Total	Of which: joint ventures	Total
Equity			
Assets	19,637	2,954	16,287
Liabilities	11,613	1,610	10,718
	8,024	**1,344**	**5,569**
Adjustment to RWE interest and equity method	-4,756	-672	-3,148
	3,268	**672**	**2,421**

Income from investments accounted for using the equity method	2008		2007
€ million	Total	Of which: joint ventures	Total
Revenue	14,525	115	13,042
Income	1,665	-104	980
Adjustment to RWE interest and equity method	-1,293	52	-533
	372	**-52**	**447**

As of December 31, 2008 the fair value of investments accounted for using the equity method for which quoted market prices exist amounted to €2 million (previous year: €3 million).

€2,802 million of the assets and €1,019 million of the liabilities of joint ventures were non-current.

(14) Other non-current financial assets

€ million	Dec 31, 2008	Dec 31, 2007
Non-consolidated subsidiaries	57	220
Other investments	307	347
Non-current securities	317	444
	681	**1,011**

Non-current securities primarily consist of fixed-interest marketable securities and shares of public companies. They are not subject to any restrictions on disposal.

(15) Financial receivables

€ million	Dec 31, 2008		Dec 31, 2007	
	Non-current	Current	Non-current	Current
Loans to non-consolidated subsidiaries and investments	643	258	833	82
Collateral for trading activities		3,562		1,118
Other financial receivables				
Deferred interest		131		130
Miscellaneous other financial receivables	671	468	505	372
	1,314	**4,419**	**1,338**	**1,702**

As of the balance-sheet date, financial receivables from associates amounted to €1,107 million (previous year: €856 million).

RWE Group companies were required to deposit collateral for the trading activities stated above for exchange-based and over-the-counter (OTC) transactions. These guarantees are designed to ensure that the obligations from the transactions are discharged even if the development of prices is not favourable.

(16) Other receivables and other assets

€ million	Dec 31, 2008		Dec 31, 2007	
	Non-current	Current	Non-current	Current
Derivatives	911	13,569	646	6,038
Surplus of plan assets over benefit obligations			507	
Prepayments for items other than inventories		297		283
CO_2 emission allowances		1,216		390
Prepaid expenses		128		116
Miscellaneous other assets	281	896	274	707
	1,192	**16,106**	**1,427**	**7,534**

With the exception of derivatives, the financial instruments reported under other receivables and other assets are measured at amortized 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 €40 million.

(17) Income tax assets

The act on fiscal measures accompanying the introduction of the European Company and the amendment of other fiscal regulations (SEStEG) entered into effect on December 13, 2006. Consequently, as of December 31, 2006 a legally unconditional claim was created for the refund of corporate tax credits stemming from the previous tax credit system (cf. Sec. 37 of the German Corporate Income Tax Act, as amended, KStG). The distribution-dependent realization of the credit applicable in the past was replaced by a procedure by which payments are made in instalments over a period of 10 years (2008 to 2017). As a rule, payments are effective September 30. Since this receivable is non-interest bearing, it is stated at present value.

(18) Deferred taxes

The deferred tax assets of €1,609 million (previous year: €2,502 million) and deferred tax liabilities of €1,583 million (previous year: €1,885 million) principally relate to measurements deviating from the tax bases. €3,159 million and €3,141 million of the total amount of gross deferred tax assets and liabilities, respectively, will be realized within twelve months (previous year: €1,734 million and €1,346 million).

The following is a breakdown of deferred tax assets and liabilities by item:

Deferred taxes	Dec 31, 2008		Dec 31, 2007	
€ million	Assets	Liabilities	Assets	Liabilities
Non-current assets	345	1,880	347	2,072
Current assets	459	2,288	140	497
Exceptional tax items		284		309
Non-current liabilities				
Provisions for pensions	290	53	225	71
Other non-current provisions	1,603	161	1,648	76
Current liabilities	2,700	853	1,594	849
	5,397	**5,519**	**3,954**	**3,874**
Tax loss carryforwards	148		537	
Gross total	**5,545**	**5,519**	**4,491**	**3,874**
Netting	-3,936	-3,936	-1,989	-1,989
Net total	**1,609**	**1,583**	**2,502**	**1,885**

Deferred tax assets and deferred tax liabilities are netted out for each company and/or tax group.

Total deferred tax assets include the following capitalized tax reduction claims which result from the expected utilization of previously unused tax loss carryforwards in subsequent years:

Tax reduction claims from loss carryforwards € million	Dec 31, 2008	Dec 31, 2007
Corporate income tax (or comparable foreign income tax)	41	186
Trade tax	107	351
	148	**537**

The realization of these tax carryforwards is guaranteed with sufficient certainty. At the end of the reporting period, there were €399 million in corporate income tax loss carryforwards and €424 million in trade tax loss carryforwards for which no deferred tax claims have been recognized (previous year: €467 million and €494 million, respectively).

Domestic and foreign tax loss carryforwards can essentially be used for an unlimited period.

In the year under review, €180 million in deferred taxes (previous year: €132 million) arising from the translation of foreign financial statements and €33 million (previous year: - €52 million) from valuations without an effect on income were offset against equity.

(19) Inventories

€ million	Dec 31, 2008	Dec 31, 2007
Raw materials, incl. nuclear fuel assemblies and earth excavated for lignite mining	1,613	1,478
Work in progress-goods	23	20
Work in progress-services	47	68
Finished goods and goods for resale	839	771
Prepayments	18	15
	2,540	**2,352**

Inventories were not subject to any restrictions on disposal and there were no further obligations.

The carrying amount of inventories acquired for resale purposes amounted to €99 million (previous year: €138 million).

Changes in the scope of consolidation resulted in an increase of €5 million in inventories.

(20) Trade accounts receivable

As of the balance-sheet date, trade accounts receivable from associates amounted to €222 million (previous year: €300 million).

Trade accounts receivable increased by €83 million due to changes in the scope of consolidation.

(21) Marketable securities

The total value of current marketable securities was €7,735 million (previous year: €10,858 million), consisting of fixed-interest marketable securities of €7,147 million (previous year: €9,685 million) with a maturity of more than three months from the date of acquisition, and stocks and profit-participation certificates of €588 million (previous year: €1,173 million). Marketable securities are stated at fair value. As of December 31, 2008, the average return on fixed-interest securities was 3.9% (previous year: 4.9%). Securities in the amount of €714 million (previous year: €0 million) were deposited with a clearing bank as collateral.

(22) Cash and cash equivalents

€ million	Dec 31, 2008	Dec 31, 2007
Cash	994	1,386
Marketable securities and other cash investments (maturity less than three months from the date of acquisition)	255	536
	1,249	**1,922**

Demand deposits are only kept for short-term cash positions at banks with a minimum rating of A-/A3. As in the previous year, interest rates are maintained at market levels.

(23) Equity

A breakdown of equity is shown on page 153.
Subscribed capital is structured as follows:

Subscribed capital	Dec 31, 2008 Number of shares		Dec 31, 2007 Number of shares		Dec 31, 2008 Carrying amount	Dec 31, 2007 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 preferred share, upon allocation of the company's profits.

Pursuant to the resolution passed by the Annual General Meeting on April 17, 2008, the Executive Board was authorized to increase the company's capital stock, subject to the Supervisory Board's approval, by up to €287,951,360.00 until April 16, 2013, through the issuance of new bearer common shares in return for contributions in cash or in kind (authorized capital). In certain cases, the subscription rights of shareholders can be waived, with the approval of the Supervisory Board.

Pursuant to the resolution passed by the Annual General Meeting on April 17, 2008, the Executive Board was authorized to purchase shares of any class in RWE totalling up to 10% of the company's share capital until October 16, 2009. Share buybacks may also be conducted by exercising put or call options.

On December 31, 2008, RWE AG held 31,734,473 no-par-value common shares in RWE AG. The acquisition costs of own shares amounting to €2,500 million were deducted from the carrying amount of equity. They account for €81,240,250.88 of the company's share capital (5.64% of subscribed capital).

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 2008 be appropriated as follows:

Distribution of a dividend of €4.50 per individual, dividend-bearing share:

Dividend	**€2,388,107,371.50**
Profit carryforward	**€20,000,417.75**
Distributable profit	**€2,408,107,789.25**

The dividend proposal takes into account the non-dividend-bearing shares held by the company as of December 31, 2008. The number of dividend-bearing shares may decline before the Annual General Meeting if further shares are purchased. Accordingly, the number of dividend-bearing shares may rise if own shares are sold before the Annual General Meeting. In either of 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, according to which the total amount payable to the shareholders will be reduced by the partial amount that would be payable for the own shares additionally purchased between January 1, 2009, and the date of the proposal for the appropriation of distributable profit and will be increased by the partial amount that would be payable for the own shares sold between January 1, 2009, and the date of the proposal for the appropriation of distributable profit. The profit carryforward will rise or fall by these partial amounts.

Based on the resolution of RWE AG's Annual General Meeting on April 17, 2008 the dividend for fiscal 2007 amounted to €3.15 per common and preferred share. The dividend payment to shareholders of RWE AG totalled €1,689 million.

Minority interest

The share ownership of third parties in Group entities is presented in this item.

In particular, there are significant minority interests in the Hungarian energy utilities and in the Czech gas companies.

Additionally, the carrying amount of American Water's assets and liabilities allocable to the shares sold is stated as part of the minority interest.

(24) 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: the Long-Term Incentive Plan (LTIP) and Beat. If the persons holding stock options are not employed by RWE AG, the expenses associated with the exercise of the options are borne by the respective Group company.

	LTIP[1]	
	2003 tranche	2004 tranche
Grant date	July 1, 2003	May 25, 2004
Number of options granted	6,677,450	9,192,800
Term	5 years	5 years
Vesting conditions	Two-year waiting period; the common share price must have risen by at least 10% prior to the exercise date and must have outperformed the Dow Jones STOXX Utilities Price Index on ten consecutive days in the same period (this last condition does not apply if the common share price increases by at least 20%). Upon achievement of the above performance targets, the options can be exercised on a daily basis following expiration of the waiting period, with the exception of short blocking periods prior to the publication of corporate data. The number of options which may be exercised depends on the increase in the price of the common share compared to the exercise price determined when the options are granted. In the event of a 20% price increase all of the options can be exercised; for a 15 or 10% increase, 60 or 25% of the options can be exercised, respectively.	
Exercise price	€ 26.37	€ 35.45
Form of settlement	Cash settlement amounting to the difference between the share price upon exercise and the exercise price or provision of common shares (at the discretion of RWE AG). Settlement is limited to 50% of the exercise price.	

1 Long-Term Incentive Plan.

	Beat			
	2005 tranche	2006 tranche	2007 tranche	2008 tranche
Grant date	Jan. 1, 2005	Jan. 1, 2006	Jan. 1, 2007	Jan. 1, 2008
Number of conditionally granted performance shares	2,551,800	2,444,191	1,468,132	1,668,836
Term	3 years	3 years	3 years	3 years
Pay-out conditions	Automatic pay-out if following a waiting period of three years an outperformance of at least 25% compared to the Dow Jones STOXX Utilities Index peer group 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 and 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 trading days prior to expiration of the programme (with a ceiling of two times the value of the performance shares as of the grant date, for the 2006, 2007 and 2008 tranches, and three times the value for the 2005 tranche).			
Change in corporate control/merger	▪ If during the waiting period there is a change in corporate control, a compensation 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 regulations of the compensation plan with regard to the time when the bid for corporate control is submitted. ▪ In the event of merger with another company, compensation shall be calculated on the basis of the expected 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			

Long-Term Incentive Plan. The following changes in the number of outstanding LTIP options occurred in the year under review:

LTIP	2003 tranche	2004 tranche
Outstanding at the start of the fiscal year	13,200	85,000
Change in grant/expired		-33,500
Exercised	-13,200	-39,500
Outstanding at the end of the fiscal year	0	12,000
Exercisable at the end of the fiscal year	0	12,000

The average weighted share price as of the exercise date amounted to €77.06 for the options from LTIP exercised in fiscal 2008. The exercise price of the outstanding LTIP options as of the balance-sheet date was €17.73. The weighted average remaining contractual term amounted to 0.4 years.

Beat. The fair value of the performance shares conditionally granted in the Beat programme amounted to €22.25 per share as of the grant date for the 2008 tranche, €24.99 per share for the 2007 tranche, and €17.48 per share for the 2006 tranche. These values were calculated externally using a standard multivariate Black-Scholes 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 discount rates for the remaining term, the volatilities and the expected dividends of peer companies as well as the expected dividends of RWE AG.

In the year under review, the number of performance shares issued in the Beat programme developed as follows:

Beat	2005 tranche	2006 tranche	2007 tranche	2008 tranche
Outstanding at the start of the fiscal year	2,283,118	2,421,361	1,463,550	0
Granted				1,668,836
Change in grant / expired		-48,006	-12,246	-4,597
Paid out	-2,283,118			
Outstanding at the end of the fiscal year	0	2,373,355	1,451,304	1,664,239
Payable at the end of the fiscal year	0	2,373,355	0	0

The remaining contractual term amounted to one year for the 2007 tranche and two years for the 2008 tranche. The contractual term for the 2006 tranche ended upon completion of the year under review. In accordance with the plan regulations, the payment amount is €32.49 per performance share.

In addition to the above, the following share-based payment systems with equity settlement for executives and employees are operated at the level of the divisions:

RWE Npower plc/RWE Supply & Trading GmbH/ RWE IT UK Ltd./Npower Renewables Ltd.	Sharesave Scheme
Awards/tranches	2004 – 2008
Number of options granted per tranche	228,335 – 787,875
Term	3 years
Vesting conditions	Waiting period: 3 years
Exercise price	€19.98 – €50.24
Form of settlement	Existing shares

In the year under review, the number of outstanding Sharesave Scheme options developed as follows:

RWE Npower plc/RWE Supply & Trading GmbH/ RWE IT UK Ltd./Npower Renewables Ltd.	Sharesave Scheme
Outstanding at the start of the fiscal year	942,257
Granted	296,485
Exercised	-295,973
Expired	-54,537
Outstanding at the end of the fiscal year	888,232
Exercisable at the end of the fiscal year	45,687

The total expense for the groupwide share-based payment systems amounted to €71 million (previous year: €72 million) in fiscal 2008. Of this amount, €0 million was attributable to equity-settled share-based payment transactions of RWE AG, as in the previous year. As of the balance-sheet date, provisions in the amount of €110 million have been recognized for cash-settled share-based payment programmes (previous year: €168 million). The intrinsic value of the cash-settled share-based payment transactions exercisable or payable as of the balance-sheet date amounted to €77 million (previous year: €129 million).

(25) Provisions

	Dec 31, 2008			Dec 31, 2007		
€ million	Non-current	Current	Total	Non-current	Current	Total
Provisions for pensions and similar obligations	2,738		2,738	3,565		3,565
Provisions for taxes	2,684	281	2,965	2,548	687	3,235
Provisions for nuclear waste management	9,262	203	9,465	8,847	206	9,053
Provisions for mining damage	2,759	107	2,866	2,741	81	2,822
	17,443	**591**	**18,034**	**17,701**	**974**	**18,675**
Other provisions						
Staff-related obligations (excluding restructuring)	725	850	1,575	703	797	1,500
Restructuring obligations	381	134	515	478	169	647
Purchase and sales obligations	867	869	1,736	635	1,159	1,794
Uncertain obligations in the electricity business	304	453	757	467	463	930
Environmental protection obligations	94	29	123	122	31	153
Interest payment obligations	548	16	564	435	173	608
Obligations to deliver CO_2 emission allowances/ certificates for renewable energies		1,396	1,396		390	390
Miscellaneous other provisions	710	1,347	2,057	740	1,557	2,297
	3,629	**5,094**	**8,723**	**3,580**	**4,739**	**8,319**
	21,072	**5,685**	**26,757**	**21,281**	**5,713**	**26,994**

Provisions for pensions and similar obligations. The company pension plan consists of defined contribution and defined benefit plans. In the reporting period, €10 million (previous year: €11 million) was paid into defined contribution plans.

In early November 2008, €1,398 million in assets was transferred to the trust RWE Pensionstreuhand e.V. to externally finance parts of the corporate pension plan via contractual trust arrangements (CTA). Since the transferred assets are classified as plan assets as defined by IAS 19, provisions for pensions and similar obligations were netted out against the transferred assets as of December 31, 2008. As a result, provisions for pensions and similar obligations declined accordingly.

Provisions for defined benefit plans are determined using actuarial methods. The following assumptions are applied:

Calculation assumptions	Dec 31, 2008		Dec 31, 2007	
in %	Germany	Foreign[1]	Germany	Foreign[1]
Discount rate	6.00	6.50	5.50	5.95
Compensation increase	2.75	4.20	2.75	4.80
Pension increase	1.00 – 1.50	2.70	1.00 – 1.50	3.30
Expected return on the plan assets	6.00	5.70	5.75	7.00

1 Pertains to RWE npower.

The expected return on plan assets was determined depending on the specific asset categories. The expected return on investments in equities reflects the long-term average performance observed for the industries and geographical markets involved, taking into account the current composition of the equity portfolio. The expected return on fixed-interest securities was derived from appropriately selected trading prices and indices, in accordance with recognized methods. The expected return on real estate was calculated on the basis of marketing possibilities 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	Dec 31, 2008	Dec 31, 2007
Present value of funded benefit obligations	11,872	12,298
Fair value of plan assets	11,030	12,675
Net balance for funded plans	**842**	**-377**
Capitalized surplus of plan assets over benefit obligations		507
Provision recognized for funded plans	**842**	**130**
Provision recognized for unfunded plans	**1,896**	**3,435**
	2,738	**3,565**

Disregarding taxes, cumulative actuarial gains and losses amounted to - €5,181 million as of December 31, 2008 (Dec 31, 2007: - €3,866 million).

Development of plan assets	Fair value	
€ million	2008	2007
Balance at Jan 1	12,675	6,119
Expected return on plan assets	735	684
Employer contributions to the funded plans	1,455	8,129
Employee contributions to the funded plans	19	13
Benefits paid by the funded plans	-716	-667
Actuarial gains (losses) related to plan assets	-2,107	-494
Currency translation adjustments	-1,032	-529
Changes in the scope of consolidation	1	-580
Balance at Dec 31	**11,030**	**12,675**

The actual return on plan assets amounted to - €1,372 million (previous year: €190 million).

Composition of plan assets (fair value)	Dec 31, 2008			Dec 31, 2007		
€ million	Germany[1]	Foreign[2]	Total	Germany[1]	Foreign[2]	Total
Equity capital instruments	1,605	318	1,923	1,870	526	2,396
Interest-bearing instruments	5,417	2,278	7,695	4,979	3,249	8,228
Real estate	97	127	224		313	313
Alternative investments	568	458	1,026	631	859	1,490
Other[3]	106	56	162	248		248
	7,793	**3,237**	**11,030**	**7,728**	**4,947**	**12,675**

1 Plan assets in Germany primarily pertain to assets of RWE AG and of various Group companies (since 2008) 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 Includes reinsurance claims against insurance companies.

Composition of plan assets (targeted investment structure)	Dec 31, 2008		Dec 31, 2007	
in %	Germany[1]	Foreign[2]	Germany[1]	Foreign[2]
Equity capital instruments	28.6	9.8	29.0	10.6
Interest-bearing instruments	58.9	70.3	58.0	65.7
Real estate	2.5	3.9	3.0	6.3
Alternative investments	10.0	14.1	10.0	17.4
Other[3]		1.9		
	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 (since 2008) 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 Does not include reinsurance claims against insurance companies, as such do not fall under the scope of portfolio management as a whole.

Development of pension claims	Present value	
€ million	2008	2007
Balance at Jan 1	15,733	17,955
Current service cost	164	213
Interest cost	832	837
Contributions by employees	19	28
Actuarial gains (losses)	-1,022	-745
Benefits paid	-911	-986
Past service cost	-13	-161
Currency translation adjustments	-1,039	-574
Changes in the scope of consolidation	5	-834
Balance at Dec 31	**13,768**	**15,733**

The past service costs recognized in 2007 stemmed principally from the increase in the statutory retirement age, due to amendment of the German law on the minimum pensionable age. This amendment resulted in a reduction of the period of pension benefit payments taken as a basis for the pension provisions, as employees in the RWE Group must generally draw a statutory pension to be eligible for a company pension. Past service costs were affected by a plan curtailment during the year under review.

Expenses for pension provisions € million	2008	2007
Service cost	164	178
Interest cost	832	784
Expected return on plan assets	-735	-635
Amortization of past service cost	-13	-161
	248	**166**

Since 2005, the present value of pension claims, the fair value of plan assets and the deficit of the plan have developed as follows:

€ million	2008	2007	2006	2005
Present value of pension claims	13,768	15,733	17,955	20,642
Fair value of plan assets	11,030	12,675	6,119	7,692
Plan deficit	**2,738**	**3,058**	**11,836**	**12,950**

For the reporting period and the previous years, 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	2008	2007	2006	2005
Present value of pension claims	-40	367	38	-61
Fair value of plan assets	-2,107	-494	-69	550

Experience adjustments to the present values of pension claims represent part of the actuarial gains or losses arising on the pension claims for the year in question. Experience adjustments to the fair values of plan assets 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 €207 million in fiscal 2009.

Roll-forward of provisions € million	Balance at Jan 1, 2008	Additions	Unused amounts released	Interest accretion/ change in discount rate	Changes in the scope of con-solidation, currency adjust-ments, transfers	Amounts used	Balance at Dec 31, 2008
Provisions for pensions	3,565	151		97	-750[1]	-325	2,738
Provisions for taxes	3,235	471	-166		-172	-403	2,965
Provisions for nuclear waste management	9,053	151		447		-186	9,465
Provisions for mining damage	2,822	104	-100	135	-20	-75	2,866
	18,675	**877**	**-266**	**679**	**-942**	**-989**	**18,034**
Other provisions							
Staff-related obligations (excluding restructuring)	1,500	761	-53	15	3	-651	1,575
Restructuring obligations	647	45	-42	7	-7	-135	515
Purchase and sales obligations	1,794	668	-355	22	-76	-317	1,736
Uncertain obligations in the electricity business	930	105	-69		-151	-58	757
Environmental protection obligations	153	6	-9	1	-13	-15	123
Interest payment obligations	608	136	-137		39	-82	564
Obligations to deliver CO_2 emission allowances/ certificates for renewable energies	390	1,514			41	-549	1,396
Miscellaneous other provisions	2,297	499	-450	14		-303	2,057
	8,319	**3,734**	**-1,115**	**59**	**-164**	**-2,110**	**8,723**
Provisions	**26,994**	**4,611**	**-1,381**	**738**	**-1,106**	**-3,099**	**26,757**
of which: changes in the scope of consolidation							(22)

1 Incl. treatment of actuarial gains and losses as per IAS 19.93A.

The vast majority of **provisions for nuclear waste management** are recognized 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, an interest rate of 5.0% was used as the discount rate. Volume-based increases in the provisions are measured at their present value. In the reporting period, they amounted to €80 million (previous year: €128 million). By adding €71 million to provisions (previous year: release of €178 million), we have taken into account that waste disposal costs are expected to be higher or lower, according to current estimates. Additions to provisions for nuclear waste management primarily consist of an interest accretion of €447 million (previous year: €425 million). €737 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 the provisions for nuclear waste management (previous year: €684 million).

In terms of their contractual definition, provisions for nuclear waste management break down as follows:

Provisions for nuclear waste management € million	Dec 31, 2008	Dec 31, 2007
Provisions for nuclear obligations, not yet contractually defined	7,574	7,159
Provisions for nuclear obligations, contractually defined	1,891	1,894
	9,465	**9,053**

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, and the costs for the disposal of radioactive waste from reprocessing. The latter essentially consist of costs for transport from centralized 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 Gesellschaft für Nuklear-Service mbH (GNS) 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 decommissioning, 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 utilization 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 and commenced operations between 2002 and 2006. Futhermore, 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	Dec 31, 2008	Dec 31, 2007
Decommissioning of nuclear facilities	4,585	4,443
Disposal of nuclear fuel assemblies	4,351	4,061
Disposal of radioactive operational waste	529	549
	9,465	**9,053**

Provisions for mining damage also consist primarily of non-current provisions. They are recognized at the settlement amount discounted to the balance-sheet date. As in the previous year, a discount rate of 5.0 % was used. In the reporting period, additions to provisions for mining damage amounted to €104 million (previous year: €210 million). Of this, an increase of €42 million (previous year: €128 million) was capitalized under property, plant and equipment and thus did not have an impact on income. The interest accretion of the additions to provisions for mining damage amounted to €135 million (previous year: €123 million).

Provisions for restructuring pertain mainly to measures for socially acceptable payroll downsizing from previous years.

(26) Financial liabilities

€ million	Dec 31, 2008		Dec 31, 2007	
	Non-current	Current	Non-current	Current
Bonds payable (incl. other notes payable)	10,041	165	9,029	1,622
Commercial paper		846		
Bank debt	481	306	564	790
Other financial liabilities				
Collateral for trading activities		541		404
Miscellaneous other liabilities	632	471	453	423
	11,154	**2,329**	**10,046**	**3,239**

Financial liabilities to associates totalled €137 million (previous year: €97 million).

€10,983 million of the non-current financial liabilities were interest-bearing liabilities (previous year: €9,886 million). Bank debt mainly stems from the former activities of acquired companies. Nominal interest depends on the currency, term and conditions of the agreement and ranged between 1.5 and 11.8% (previous year: 2.0 and 9.0%).

Changes in the scope of consolidation caused financial liabilities to increase by €234 million.

Outstanding bonds payable relate to RWE AG and RWE Finance B.V. Depending on currency, term and time of issue, nominal interest is between 4.6 and 6.6% (previous year: 2.0 and 6.5%) for public bonds, and between 2.3 and 7.0% (previous year: 2.3 and 7.0%) for private placements.

The following table presents the structure of the major bonds payable as of December 31, 2008:

Issuer	Outstanding amount	Carrying amount	Coupon in %	Maturity
RWE AG	€86 million	€86 million	5.625	June 2009
RWE Finance B.V.	£500 million	€525 million	4.625	August 2010
RWE Finance B.V.	€1,808 million	€1,839 million	6.125	October 2012
RWE Finance B.V.	£630 million	€660 million	6.375	June 2013
RWE Finance B.V.	€1,000 million	€993 million	5.75	November 2013
RWE Finance B.V.	€530 million	€528 million	4.625	July 2014
RWE Finance B.V.	€850 million	€855 million	6.25	April 2016
RWE AG	€100 million	€100 million	Variable[1]	November 2017
RWE Finance B.V.	€980 million	€978 million	5.125	July 2018
RWE Finance B.V.	€1,000 million	€990 million	6.625	January 2019
RWE Finance B.V.	£570 million	€602 million	6.5	April 2021
RWE Finance B.V.	£488 million	€509 million	5.625	December 2023
RWE Finance B.V.	£760 million	€800 million	6.25	June 2030
RWE AG	€600 million	€594 million	5.75	February 2033
Other (incl. other notes payable)	Various	€147 million	Various	Various
Bonds payable (incl. other notes payable)		**€10,206 million**		

1 Interest payment dates: May 15 /Nov. 15.

During the reporting period, commercial paper was occasionally issued on the European capital market. Up to €0.8 billion was raised within the framework of this programme (previous year: €0.5 billion). The interest rates on the instruments ranged between 3.1 and 4.9 % (previous year: 3.6 and 4.3 %).

Other financial liabilities primarily consist of 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					
	Dec 31, 2008			Dec 31, 2007		
€ million	Nominal value	Discount	Present value	Nominal value	Discount	Present value
Due within 1 year	8		8	17	2	15
Due within 1 to 5 years	29	1	28	57	2	55
Due after 5 years	46	3	43	99	50	49
	83	**4**	**79**	**173**	**54**	**119**

Above and beyond this, other financial liabilities include collateral for trading activities.

€82 million (previous year: €84 million) of the financial liabilities are secured by mortgages, and €69 million (previous year: €11 million) by similar rights.

(27) Trade accounts payable

Accounts payable to associates amounted to €108 million (previous year: €71 million).

Exploration activities resulted in liabilities of €116 million (previous year: €81 million).

Changes in the scope of consolidation resulted in a €37 million increase in trade accounts payable.

(28) Other liabilities

	Dec 31, 2008		Dec 31, 2007	
€ million	Non-current	Current	Non-current	Current
Tax liabilities		697		514
Social security liabilities	33	56	77	33
Restructuring liabilities	169	82	228	137
Derivatives	663	13,114	304	5,774
Deferred income	2,012	308	2,088	362
Miscellaneous other liabilities	107	3,369	887	2,149
	2,984	**17,626**	**3,584**	**8,969**

The principle component of social security liabilities are the amounts payable to social security institutions.

Deferred income	Dec 31, 2008		Dec 31, 2007	
€ million	Non-current	Current	Non-current	Current
Advances and contributions in aid of construction and building connection	1,811	166	1,894	171
Government grants for non-current assets				
Taxable	13	1	14	2
Non-taxable	1		1	
Other	187	141	179	189
	2,012	**308**	**2,088**	**362**

Miscellaneous other liabilities included €0 million (previous year: €792 million) in non-current redemption liabilities and €1,294 million (previous year: €1,159 million) in current redemption liabilities from put options on minority interests (including the forward purchase of minority interests in RWE Westfalen-Weser-Ems AG, Dortmund in the previous year), which were recognized in accordance with IAS 32.

The financial instruments reported under miscellaneous other liabilities generally have short remaining maturities.

Other information

(29) 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		2008	2007
Net income	€ million	2,558	2,667
Number of shares outstanding (weighted average)	thousands	538,364	562,373
Basic and diluted earnings per common and preferred share	€	4.75	4.74
Dividend per share	€	4.50[1]	3.15

1 Proposal for fiscal 2008.

(30) Reporting on financial instruments

Financial instruments are divided into non-derivative and derivative financial instruments.

Non-derivative financial assets essentially include other non-current financial assets, accounts receivable, marketable securities and cash and cash equivalents. Financial assets available for sale are measured at fair value, while other financial assets are measured at amortized cost. On the liabilities side, non-derivative financial instruments principally include liabilities recorded at amortized cost. The balance of non-derivative financial instruments is disclosed in the balance sheet. The maximum default risk corresponds to the amount of financial assets. If default risks associated with financial assets are identified, they are recognized 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, prices on active markets are drawn upon as input parameters 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 recognized at their respective fair value as of the balance-sheet date, insofar as they fall under the scope of IAS 39. Exchange-traded products are measured using the published closing prices of the relevant exchange. Non-exchange traded products are measured using the broker quotations available to market participants or, if such quotations are not available, using generally accepted valuation methods. The fair value of certain long-term procurement or sales contracts is determined using recognized valuation models, on the basis of internal data if no market data are available.

Forward share purchases and sales are measured on the basis of the spot prices of the underlying shares; in order to do so, the spot prices are adjusted for the relevant time component.

Future payment flows from financial instruments used to hedge interest risks are discounted using the current market interest rates corresponding to the remaining maturity, in order to determine their fair value as of the balance-sheet date.

Impairments on the financial assets which fall under the scope of IFRS 7 and are reported under the following balance-sheet items developed as follows:

Impairments on receivables 2008 € million	Other non-current financial assets		Financial receivables	Trade accounts receivable	Other receivables and other assets	Total
	At cost	At fair value				
Balance at Jan 1, 2008	114		265	448	3	830
Impairments in the reporting period	2	157	33	230		422
Transfers	-9					-9
Currency translation adjustments	-1			-69		-70
Disposals	6		120	99	1	226
Balance at Dec 31, 2008	**100**	**157**	**178**	**510**	**2**	**947**

Impairments on receivables 2007 € million	Other non-current financial assets		Financial receivables	Trade accounts receivable	Other receivables and other assets	Total
	At cost	At fair value				
Balance at Jan 1, 2007	214		72	433	3	722
Additions/disposals due to changes in the scope of consolidation	2		-2			0
Impairments in the reporting period	3		138	139	1	281
Transfers	-60		60			0
Currency translation adjustments	1			-27		-26
Disposals	46		3	97	1	147
Balance at Dec 31, 2007	**114**		**265**	**448**	**3**	**830**

As of the cut-off date, there were unimpaired, past due receivables in the following amounts:

Receivables, past due and not impaired € million	Gross amount as of Dec 31, 2008	Receivables, past due, impaired	Receivables not impaired, past due, by period				
			less than 30 days	31 to 60 days	61 to 90 days	91 to 120 days	over 120 days
Financial receivables	5,911	41					
Trade accounts receivable	10,925	696	847	86	48	42	229
Other receivables and other assets	14,775	4	1				1
	31,611	**741**	**848**	**86**	**48**	**42**	**230**

Receivables, past due and not impaired € million	Gross amount as of Dec 31, 2007	Receivables, past due, impaired	Receivables not impaired, past due, by period				
			less than 30 days	31 to 60 days	61 to 90 days	91 to 120 days	over 120 days
Financial receivables	3,305	13	1		1		5
Trade accounts receivable	9,401	843	737	70	26	13	161
Other receivables and other assets	6,973	4	7				1
	19,679	**860**	**745**	**70**	**27**	**13**	**167**

Financial assets and liabilities can be broken down into categories with the following carrying amounts:

Carrying amounts by category € million	Dec 31, 2008	Dec 31, 2007
Financial assets recognized at fair value through profit or loss	12,889	5,418
of which: held for trading	(12,889)	(5,418)
Financial assets available for sale	8,416	11,869
Loans and receivables	17,687	14,197
Financial liabilities recognized at fair value through profit or loss	12,148	5,289
of which: held for trading	(12,148)	(5,289)
Financial liabilities carried at (amortized) cost	24,056	19,182

The carrying amount of financial assets and liabilities within the scope of IFRS 7 basically corresponds to the fair value. The only deviation is found under financial liabilities in the category "financial liabilities carried at (amortized) cost", where the carrying amount of €11,503 million (previous year: €10,429 million) deviates from the fair value of €11,923 million (previous year: €10,712 million).

The following net results from financial instruments as per IFRS 7 were recognized in the income statement:

Net gain/loss on financial instruments as per IFRS 7 € million	2008	2007
Financial assets and liabilities recognized at fair value through profit or loss	1,188	434
of which: held for trading	(1,188)	(434)
Financial assets available for sale	91	753
Loans and receivables	-575	-259
Financial liabilities carried at (amortized) cost	-837	-991

The net result as per IFRS 7 essentially includes interest, dividends and results from the measurement of financial instruments at fair value.

In fiscal 2008, - €447 million in changes in the value of financial assets available for sale were recognized under accumulated other comprehensive income without an effect on income (previous year: - €143 million). During the reporting period, €217 million in changes in the value of financial instruments available for sale which had originally been recognized without an effect on income were realized as an expense (previous year: income of €283 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.

These risks are limited via systematic risk management. Among other things, risks are mitigated through hedges. RWE Group companies are also subjected to strict risk management. Binding internal directives define the range of action, responsibilities and controls.

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 to which the RWE Group is exposed and on the objectives and procedures of the risk management is presented in the chapter "Development of opportunities and risks" 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 hedges of foreign-currency liabilities and interest rate risks from non-current liabilities, as well as for hedging 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 transaction regarding the hedged risk 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 €50 million (previous year: - €25 million).

In the year under review, a loss of €67 million (previous year: €2 million) was recognized in the financial result from adjustment of the carrying amount of the underlying transactions; a gain of €65 million (previous year: €0 million) stemming from changes in the fair value of the hedges was recognized 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. Changes in the fair value of the hedges are disclosed under other comprehensive income until the underlying transaction is realized. The hedge's contribution to income is transferred from other comprehensive income to the income statement when the underlying transaction is realized. As of the reporting date, the recognized fair value of instruments used as cash flow hedges amounted to - €409 million (previous year: €426 million).

The future sales and purchase transactions hedged by cash flow hedges are expected to be realized in the following five years.

In the year under review, €1,794 million in changes in the fair values of instruments used for cash flow hedges (previous year: €157 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 €1 million was recognized with an effect on income in relation to the ineffective portions of cash flow hedges (previous year: income of €14 million).

Above and beyond this, €1,244 million in changes in the value of cash flow hedges which had originally been recognized without an effect on income were realized as income (previous year: expense of €219 million) during the reporting period.

Hedges of net investment in a foreign entity are used to hedge against the foreign currency risks of net investment in foreign entities with foreign functional currencies. Bonds with various terms in the appropriate currencies and interest rate currency swaps are used as hedging instruments. Exchange rate changes from bonds used for hedging purposes and changes in the fair value of interest rate currency swaps are recognized under foreign currency translation adjustments in other comprehensive income. As of the reporting date, the fair value of instruments used to hedge net investment in foreign entities amounted to €1,255 million (previous year: €2,548 million).

During the year under review, an expense of €4 million (previous year: income of €36 million) was recognized 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 the US dollar are the two most important foreign currencies for two main reasons: On the one hand, the Group is engaged in business activities in these two currency zones. On the other hand, fuels are traded in these currencies. Group companies are generally required to hedge all currency risks via RWE AG, which determines the net financial position for each currency and hedges it with external market partners if necessary.

Interest rate risks stem primarily from financial debt and the Group's interest-bearing investments. Negative changes in value caused by unexpected interest-rate movements are hedged with 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 centralized risk management software and monitored by RWE AG. This enables the balancing of risks across individual companies.

Group risk management has established directives for commodity operations. These regulations stipulate that derivatives may be used to hedge against price risks, optimize power plant schedules and increase margins. Furthermore, commodity derivatives may be traded, subject to limits. These limits are defined by independent organizational units and monitored on a daily basis.

All derivative financial instruments are recognized as assets or liabilities and are measured at fair value. When interpreting the positive and negative fair values of derivative financial instruments, with the exception of the commodity trading volumes (proprietary trading), it must be taken into account that they 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.

The Value-at-Risk method is used to quantify the interest rate, foreign currency and share-price risks of financial instruments as well as commodity price risks, in line with the international banking standard. The maximum expected loss arising from changes in market prices is calculated on the basis of historical market volatility and is monitored continuously.

The following Value-at-Risk information relates exclusively to recognized financial instruments, in line with the mandatory rules of IFRS 7. Off-balance-sheet planned positions which are hedged and so-called executory contracts in commodities may not be taken into account. As a result, an incomplete picture of the risk situation of the RWE Group is presented.

Value at Risk for financial derivatives	Value at Risk	
€ million	Dec 31, 2008	Dec 31, 2007
Foreign currency derivatives	85.7	43.9
Forwards	23.5	5.3
Options		0.1
Interest rate currency derivatives	81.7	44.8
Interest rate derivatives	14.9	5.8

As of December 31, 2008, the foreign currency Value at Risk for all items to be taken into account pursuant to IFRS 7 amounted to €80.4 million (previous year: €17.2 million). In accordance with IFRS 7, underlying transactions which are the subject of a cash flow hedge were not taken into consideration in determining this position.

As of December 31, 2008, the interest rate Value at Risk from financial debts and related hedging transactions amounted to €147.4 million (previous year: €69.3 million). Taking into account the hedges, the value at risk from interest-bearing assets amounted to €46.1 million (previous year: €21.2 million).

Share price Value at Risk was €27.3 million as of December 31, 2008 (previous year: €17.3 million).

As of December 31, 2008, commodity price Value at Risk pursuant to IFRS 7 amounted to €80.4 million (previous year: €35.2 million).

All Value-at-Risk figures are based on a confidence interval of 95% and a holding period of one day.

Credit risks. In our financial and trading operations, credit relationships mainly exist 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 through the use of cash collateral. Credit insurance and bank guarantees are also employed. 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 supply business, because it is possible that customers will fail to meet their financial obligations. This risk is mitigated by regular analysis of the creditworthiness of our customer portfolio based on the RWE Group's credit risk directive. Moreover, collateral and bank guarantees are also used at times.

The maximum 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. Defaults in the year under review and the previous year were negligible.

Liquidity risks. As a rule, RWE AG centrally handles refinancing for RWE Group companies. In this regard, there is a risk that liquidity reserves will prove to be insufficient to meet financial obligations in a timely manner. In 2009, capital market debt with a nominal volume of approximately €0.2 billion and bank debt of €0.3 billion are due; additionally, short-term debt is also due. As of December 31, 2008, liquidity needs are covered with cash and cash equivalents, and current marketable securities totalling €8,984 million. Above and beyond this, as of the balance-sheet date, RWE AG had a fully committed, unused syndicated credit line of €3.6 billion at its disposal. There are also unused reserves of €9.8 billion from the €20 billion debt issuance programme. Accordingly, liquidity risk is extremely low.

The financial liabilities are expected to result in the following (undiscounted) payments in the coming years:

Redemption and interest payments on financial liabilities	Carrying amount	Redemption payments			Interest payments		
€ million	Dec 31, 2008	2009	2010 to 2013	From 2014	2009	2010 to 2013	From 2014
Bonds payable (incl. other notes payable)	10,206	175	4,051	5,968	529	2,172	2,989
Commercial paper	846	846					
Bank debt	787	477	211	99	18	38	13
Liabilities arising from finance lease agreements	79	8	29	46			
Other financial liabilities	1,024	645	208	230	8	21	10
Derivative financial liabilities	13,777	19,599	6,311	11	13	-36	427
Collateral for trading activities	541	541					
Miscellaneous other financial liabilities	12,553	12,615	42	63			

Redemption and interest payments on financial liabilities	Carrying amount	Redemption payments			Interest payments		
€ million	Dec 31, 2007	2008	2009 to 2012	From 2013	2008	2009 to 2012	From 2013
Bonds payable (incl. other notes payable)	10,651	1,623	2,703	6,403	604	2,019	3,402
Bank debt	1,354	913	316	125	18	45	19
Liabilities arising from finance lease agreements	146	13	43	90	4	14	9
Other financial liabilities	730	459	39	278	11	36	19
Derivative financial liabilities	6,078	4,700	-1,437	3	20	31	125
Collateral for trading activities	404	404					
Miscellaneous other financial liabilities	8,753	8,697	44	49			

(31) Contingent liabilities and financial commitments

As of December 31, 2008, the €50 million in surety bonds reported under contingent liabilities as of December 31, 2007 no longer existed.

As of December 31, 2008, the Group had €4,176 million in capital commitments (previous year: €2,073 million). Moreover, assurances regarding acquisitions of investments existed in the amount of €127 million (previous year: €129 million).

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:

Operating leases	Nominal value	
€ million	Dec 31, 2008	Dec 31, 2007
Due within 1 year	58	77
Due within 1 to 5 years	167	193
Due after 5 years	162	259
	387	**529**

Payment obligations for non-current financial assets amounted to €2 million (previous year: €2 million).

The RWE Power Division has entered into long-term purchase and service agreements for uranium, conversion, enrichment, production and waste management.

We bear the 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.

RWE Group companies are involved in litigation and arbitration proceedings related to their operations. However, RWE does 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, the affected shareholders will be compensated, even if they are not involved in the conciliation proceedings.

On December 22, 2008, a settlement was reached to end the conciliation proceedings on the appropriateness of the conversion ratios in relation to the merger of RWE and VEW. Within the framework of this settlement, compensation of €130 million plus interest and costs will be made to previous shareholders of VEW. The compensation to be provided by RWE AG in fiscal 2009 essentially results in an increase in goodwill and liabilities in the consolidated financial statements for the period ended December 31, 2008.

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. Afterwards, the EU Commission filed requests with companies including RWE for information on individual energy market issues, which it will process further.

In early May 2007, the EU Commission initiated an abuse procedure against RWE. It suspects 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 December 2008 RWE AG submitted a formal statement of commitment to sell its German gas transmission network to a third party independent of RWE. This commitment does not constitute admission that anti-trust regulations were violated. The EU Commission is presently surveying other market participants and, on this basis, is expected to decide on an end to the proceedings against all of the RWE companies involved in the spring of 2009.

(32) Segment reporting

In the RWE Group, segments are distinguished on the basis of the services provided by the Group's divisions. The segmentation of divisions and geographical regions is based on the internal reporting system.

In fiscal 2008, changes were made to the structure of the RWE Group, affecting the previous segments RWE Power and RWE Energy.

The segment RWE Power now consists exclusively of the power generation business in Continental Europe and all of the Group's lignite production.

The trading activities of RWE Trading which were allocated to the segment RWE Power in fiscal 2007 were merged with the activities of RWE Gas Midstream, which were part of the segment RWE Energy in the previous year (merger with economic effect as of January 1, 2008). The new segment RWE Supply & Trading is thus comprised of energy trading for electricity, gas, coal, oil and CO_2, as well as the commercial optimization of non-regulated gas activities, including procurement, transport and storage contracts in Germany, the UK and the Czech Republic, and the liquefied natural gas (LNG) business.

RWE Dea, which covers the Group's activities in the field of gas and oil production (upstream activities), will also henceforth be reported as an independent segment. In the past, RWE Dea was a part of the segment RWE Power.

RWE Energy is the segment comprising distribution, transmission and sales for the Continental European electricity and gas businesses as well as substantial parts of the Continental water business.

RWE npower covers all of the electricity and gas activities in Great Britain.

The former Water Division, which consists of the water business outside of Continental Europe, is reported separately as a discontinued operation in fiscal 2008 and fiscal 2007.

Consolidation effects and the Group Centre are disclosed under "Other/consolidation". This segment also covers other activities not allocable to the divisions presented separately, primarily consisting of the shared services provided by RWE IT GmbH, RWE Consulting GmbH and RWE Service GmbH. Furthermore, since February 1, 2008, the renewable energy activities of RWE Innogy GmbH are also presented in this segment. RWE Innogy has taken over the majority of the installed renewables-based electricity generation capacity from RWE Power, RWE npower and RWE Energy. As the reclassified activities are still relatively small, we have not adjusted prior-year figures.

In order to enable comparability with last year despite these reclassifications, the segment reporting figures for fiscal 2007 are also stated in line with the new structure.

Segment reporting Divisions 2008 € million	RWE Power	RWE Dea	RWE Supply & Trading	RWE Energy	RWE npower	Other/ consoli-dation	RWE Group	Water Division (discon-tinued operation)	RWE Group incl. Water Division
External revenue	**1,435**	**1,765**	**6,321**	**30,435**	**8,618**	**376**	**48,950**	**1,589**	**50,539**
Intra-group revenue	9,982	211	20,489	2,111	10	-32,803			
Total revenue	11,417	1,976	26,810	32,546	8,628	-32,427	48,950	1,589	50,539
Operating result	**3,142**	**494**	**429**	**2,480**	**534**	**-253**	**6,826**	**384**	**7,210**
Operating income from investments	79	1	-54	424		9	459	-1	458
Operating income from investments accounted for using the equity method	59		-52	376		6	389	-1	388
Operating depreciation and amortization	458	254	1	930	180	124	1,947	247	2,194
Total impairment losses	14	6		5		1	26		26
EBITDA	**3,521**	**747**	**484**	**2,986**	**714**	**-138**	**8,314**	**632**	**8,946**
Cash flows from operating activities	**3,916**	**656**	**1,633**	**2,182**	**149**	**317**	**8,853**		
Carrying amount of investments accounted for using the equity method	186		292	2,372		418[1]	3,268		
Capital expenditure on intangible assets, property, plant and equipment and investment property	1,455	606		1,405	610	378[2]	4,454		

1 Of which RWE Innogy: €418 million.
2 Of which RWE Innogy: €290 million.

Regions 2008	EU			Rest of Europe	America	Other	RWE Group
€ million	Germany	UK	Other EU				
External revenue	30,694	9,913	7,497	568	10	268	48,950
Intangible assets, property, plant and equipment and investment property	19,493	6,541	6,351	508		251	33,144

Segment reporting Divisions 2007[1] € million	RWE Power	RWE Dea	RWE Supply & Trading	RWE Energy	RWE npower	Other/ consoli-dation	RWE Group	Water Division (discon-tinued operation)	RWE Group incl. Water Division
External revenue	**1,329**	**1,496**	**3,793**	**26,877**	**8,920**	**92**	**42,507**	**1,601**	**44,108**
Intra-group revenue	8,125	198	13,617	1,596	5	-23,541			
Total revenue	9,454	1,694	17,410	28,473	8,925	-23,449	42,507	1,601	44,108
Operating result	**2,617**	**492**	**532**	**2,355**	**724**	**-187**	**6,533**	**409**	**6,942**
Operating income from investments	70		-1	460	3	9	541	-4	537
Operating income from investments accounted for using the equity method	44			380	3		427	-4	423
Operating depreciation and amortization	525	263	1	907	149	78	1,923	256	2,179
Total impairment losses	77	2		7		4	90		90
EBITDA	**3,072**	**755**	**534**	**2,802**	**870**	**-118**	**7,915**	**669**	**8,584**
Cash flows from operating activities	**1,864**	**490**	**-363**	**2,349**	**592**	**1,153[2]**	**6,085**		
Carrying amount of investments accounted for using the equity method	189			2,230	2		2,421		
Capital expenditure on intangible assets, property, plant and equipment and investment property	1,127	505	3	1,147	587	696[3]	4,065		

1 Figures adjusted in line with the changes in Group structure.
2 Of which American Water: €526 million.
3 Of which American Water: €635 million.

Regions 2007	EU			Rest of Europe	America	Other	RWE Group
€ million	Germany	UK	Other EU				
External revenue	24,840	9,555	6,840	1,015	8	249	42,507
Intangible assets, property, plant and equipment and investment property	17,451	8,089	5,848	505		180	32,073

Products	RWE Group	
€ million	2008	2007
External revenue	48,950	42,507
of which: electricity	(31,359)	(27,917)
of which: gas	(13,768)	(10,768)
of which: crude oil	(1,164)	(1,023)

Notes on segment data. Intra-group revenue reflects the level of revenue between segments and 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 221/222). The following table presents the reconciliation of EBITDA to the operating result and to income from continuing operations before tax:

€ million	2008	2007
EBITDA	**8,314**	**7,915**
- Operating depreciation and amortization	-1,947	-1,923
+ Operating income from investments	459	541
Operating result	**6,826**	**6,533**
+ Non-operating result	-485	-149
+ Financial result	-1,475	-1,138
Income from continuing operations before tax	**4,866**	**5,246**

Income and expenses that are unusual from an economic perspective, or are the result of exceptional events, prejudice the assessment of operating activities. They are reclassified to the non-operating result. In the event that impairment losses are recognized on goodwill of fully consolidated companies, such losses are contained in the non-operating result.

More detailed information is presented on page 76 in the review of operations.

Capital expenditure includes spending on intangible assets, property, plant and equipment and investment property.

RWE did not generate more than 10% of sales revenues with any single customer in the year under review and the previous year.

(33) 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 total cash and cash equivalents on 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.

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.

Among other things, cash flows from operating activities include:

- cash flows from interest income of €807 million (previous year: €861 million) and cash flows used for interest expenses of €965 million (previous year: €1,517 million)
- €1,034 million (previous year: €970 million) in taxes on income paid (less income tax refunds)
- cash flows from investments amounting to €397 million (previous year: €372 million), net of the portion stemming from accounting using the equity method that does not have an effect on cash flows

Cash flows from financing activities include €1,689 million (previous year: €1,968 million) which was paid out to RWE shareholders and €316 million (previous year: €231 million) which was distributed to minority shareholders. New issuance of financial debt totalled €6,641 million (previous year: €5,577 million) and was contrasted by repayments of €8,046 million (previous year: €5,822 million).

Changes in the scope of consolidation resulted in a net change in cash and cash equivalents of €78 million (previous year: - €21 million). Of this, €83 million (previous year: €7 million) in additions was offset against capital expenditure on financial assets. Disposals amounted to €5 million (previous year: €28 million), which was deducted from the proceeds from divestitures.

Exploration activities result in cash flows from operating activities in the amount of - €174 million (previous year: - €150 million) and cash flows from investing activities of - €255 million (previous year: - €221 million).

First-time consolidations and deconsolidations resulted in an increase of €81 million in net financial debt.

There are no restrictions on the disposal of cash and cash equivalents.

Net debt of the RWE Group € million	Dec 31, 2008	Dec 31, 2007
Cash and cash equivalents	1,249	1,922
Marketable securities	7,735	10,858
Non-current marketable securities	317	444
Collaterals for trading activities	3,562	1,118
Other financial receivables	1,270	1,007
Financial assets	**14,133**	**15,349**
Bonds, other notes payable, bank debt, commercial paper	11,839	12,005
Collaterals for trading activities	541	404
Other financial liabilities	1,103	876
Financial liabilities	**13,483**	**13,285**
Net financial debt from continuing operations	**-650**	**-2,064**
Provisions for pensions and similar obligations	2,738	3,565
Surplus of plan assets over benefit obligations		-507
Provisions for nuclear waste management	9,465	9,053
Provisions for mining damage	2,866	2,822
Net debt from continuing operations	**14,419**	**12,869**
Net debt from discontinued operations	4,240	3,645
Net debt of the RWE Group	**18,659**	**16,514**

Other financial receivables essentially consist of other loans, deferred interest, and financial receivables from non-consolidated subsidiaries and investments. Other financial debt essentially includes financial liabilities to non-consolidated subsidiaries and investments, as well as miscellaneous other financial liabilities. Net financial debt is the difference between financial assets and financial liabilities.

(34) Information on concessions

In the fields of electricity, gas and water, 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 using lines for public energy supply. These agreements are limited to a term of 20 years. When the agreements expire, there is a legal obligation to transfer ownership of the local distribution facilities to the new energy supplier, in exchange for appropriate compensation of RWE.

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 50 years.

(35) Related party disclosures

Within the framework of their ordinary business activities, RWE AG and its subsidiaries have business relationships with numerous companies. These include associates, which are classified as parties related to the Group, along with the RWE Energy Division’s investments in municipal enterprises accounted for using the equity method, especially municipal utilities.

Business transactions were concluded with major related parties, resulting in following items in RWE's consolidated financial statements:

Key items from transactions with associates € million	2008	2007
Revenue	714	566
Expenses	139	87
Receivables	684	814
Liabilities	13	4

All business transactions are completed at arm's length prices and on principle do not differ from the conditions for supply and services provided to other enterprises. €114 million of the receivables (previous year: €88 million) and €5 million of the liabilities (previous year: €4 million) fall due within one year. In respect of the receivables there were guarantees of €0 million, as in the previous year, and other collateral amounting to €1 million (previous year: €1 million). The receivables included €570 million in interest-bearing loans to the Berlinwasser Group (previous year: €725 million).

Above and beyond this, as of December 31, 2008, there was an unused €19 million line of credit for the Berlinwasser Group (previous year: €25 million).

Furthermore, since October 1, 2007, the companies of the Georgsmarienhütte Group are now classified as related companies, as the CEO of RWE AG, Dr. Großmann, is a partner in Georgsmarienhütte Holding GmbH. RWE Group companies provided services and deliveries amounting to €6.8 million to companies of the Georgsmarienhütte Group (from October 1 of the previous year: €1.9 million). Companies belonging to the Georgsmarienhütte Group have provided services and deliveries amounting to €1.7 million to RWE Group companies (from October 1 of the previous year: €0.1 million). As of December 31, 2008, the Georgsmarienhütte Group had liabilities of €0.4 million to RWE Group companies (previous year: €0.7 million). All business transactions are completed at arm's length prices and on principle do not differ from the conditions for supply and services provided to other enterprises.

No material business transactions were concluded between the RWE Group and related 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 €20,260,000 (previous year: €17,376,000), plus pension service costs of €436,000 (previous year: €1,913,000). The Executive Board received short-term compensation components amounting to €17,510,000 for fiscal 2008 (€12,782,000 in the previous year for fiscal 2007). In addition to this, long-term compensation components from the 2008 tranche of the Beat programme in the amount of €2,750,000 were allocated (€4,594,000 from the 2007 Beat tranche in 2007).

The Supervisory Board received total compensation of €4,173,000 (previous year: €3,237,000) in fiscal 2008. Supervisory Board members also received €256,000 in compensation from subsidiaries for the exercise of mandates (previous year: €268,000).

Former members of the Executive Board and their surviving dependents received €26,783,000 (previous year: €8,932,000), of which €1,823,000 came from subsidiaries (previous year: €1,899,000). Of this, €16,501,000 of this was related to LTIP payments (previous year: €0). As of the balance-sheet date, €114,868,000 (previous year: €114,729,000) has been accrued for defined benefit obligations to former members of the Executive Board and their surviving dependents, of which €18,820,000 was set aside at subsidiaries (previous year: €19,344,000).

The Economic Advisory Board was paid total compensation of €250,000 (previous year: €289,000).

Declarations on the members of the Executive and Supervisory Boards in accordance with Sec. 285 No. 10 of the German Commercial Code (HGB) are presented on pages 223 to 227.

(36) Auditor's fees

The following fees were recognized as expenses for the services rendered in fiscal 2008 and in the prior year by the auditors of the consolidated financial statements, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) and companies belonging to PwC's international network:

Auditor's fees	2008		2007	
€ million	Total	Of which: Germany	Total	Of which: Germany
Audit services	19.2	10.5	17.6	9.3
Other assurance and valuation services	3.3	2.9	3.1	3.0
Tax services	0.3	0.1	0.4	0.2
Other services rendered for RWE AG or subsidiaries	0.4	0.4	0.6	0.5
	23.2	**13.9**	**21.7**	**13.0**

The total expenses include fees related to discontinued operations amounting to €3.5 million (previous year: €4.3 million).

The fees for audit services primarily contain the fees for the audit of the consolidated financial statements, for review of the interim reports, and for the audit of the financial statements of RWE AG and its subsidiaries. Fees for other assurance or valuation services related principally to due diligence services in relation to acquisitions and disposals. This item also includes fees for review of the internal controlling system, in particular the IT systems and expenses related to statutory or court ordered requirements. Fees for tax services mainly include fees 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.

(37) Application of Sec. 264, Para. 3 and Sec. 264b of the German Commercial Code

In fiscal 2008, the following German subsidiaries made use of the exemption clause included in Sec. 264, Para. 3 and Sec. 264b of the German Commercial Code:

- BGE Beteiligungs-Gesellschaft für Energieunternehmen mbH, Essen
- eprimo GmbH, Neu-Isenburg
- GBV Dreizehnte Gesellschaft für Beteiligungs verwaltung mbH & Co. KG, Essen
- GBV Fünfte Gesellschaft für Beteiligungsverwaltung mbH, Essen
- GBV Siebte Gesellschaft für Beteiligungsverwaltung mbH, Essen
- GBV Vierzehnte Gesellschaft für Beteiligungsverwaltung mbH, Essen
- Kavernenspeicher Staßfurt GmbH, Staßfurt
- OIE Aktiengesellschaft, Idar-Oberstein
- Rheinische Baustoffwerke GmbH, Bergheim

- rhenag Beteiligungs GmbH, Cologne
- RWE Aqua GmbH, Berlin
- RWE Aqua Holdings GmbH, Essen
- RWE Aqua International GmbH, Essen
- RWE Consulting GmbH, Essen
- RWE Dea AG, Hamburg
- RWE Dea Suez GmbH, Hamburg
- RWE Energy Aktiengesellschaft, Dortmund
- RWE Energy Beteiligungsgesellschaft mbH, Dortmund
- RWE Fuel Cells GmbH, Essen
- RWE Innogy Cogen GmbH, Dortmund
- RWE Innogy GmbH, Essen
- RWE IT GmbH, Dortmund
- RWE KAC Dezentrale Energien GmbH & Co. KG, Dortmund
- RWE Key Account GmbH, Essen
- RWE Kundenservice GmbH, Bochum
- RWE Plus Beteiligungsgesellschaft Mitte mbH, Essen
- RWE Power Aktiengesellschaft, Cologne and Essen
- RWE Power Erste Gesellschaft für Beteiligungsverwaltung mbH, Essen
- RWE Rheinhessen Beteiligungs GmbH, Dortmund
- RWE Rhein-Ruhr Aktiengesellschaft, Essen
- RWE Rhein-Ruhr Netzservice GmbH, Siegen
- RWE Rhein-Ruhr Verteilnetz GmbH, Wesel
- RWE Service GmbH, Dortmund
- RWE Solutions Aktiengesellschaft, Alzenau
- RWE Supply & Trading GmbH, Essen
- RWE Systems Computing GmbH, Dortmund
- RWE Systems Development GmbH & Co. KG, Dortmund
- RWE Transportnetz Gas GmbH, Dortmund
- RWE Transportnetz Strom GmbH, Dortmund
- RWE Westfalen-Weser-Ems Aktiengesellschaft, Dortmund
- RWE Westfalen-Weser-Ems Netzservice GmbH, Dortmund
- RWE Westfalen-Weser-Ems Verteilnetz GmbH, Recklinghausen
- Thyssengas GmbH, Dortmund

(38) Events after the balance-sheet date

On January 12, 2009, RWE and the Dutch energy company Essent agreed on the conditions for RWE to submit a binding all-cash offer to the shareholders of Essent for the acquisition of all shares in the company. As soon as Essent's General Works Council submits its statement, the purchase offer can be signed, subject to the condition that at least 80% of the outstanding share capital of Essent is tendered. The transaction is valued at €9.3 billion.

In January 2009, RWE and E.ON formed a joint venture to develop, build and operate nuclear power plants in the United Kingdom. To achieve this goal, the joint venture will aim to purchase three sites being sold by the UK's nuclear decommissioning authority. Our goal is to build at least 6 GW in nuclear generation capacity in the UK together with E.ON.

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

(39) 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 subsidiaries and have been made accessible to the shareholders.

Essen, 13 February 2009

The Executive Board

Jürgen Großmann	Leonhard Birnbaum	Alwin Fitting	Ulrich Jobs	Rolf Pohlig

4.6 AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the RWE Aktiengesellschaft, Essen, comprising the income statement, the balance sheet, the statement of recognised income and expenses, the cash flow statement 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 January 1 to December 31, 2008. 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, Germany, 16 February 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Manfred Wiegand	Markus Dittmann
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

MATERIAL INVESTMENTS AS OF DECEMBER 31, 2008

I. Affiliates	Investment in acc. with Sec. 16 of the German Stock Corporation Act in %	Equity of the last fiscal year €'000	Net income/ loss of the last fiscal year €'000	Revenue 2008 € million	Employees[2] 2008 average
RWE Aktiengesellschaft, Essen		**9,415,874**	**2,835,155**	**–**	**431**
RWE Power					
RWE Power Aktiengesellschaft, Cologne and Essen	100	2,037,209	–[1]	10,459	13,378
Kernkraftwerke Lippe-Ems GmbH, Lingen (Ems)	99	165,545	–[1]	404	305
Kernkraftwerk Gundremmingen GmbH, Gundremmingen	75	84,184	8,343	277	720
Mátrai Erömü Zártkörüen Müködö Részvénytársaság (MÁTRA), Visonta/Hungary	51	241,615	54,198	346	2,398
Rheinbraun Brennstoff GmbH, Cologne	100	63,294	–[1]	620	167
RWE Dea					
RWE Dea AG, Hamburg	100	1,323,905	–[1]	1,185	858
RWE Dea Norge AS, Oslo/Norway	100	111,143	36,326	301	56
RWE Dea Suez GmbH, Hamburg	100	87,226	–[1]	222	122
RWE Supply & Trading					
RWE Supply & Trading GmbH, Essen	100	248,980	–[1]	25,419	723
RWE Energy					
RWE Energy Aktiengesellschaft, Dortmund	100	1,017,905	–[1]	8,875	476
Budapesti Elektromos Müvek Nyrt. (ELMÜ), Budapest/Hungary	55	1,008,294	60,556	1,087	327
ELMÜ Hálózati Elosztó Kft., Budapest/Hungary	100	1,014,203	36,553	395	197
ÉMÁSZ Hálózati Kft., Budapest/Hungary	100	316,103	-831	161	132
Emscher Lippe Energie GmbH, Gelsenkirchen	79	49,658	-4,996	528	634
Energis GmbH, Saarbrücken	64	133,914	19,725	388	308
envia Mitteldeutsche Energie AG, Chemnitz	64	888,733	99,171	2,347	2,139
envia Netzservice GmbH, Chemnitz	100	4,045	–[1]	354	12
envia Verteilnetz GmbH, Halle (Saale)	100	24	–[1]	1,684	5
eprimo GmbH, Neu-Isenburg	100	4,600	–[1]	149	57
Észak-magyarországi Áramszolgáltató Nyrt. (ÉMÁSZ), Miskolc/Hungary	54	356,849	27,584	459	124
EWV Energie- und Wasser-Versorgung GmbH, Stolberg	54	33,744	7,786	361	369
Jihomoravská plynárenská, a.s., Brno/Czech Republic	50	198,708	21,957	749	778
Koblenzer Elektrizitätswerk und Verkehrs-Aktiengesellschaft, Koblenz	58	71,192	8,003	432	514
Lechwerke AG, Augsburg	90	226,775	53,186	999	1,144
LEW Verteilnetz GmbH, Augsburg	100	25	–[1]	548	4
MITGAS Mitteldeutsche Gasversorgung GmbH, Halle (Saale)	60	93,786	25,382	790	306
rhenag Rheinische Energie Aktiengesellschaft, Cologne	67	156,700	42,426	294	326
RWE Energy Beteiligungsgesellschaft mbH, Dortmund	100	7,553,333	–[1]	–	–
RWE Energy Nederland N.V., Hoofddorp/Netherlands	100	37,345	70,049	2,278	274
RWE Gas International B.V., Hoofddorp/Netherlands	100	4,802,611	622,324	–	–
RWE Key Account GmbH, Essen	100	30	–[1]	2,506	100
RWE Kundenservice GmbH, Bochum	100	25	–[1]	260	14
RWE Polska S.A., Warschau/Poland	100	486,943	15,710	676	576

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 in %	Equity of the last fiscal year €'000	Net income/ loss of the last fiscal year €'000	Revenue 2008 € million	Employees[3] 2008 average
RWE Energy					
RWE Rhein-Ruhr Aktiengesellschaft, Essen	100	238,405	–[1]	5,281	4,783
RWE Rhein-Ruhr Netzservice GmbH, Siegen	100	25	–[1]	666	32
RWE Rhein-Ruhr Verteilnetz GmbH, Wesel	100	25	–[1]	2,080	6
RWE Stoen Operator Sp. z o.o., Warschau/Poland	100	633,567	19,442	254	617
RWE Transgas, a.s., Prague/Czech Republic	100	3,580,760	400,934	2,499	220
RWE Transgas Net, s.r.o., Prague/Czech Republic	100	1,940,360	180,059	369	687
RWE Transportnetz Gas GmbH, Dortmund	100	100	–[1]	342	92
RWE Transportnetz Strom GmbH, Dortmund	100	613,025	–[1]	5,393	283
RWE Westfalen-Weser-Ems Aktiengesellschaft, Dortmund	100	283,185	–[1]	4,555	2,638
RWE Westfalen-Weser-Ems Netzservice GmbH, Dortmund	100	25	–[1]	911	23
RWE Westfalen-Weser-Ems Verteilnetz GmbH, Recklinghausen	100	25	–[1]	1,670	3
RWW Rheinisch-Westfälische Wasserwerksgesellschaft mbH, Mülheim an der Ruhr	80	75,157	10,467	104	410
Severočeská plynárenská, a.s., Ústí nad Labem/Czech Republic	100	157,607	17,969	328	53
Severomoravská plynárenská, a.s., Ostrava/Czech Republic	68	172,489	21,427	517	33
Stadtwerke Düren GmbH, Düren	75	14,123	-6,608	162	206
Středočeská plynárenská, a.s., Prague/Czech Republic	100	91,858	2,948	355	42
Süwag Energie AG, Frankfurt am Main	78	258,509	37,350	1,527	1,411
Süwag Netz GmbH, Frankfurt am Main	100	25	–[1]	479	14
Thyssengas GmbH, Dortmund	100	179,695	–[1]	108	–
VSE Aktiengesellschaft, Saarbrücken	69	133,329	14,453	437	309
Východočeská plynárenská, a.s., Hradec Králové/Czech Republic	67	114,265	11,673	331	42
Západočeská plynárenská, a.s., Plzeň/Czech Republic	100	79,356	5,552	247	40
RWE npower					
RWE Npower Holdings plc, Swindon/UK[2]	100	381,330	131,684	8,628	12,281
Water Division					
American Water Works Company, Inc., Wilmington/Delaware/USA American Water Group[2,4] with 67 subsidiaries in the US and Canada	60	3,284,427	-232,803	1,590	7,300
Other subsidiaries					
Agrupació Energías Renovables, S.A.U., Barcelona/Spain AERSA Group[2] with 15 subsidiaries in Spain	100	174,103	11,382	65	17
Npower Renewables Ltd., Reading/UK	100	121,940	4,777	28	207
RWE Finance B.V., Hoofddorp/Netherlands	100	10,308	1,599	–	–
RWE Innogy Cogen GmbH, Dortmund	100	53,982	–[1]	80	116
RWE Innogy GmbH, Essen	100	183,850	–[1]	116	83
RWE Service GmbH, Dortmund	100	270,574	–[1]	2,023	1,853

1 Profit- and loss-pooling agreement.
2 Figures from the company's financial statements.
3 Converted to full-time positions.
4 Discontinued operation.

II. Companies accounted for using the equity method	Investment in acc. with Sec. 16 of the German Stock Corporation Act in %	Equity of the last fiscal year €'000	Net income/ loss of the last fiscal year €'000
RWE Power			
Grosskraftwerk Mannheim Aktiengesellschaft, Mannheim	40	114,141	6,647
TCP Petcoke Corporation, Dover/Delaware/USA[1]	50	10,018	10,135
RWE Supply & Trading			
Excelerate Energy LP, The Woodlands/Texas/USA[1]	50	311,187	-106,574
RWE Energy			
AVU Aktiengesellschaft für Versorgungs-Unternehmen, Gevelsberg	50	100,145	13,260
Cegedel S.A., Luxembourg/Luxembourg[1]	30	528,860	61,467
Dortmunder Energie- und Wasserversorgung GmbH (DEW 21), Dortmund	47	150,437	21,966
Energie Wasser Niederrhein GmbH, Moers	20	32,901	6,970
EVH GmbH, Halle (Saale)	30	76,736	6,826
Fövárosi Gázmüvek Zrt., Budapest/Hungary	50	164,856	31,192
Kärntner Energieholding Beteiligungs-GmbH, Klagenfurt/Austria[1]	49	361,223	113,232
KEW Kommunale Energie- und Wasserversorgung AG, Neunkirchen	29	70,590	7,952
Niederrheinische Versorgung und Verkehr Aktiengesellschaft, Mönchengladbach[1]	50	441,334	28,959
Pfalzwerke Aktiengesellschaft, Ludwigshafen	27	192,047	22,380
Regionalgas Euskirchen GmbH & Co. KG, Euskirchen	43	49,893	9,090
RheinEnergie AG, Cologne	20	564,045	190,457
RWE-Veolia Berlinwasser Beteiligungs AG, Berlin	50	261,307	-7,773
SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus	33	22,350	7,907
Stadtwerke Duisburg Aktiengesellschaft, Duisburg	20	153,223	29,721
Stadtwerke Essen Aktiengesellschaft, Essen	29	116,557	23,269
Stadtwerke Remscheid GmbH, Remscheid	25	107,493	4,640
Stadtwerke Velbert GmbH, Velbert	40	75,626	7,238
Südwestfalen Energie und Wasser AG, Hagen	19	280,665	16,061
TIGÁZ Tiszántúli Gázszolgáltató Zrt., Hajdúszoboszló/Hungary	44	594,761	491,454
Východoslovenská energetika, a.s., Košice/Slowakia	49	698,318	530,209
Zagrebačke Otpadne Vode d.o.o., Zagreb/Croatia	49	104,943	23,206
Other			
Fri-El S.p.A., Bozen/Italy[1]	50	22,460	-719
Greater Gabbard Offshore Winds Limited, Reading/UK	50	-59	-23
Zephyr Investments Ltd., Reading/UK[1]	33	-9,580	-4,276

1 Figures from the company's financial statements.

III. Other Investments	Investment in acc. with Sec. 16 of the German Stock Corporation Act in %	Equity of the last fiscal year €'000	Net income/ loss of the last fiscal year €'000
RWE Energy			
Stadtwerke Chemnitz Aktiengesellschaft, Chemnitz	19	255,387	23,131

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 calculated by dividing the operating result by capital employed.

The table at the top of page 222 shows the parameters used to calculate the cost of capital. We calculate them as a weighted average cost of equity and debt.

The cost of equity capital covers 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 the following figures as a basis for determining the cost of capital in 2008: We calculate the cost of debt by applying a pre-tax cost rate of 5.25%. The cost of equity is derived on the basis of an interest rate of 4.75%, which is customary for a risk-free investment, plus risk charges specific to the Group and the Group's divisions. In the period under review, the beta factor for the Group was 0.67.

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. The RWE Group's total cost of capital for 2008 was 8.5% before tax. As explained on page 74, in the previous year, we had used 9.0%.

When determining operating assets, depreciable non-current assets are not stated at carrying amounts. Instead, we recognize half of their historic costs. The advantage of the new procedure is that the determination of ROCE is no longer influenced by the depreciation period. This reduces the fluctuation in return 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 bonus payments for RWE Group executives.

Higher capital costs from 2009. The current financial crisis has made it more expensive to raise outside capital. This is reflected in higher interest rates. In consequence, we have increased the cost of capital in our value management concept from 2009 onwards. At the Group level, as it was until 2007, the basis is now 9%. We will adjust the cost of capital by 0.5 to 1.0 percentage points for the divisions. The cost of capital after taxes for the RWE Group will be 6.5% from 2009 onwards. The upper table on page 222 compares the old figures with the new ones.

RWE Group–cost of capital		2008	From 2009
Risk-free interest rate	%	4.75	4.5
Market premium	%	5.0	5.0
Beta factor		0.67	0.78
Cost of equity after tax	%	8.1	8.4
Cost of debt before tax	%	5.25	6.25
Tax rate for debt	%	27.0	27.1
Tax shield	%	-1.4	-1.7
Cost of debt after tax	%	3.8	4.6
Proportion of equity	%	50	50
Proportion of debt	%	50	50
Capital costs after tax	%	**6.0**	**6.5**
Tax rate for blanket conversion	%	30	30
Weighted average cost of capital (WACC) before tax	%	**8.5**	**9.0**

RWE Group–determining capital employed		Dec 31, 2007	Dec 31, 2008
Intangible assets/property, plant and equipment[1]	€ million	46,598	46,819
+ Investments including loans[2]	€ million	3,902	4,533
+ Inventories	€ million	2,352	2,540
+ Trade accounts receivable	€ million	8,812	10,412
+ Other accounts receivable and other assets[3]	€ million	8,874	16,452
- Non-interest-bearing provisions[4]	€ million	10,972	11,218
- Non-interest-bearing liabilities[5]	€ million	18,467	29,727
- Adjustments[6]	€ million	1,134	887
Capital employed	€ million	**39,965**	**38,924**

RWE Group–determining value added			2008
Capital employed before adjustments (averaged for the year)	€ million		39,444
+ Adjustments[7]	€ million		365
Capital employed after adjustments (averaged for the year)	€ million		**39,809**
Operating result	€ million		**6,826**
+ Interest income from lease receivables	€ million		11
Operating result for calculating ROCE	€ million		**6,837**
ROCE	%		**17.2**
Relative value added	%		**8.7**
Absolute value added	€ million		**3,453**

1 Intangible assets; property, plant and equipment; and investment property were stated at cost (see the statement on changes in assets); goodwill and the customer base were recognized 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 €1,893 million (previous year: €424 million).
4 Including tax provisions and other provisions; excluding non-current provisions in the amount of €470 million (previous year: €581 million).
5 Including trade liabilities, income tax liabilities and other liabilities; excluding derivative financial instruments in the amount of €732 million (previous year €282 million) and purchase price liabilities of €1,294 million (previous year: €1,951 million) from put options and a forward purchase of minority interests.
6 Assets capitalized in accordance with IAS 16.15 in the amount of €458 million (previous year: €529 million) are not taken into account since these assets do not employ capital. Deferred tax liabilities relating to RWE npower's capitalized customer base are not taken into account, either.
7 Corrected to account for first-time consolidations and deconsolidations during the year, among other things.

BOARDS AND COMMITTEES

Supervisory Board

Dr. Thomas R. Fischer
Berlin
Chairman
Business executive

Frank Bsirske[1]
Berlin
Deputy Chairman
Chairman of ver.di
Vereinte Dienstleistungsgewerkschaft
- Deutsche Lufthansa AG
- IBM Central Holding GmbH
- KfW – Kreditanstalt für Wiederaufbau

Dr. Paul Achleitner
Munich
Member of the Board of Management of Allianz SE
- Allianz Deutschland AG
- Allianz Europe B.V. (Chairman)
- Allianz Global Investors AG
- Allianz Lebensversicherungs-AG
- Bayer AG

Werner Bischoff[1]
Monheim am Rhein
Member of the Main Executive Board of
IG Bergbau, Chemie, Energie
- Continental AG
- Evonik-Degussa GmbH
- Evonik Industries AG
- RWE Dea AG
- Sanofi-Aventis Deutschland GmbH
- Hoechst GmbH
- RWE Power AG
- BGAG Beteiligungsgesellschaft der Gewerkschaften GmbH
- THS TreuHandStelle für Bergmannswohnstätten im rheinisch-westfälischen Steinkohlenbezirk GmbH

Carl-Ludwig von Boehm-Bezing
Bad Soden
Former member of the Board of Management of
Deutsche Bank AG

Heinz Büchel[1]
Trier
Chairman of the General Works Council of
RWE Rhein-Ruhr AG
- RWE Energy AG

Dieter Faust[1]
Eschweiler
Chairman of the Works Council, Plant Services/
Materials Management of RWE Power AG

Simone Haupt[1,2]
Hagen
—until November 30, 2008—
Chairman of the General Works Council of
RWE Systems AG

Andreas Henrich[1]
Siegen
—since April 1, 2008—
Degree in economics
- ELE Emscher Lippe Energie GmbH
- RWE Rhein-Ruhr AG

Heinz-Eberhard Holl
Osnabrück
Former Chief Administrative Officer,
Osnabrück Rural District
- Georgsmarienhütte GmbH
- Georgsmarienhütte Holding GmbH

- ▪ (blue) Member of other mandatory supervisory boards.
- ▪ (black) Member of comparable domestic and foreign supervisory bodies of commercial enterprises.

1 Employee representative.
2 Information valid as of the date of retirement from the Supervisory Board.

Dr. Gerhard Langemeyer
Dortmund
Mayor of the City of Dortmund
- Dortmunder Stadtwerke AG (Chairman)
- Gesellschaft für Vermögensverwaltung AG
- KEB Holding AG (Chairman)
- Klinikum Dortmund gGmbH (Chairman)
- Schüchtermann Schiller'sche Kliniken KG
- Sparkasse Dortmund (Chairman)

Dagmar Mühlenfeld
Mülheim an der Ruhr
Mayor of the City of Stadt Mülheim an der Ruhr
- Mülheimer Wohnungsbau e.G. (Chairman)
- Beteiligungsholding Mülheim an der Ruhr GmbH
- Flughafen Essen/Mülheim GmbH (Chairman)
- medl GmbH (Chairman)
- Mülheim & Business GmbH (Chairman)
- Ruhrbania Projektentwicklungsgesellschaft mbH (Chairman)

Erich Reichertz[1,2]
Mülheim an der Ruhr
—until March 31, 2008—
Diploma in engineering
- RWE Energy AG

Dr. Wolfgang Reiniger
Essen
Mayor of the City of Essen
- EGZ Entwicklungsgesellschaft Zollverein mbH
- EMG Essen Marketing GmbH Gesellschaft für Stadtwerbung, Touristik und Zentrenmanagement (Chairman)
- Entwicklungsgesellschaft Universitätsviertel Essen mbH (Chairman)
- Essener Wirtschaftsförderungsgesellschaft mbH (Chairman)
- Margarethe Krupp-Stiftung für Wohnungsfürsorge (Chairman)
- Messe Essen GmbH (Chairman)
- Sparkasse Essen (Chairman)

Günter Reppien[1]
Lingen
Chairman of the General Works Council of RWE Power AG
- RWE Power AG
- Stadtwerke Lingen GmbH

Karl-Heinz Römer[1]
Mülheim an der Ruhr
District General Manager of ver.di Vereinte Dienstleistungsgewerkschaft
- RWE Energy AG
- RWE Rhein-Ruhr AG

Dagmar Schmeer[1]
Saarbrücken
Chairman of the Works Council of VSE AG
- VSE AG

Dr. Manfred Schneider
Leverkusen
Chairman of the Supervisory Board of Bayer AG
- Daimler AG
- Linde AG (Chairman)
- TUI AG

Dr.-Ing. Ekkehard D. Schulz
Krefeld
Chairman of the Executive Board of ThyssenKrupp AG
- AXA Konzern AG
- Bayer AG
- MAN AG
- ThyssenKrupp Services AG (Chairman)
- ThyssenKrupp Steel AG (Chairman)
- ThyssenKrupp Technologies AG (Chairman)

- ▪ (blue) Member of other mandatory supervisory boards.
- ▪ (black) Member of comparable domestic and foreign supervisory bodies of commercial enterprises.

1 Employee representative.
2 Information valid as of the date of retirement from the Supervisory Board.

Uwe Tigges[1]
Bochum
Chairman of the General Works Council of
RWE Westfalen-Weser-Ems AG
- RWE Energy AG
- RWE Westfalen-Weser-Ems AG

Prof. Karel Van Miert
Beersel
Professor, Nyenrode University
- Münchener Rückversicherungs-Gesellschaft AG
- Agfa-Gevaert N.V.
- Anglo American plc
- De Persgroup
- Koninklijke Philips Electronics N.V.
- SIBELCO N.V.
- SOLVAY S.A.
- Vivendi Universal S.A.

Manfred Weber[1]
Wietze
—since December 1, 2008—
Chairman of the General Works Council of RWE Dea AG
- RWE Dea AG

Supervisory Board Committees

Executive Committee of the Supervisory Board
Dr. Thomas R. Fischer (Chairman)
Frank Bsirske
Dr. Paul Achleitner
Heinz Büchel
Dieter Faust
Simone Haupt —until November 30, 2008—
Dagmar Schmeer —since December 11, 2008—
Dagmar Mühlenfeld
Dr. Manfred Schneider

Mediation Committee in accordance with Sec. 27, Par. 3 of the German Co-Determination Act (MitbestG)
Dr. Thomas R. Fischer (Chairman)
Frank Bsirske
Werner Bischoff
Dr. Manfred Schneider

Personnel Affairs Committee
Dr. Thomas R. Fischer (Chairman)
Frank Bsirske
Dr. Paul Achleitner
Heinz-Eberhard Holl
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. Thomas R. Fischer (Chairman)
Dr. Paul Achleitner
Heinz-Eberhard Holl

- Member of other mandatory supervisory boards. (blue square)
- Member of comparable domestic and foreign supervisory bodies of commercial enterprises. (black square)

1 Employee representative.

Executive Board

Dr. Jürgen Großmann
President and CEO of RWE AG,
appointed until September 30, 2012.

Born in 1952 in Mülheim an der Ruhr, studied ferrous metallurgy and economics, doctorate in ferrous metallurgy, from 1980 to 1993 active within the Klöckner Group, exiting as member of the Executive Board of Klöckner-Werke AG, in 1993 acquired Georgsmarienhütte, from 1993 to 2006 Owner and Managing Director of Georgsmarienhütte Holding GmbH, joined RWE AG as President and CEO effective October 1, 2007.

Group-level responsibilities: Energy Policy, Change Management, Investor Relations, Communications, Executive Management, Auditing.

Other appointments:
- ▪ BATIG Gesellschaft für Beteiligungen mbH
- ▪ British American Tobacco (Industrie) GmbH
- ▪ British American Tobacco (Germany) GmbH
- ▪ Deutsche Bahn AG
- ▪ SURTECO AG (Chairman)
- ▪ Volkswagen AG
- ▪ Hanover Acceptances Limited

Dr. Leonhard Birnbaum
—since October 1, 2008—
Executive Vice-President of RWE AG,
appointed until September 30, 2013.

Born in 1967 in Ludwigshafen am Rhein, graduated chemical engineer, from 1996 to 2008 consultant at McKinsey, in 2000 promoted to partner (principal) and 2006 to senior partner (director) at McKinsey, exiting as member of McKinsey's management team for the European energy sector, joined RWE AG as a Head of Corporate Strategy and Business Development in April 7, 2008, Chief Strategy Officer of RWE AG since January 1, 2009.

Group-level responsibiities: Strategy, Business Development, Mergers & Acquisitions, Research & Development, Renewable Energies.

Other appointments:
- ▪ RWE Npower Holdings plc

Berthold Bonekamp[1]
—until December 31, 2008—
Executive Vice-President of RWE AG

Born in 1950 in Billerbeck (Coesfeld County), studied mechanical engineering and business management, joined the RWE Group in 1981, since April 2004 Executive Vice-President of RWE AG, from April 2004 to February 2008 concurrently CEO of RWE Energy AG, from April to December 2008 Chief Strategy Officer of RWE AG.

Other appointments:
- ▪ Berlinwasser Holding AG
- ▪ RWE Energy AG
- ▪ Berliner Wasserbetriebe AöR
- ▪ RWE Npower Holdings plc

▪ Member of other mandatory supervisory boards.
▪ Member of comparable domestic and foreign supervisory bodies of commercial enterprises.

1 Information valid as of the date of retirement from the Executive Board.

Alwin Fitting
Executive Vice-President of RWE AG,
appointed until July 31, 2010.

Born in 1953 in Westhofen (Rhine-Hesse), joined the RWE Group in 1974, trained master electician, from October 2000 to July 2005 Executive Vice-President and Labour Director of RWE Power AG, since August 2005 Executive Vice-President and Labour Director of RWE AG.

Group-level responsibilites: Human Resources Management, Corporate Citizenship, Security, Diversity Office and Corporate Responsibility / Environmental Politics.

Other appointments:
- ▪ RWE Energy AG
- ▪ RWE IT GmbH (Chairman)
- ▪ RWE Pensionsfonds AG
- ▪ RWE Service GmbH (Chairman)
- ▫ European School of Management and Technology GmbH

Dr. Ulrich Jobs
Executive Vice-President of RWE AG,
appointed until March 31, 2012.

Born in 1953 in Herne, holds a diploma in engineering and a doctorate in mining/mine engineering, joined the RWE Group in 1977, since April 2007 Execute Vice-President of RWE AG, from May 2007 to February 2008 concurrently CEO of RWE Power AG, Chief Operating Officer of RWE AG since April 2008.

Group-level responsibiities: Organization, Performance Improvement, Value Chain Management.

Other appointments:
- ▪ Deutsche Steinkohle Aktiengesellschaft
- ▪ RAG AG
- ▪ RheinEnergie AG
- ▪ RWE Dea AG (Chairman)
- ▪ RWE Energy AG (Chairman)
- ▪ RWE Power AG (Chairman)
- ▫ RWE Npower Holdings plc (Chairman)
- ▫ RWE Supply & Trading GmbH (Chairman)

Dr. Rolf Pohlig
Executive Vice-President of RWE AG,
appointed until December 31, 2011.

Born in 1952 in Solingen, doctorate in economics, from 1993 to 2000 Executive Vice-President Finance and Accounting of VEBA AG, from 2000 to 2006 Executive Vice-President Mergers & Acquisitions of E.ON AG, joined the RWE Group in January 2007 as Executive Vice-President, since May 2007 Chief Financial Officer of RWE AG.

Group-level responsibilities: Finance, Controlling, Risk Management, Legal / Board Affairs, Accounting, Tax and Insurances.

Other appointments:
- ▪ RWE Energy AG
- ▪ RWE Pensionsfonds AG (Chairman)
- ▪ RWE Power AG
- ▫ American Water Works Company, Inc.
- ▫ RWE Npower Holdings plc

As of February 13, 2009.

▪ Member of other mandatory supervisory boards.
▫ Member of comparable domestic and foreign supervisory bodies of commercial enterprises.

Economic Advisory Board

Prof. Dr. Dr. Theodor Baums
Frankfurt am Main
Member of the Executive Committee of Deutsche Schutzvereinigung für Wertpapierbesitz e. V., Director of the Institute for Law and Finance, Universität Frankfurt

Martin Blessing
Frankfurt am Main
—since May 28, 2008—
Chairman of the Board of Managing Directors of Commerzbank AG

Dr. Michael Frenzel
Hannover
Chairman of the Executive Board of TUI AG

Dr. Dietmar Kuhnt
Essen
Former CEO of RWE AG

Prof. Dr. Hubert Markl
Constance
Former President of Max-Planck-Gesellschaft

Wolfgang Mayrhuber
Frankfurt am Main
CEO of Deutsche Lufthansa AG

Dr. Thomas Middelhoff
Essen
Chairman of the Management Board of Arcandor AG

Klaus-Peter Müller
Frankfurt am Main
Chairman of the Supervisory Board of Commerzbank AG

Prof. Dr. Heinrich von Pierer
Erlangen

Dr. Richard Pott
Leverkusen
—since September 9, 2008—
Member of the Board of Management of Bayer AG

Dr. Werner Schnappauf
Berlin
—since May 28, 2008—
Director General and Member of the Presidential Board of Bundesverband der Deutschen Industrie e. V.

Klaus Schneider
Munich
Chairman of Schutzgemeinschaft der Kapitalanleger e. V.

Prof. Dr. Jürgen Strube
Ludwigshafen
Chairman of the Supervisory Board of BASF SE

Werner Wenning
Leverkusen
—from January 1 to April 30, 2008—
Chairman of the Board of Management of Bayer AG

Anton Werhahn
Neuss
Business executive

GLOSSARY

BAFA price. Germany's Federal Office of Economics and Export Control (BAFA) uses reports made by buyers of hard coal to determine the price paid in Germany, including all costs incurred up to the German border. The price of power plant hard coal is published by BAFA quarterly and annually in shipping tons and tons of hard coal units.

Balancing power. Energy used to correct imbalances in the electricity grid in real time in cases where normal generation differs from electricity consumption. By using balancing power, transmission system operators can ensure a stable frequency in their balancing zone. Demand for balancing power can result from deviations between actual and forecast electricity consumption and from power plant shutdowns or unexpectedly high wind energy generation.

Barrel. International unit of measurement for trading oil, available in imperial and US variants. 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 facilities that operate around the clock, etc. Base-load power is primarily generated by nuclear and lignite 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 emissions certificates by participating in projects to reduce emissions in newly developing and developing countries, which are not obliged to reduce emissions themselves. They can use these certificates to meet their own requirements.

Combined heat and power generation (CHP). Heat which is not used in conventional thermal power generation plants is captured and used as steam or hot water. This increases the fuel efficiency of a power plant.

Commercial paper. Tradable, 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 standardized, tradable goods such as wheat, 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.

Debt issuance programme. Contractual master and model documents for the issuance of bonds on domestic and foreign markets. It can be used as a flexible financing vehicle to issue long-term debt.

Defined benefit obligation. Net present value of an employee's benefit entitlements as of the balance-sheet date.

EBITDA. Earnings before interest, taxes, depreciation and amortization.

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 achieved with hard coal and lignite amount to 46% and 43%, respectively.

Equity accounting. Method for accounting for entities whose assets and liabilities 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.

Forward market/forward trading. Contracts for transactions to be fulfilled at a fixed point in time in the future are traded on forward markets. The price of the forward is established when the contract is agreed.

Hard coal unit (HCU). Unit of measurement for the energy content of primary energy carriers. One kilogram HCU corresponds to 29,308 kilojoules.

Joint implementation. In accordance with the Kyoto Protocol, companies and countries can obtain emissions 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.

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.

Megawatt (MW). Unit of measurement of electric output. 1 megawatt = 10^3 kilowatts, 1 gigawatt = 10^6 kilowatts, 1 terawatt = 10^9 kilowatts.

Peak load. Need for electricity in periods of maximum network usage, e.g., 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.

"Pensionsfonds." Separate legal entity under the supervision of the German Federal Financial Supervisory Authority. Legal standing differs from that of typical UK and US pension funds.

Performance shares. Virtual shares, which entitle plan participants to receive a payment at the end of the three-year plan period. Performance shares are not exercised individually. They are paid out in cash at the end of the period if the pre-defined performance targets have been met or exceeded.

Rating. Standardized 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 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 effected immediately on conclusion of the transaction.

Syndicated credit line. Credit line offered to companies, backed by several banks, with a term of one to seven years. 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 method. Measure of risk indicating the estimated maximum loss that might occur from a risk position, assuming a certain probability under normal market conditions and that the position is held for a certain period of time.

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5-YEAR OVERVIEW (PART OF THE REVIEW OF OPERATIONS)

5-year-overview RWE Group		2008	2007[1]	2006[2]	2005	2004
External revenue	€ million	48,950	42,507	42,554	39,487	42,137
Income						
EBITDA	€ million	8,314	7,915	7,172	7,095	8,400
Operating result	€ million	6,826	6,533	5,681	5,371	5,976
Income from continuing operations before tax	€ million	4,866	5,246	3,537	3,156	3,935
Net income/RWE AG shareholders' share in net income	€ million	2,558	2,667	3,847	2,231	2,137
Earnings per share	€	4.75	4.74	6.84	3.97	3.80
Return on equity	%	20.7	20.1	30.3	20.8	23.8
Return on revenue	%	12.3	16.0	15.2	13.6	15.1
Value management[3]						
Return on capital employed (ROCE)	%	17.2	16.5	14.2	16.6	13.5
Value added	€ million	3,453	2,970	2,074	2,451	1,998
Capital employed	€ million	39,809	39,710	40,206	32,444	44,480
Cash flow[4]/capital expenditure[4]/depreciation and amortization						
Cash flows from operating activities	€ million	8,853	6,085	6,783	5,304	4,928
Free cash flow[5]	€ million	4,399	2,020	2,289	1,637	1,499
Capital expenditure including acquisitions	€ million	5,693	4,227	4,728	4,143	3,737
Property, plant and equipment	€ million	4,454	4,065	4,494	3,667	3,429
Depreciation, amortization, impairment losses and asset disposals[6]	€ million	2,416	2,629	3,164	4,098	7,051
Free cash flow per share	€	8.17	3.59	4.07	2.91	2.67
Workforce						
Workforce at end of fiscal year[7]		65,908	63,439	61,725	85,928	97,777
Asset/capital structure						
Non-current assets	€ million	41,763	41,360	51,999	71,680	65,406
Current assets	€ million	51,667	42,060	41,456	37,778	27,964
Balance sheet equity	€ million	13,140	14,659	14,111	12,357	11,193
Non-current liabilities	€ million	36,793	36,796	52,402	65,065	60,321
Current liabilities	€ million	43,497	31,965	26,942	32,036	21,856
Balance sheet total	€ million	93,430	83,420	93,455	109,458	93,370
Net financial debt of continuing operations	€ million	-650	-2,064	-4,720	11,438	12,385
Net debt of the RWE Group[8]	€ million	18,659	16,514	17,827	33,937	34,669
Equity ratio	%	14.1	17.6	15.1	11.3	12.0

5-year-overview RWE Group		2008	2007	2006	2005	2004
Research & Development						
R&D costs	€ million	105	74	73	55	114
R&D employees		330	270	273	223	224
Emissions balance						
CO_2-emissions	million metric tons CO_2	172	187	178	173	n.a.[9]
Free allocation of CO_2 certificates	million metric tons CO_2	105	170	167	165	n.a.[9]
Shortage of CO_2 certificates	million metric tons CO_2	68	17	11	8	n.a.[9]

5-year-overview RWE AG		2008	2007	2006	2005	2004
Dividend/dividend payment						
Dividend payment	€ million	2,388[10]	1,772	1,968	984	844
Dividend per share	€	4.50[10]	3.15	3.50	1.75	1.50
Market capitalization/rating						
Market capitalization at the end of fiscal year	€ billion	35.4	53.5	46.5	34.9	22.6
Long-term credit rating						
Moody's		A1[11]	A1	A1	A1	A1
(outlook)		(negative)	(stable)	(stable)	(stable)	(negative)
Standard & Poor's		A	A+	A+	A+	A+
(outlook)		(stable[12])	(negative)	(negative)	(negative)	(negative)

1 Figures partially adjusted (see commentary on page 60).
2 Figures partially adjusted (see commentary on page 60 in the 2007 annual report).
3 Figures for 2006 according to the new value management concept; see Annual Report 2007, page 208.
4 Discontinued operations are excluded from the figures from 2008 onwards.
5 Cash flows from operating activities minus capital expenditure on property, plant and equipment.
6 In accordance with IAS 1, as of 2005 excluding financial assets.
7 Converted to full-time positions.
8 Besides net financial debt, this included provisions for pension and similar obligations, provisions for nuclear waste management, and provisions for mining damage. The capitalized surplus of plan assets over benefit obligations is subtracted.
9 Not applicable.
10 Proposed dividend for RWE AG's 2008 fiscal year, subject to approval by the April 22, 2009, Annual General Meeting.
11 Under review for potential downgrade (last updated February 13, 2009).
12 Outlook reduced to "negative" in January 2009.

FINANCIAL CALENDAR 2009/2010[1]

April 22, 2009	Annual General Meeting
April 23, 2009	Ex-dividend date
May 14, 2009	Interim report for the first quarter of 2009 with analyst conference call
August 13, 2009	Interim report for the first half of 2009 ▪ Press conference ▪ Analyst conference
November 12, 2009	Interim report for the first three quarters of 2009 with analyst conference call
February 25, 2010	Annual report for fiscal 2009 ▪ Press conference ▪ Analyst conference
April 22, 2010	Annual General Meeting
April 23, 2010	Ex-dividend date
May 12, 2010	Interim report for the first quarter of 2010 with analyst conference call
August 12, 2010	Interim report for the first half of 2010 ▪ Press conference ▪ Analyst conference
November 11, 2010	Interim report for the first three quarters of 2010 with analyst conference call

1 All events will be broadcast live on the Internet and can thus be followed by the public at large, investors and analysts simultaneously. We will keep the recordings on our website for at least twelve months.

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