**COMMONWEALTH OF KENTUCKY**
**BEFORE THE PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF:**

| | | |
|---|---|---|
| **COMPLIANCE OF KENTUCKY-AMERICAN** | ) | |
| **WATER COMPANY, AMERICAN WATER WORKS** | ) | |
| **COMPANY, RWE AKTIENGESELLSCHAFT AND** | ) | |
| **THAMES WATER AQUA HOLDINGS GMBH** | ) | |
| **WITH THE PROVISIONS OF THE ORDERS** | ) | **CASE NO.** |
| **APPROVING THE TRANSFER OF CONTROL** | ) | **2002-00277** |
| **OF KENTUCKY-AMERICAN WATER COMPANY** | ) | |
| **TO RWE AKTIENGESELLSCHAFT AND** | ) | |
| **THAMES WATER AQUA HOLDINGS GMBH** | ) | |

**NOTICE OF CONDITION 34 REPORTS –**
**QUARTERLY REPORTS**

Come Thames Water Aqua Holdings GmbH, RWE Aktiengesellschaft, American Water Works Company, Inc., Thames Water Aqua U.S. Holdings, Inc. and Kentucky-American Water Company, and pursuant to Condition 34 of the Commission's Order dated December 20, 2002, in Case No. 2002-00317, herewith give notice of the Report on the first quarter of 2008 of RWE AG, which is available at www.rwe.com and attached hereto electronically.

Attached hereto electronically are the Consolidated Cash Flow Statement, Consolidated Balance Sheet and Consolidated Income Statement for RWE AG in euros and dollars. The conversion of these statements to dollars is made pursuant to Condition 27 of the Commission's Order dated December 20, 2002, in Case No. 2002-00317, and the converted statements should not be used for any other purpose.

Lindsey W. Ingram, Jr.
Lindsey W. Ingram III
STOLL KEENON OGDEN PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507
(859) 231-3000

By Lindsey W. Ing III

Counsel for Thames Water Aqua Holdings GmbH, RWE AG, American Water Works Company, Inc., Thames Water Aqua U.S. Holdings, Inc. and Kentucky-American Water Company

## CERTIFICATION

In conformity with paragraph 7 of the Commission's Order dated January 30, 2002, in **Case No. 2002-00018**, this is to certify that the electronic version of this pleading is a true and accurate copy of the pleading that will be filed in paper medium with the Public Service Commission on May 16, 2008, the Petitioners have (1) notified the Commission, the Attorney General, the Lexington-Fayette Urban County Government, and Bluegrass FLOW, Inc. by electronic mail; (2) the electronic version of this pleading has been transmitted to the Commission; and (3) a copy has been served by mail, postage prepaid, on May 16, 2008, upon:

Foster Ockerman, Jr., Esq.
Martin, Ockerman & Brabant
200 North Upper Street
Lexington, Kentucky 40507

David Edward Spenard, Esq.
Dennis G. Howard II, Esq.
Assistant Attorneys General
1024 Capitol Center Drive, Suite 200
Frankfort, Kentucky 40601

David J. Barberie, Esq.
Lexington-Fayette Urban County Gov't.
Department of Law
200 East Main Street
Lexington, Kentucky 40507

Anthony G. Martin, Esq.
P.O. Box 1812
Lexington, Kentucky 40588

Gerald E. Wuetcher, Esq.
Angela Curry, Esq.
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

Lindsey W. Ingram III

Counsel for Thames Water Aqua Holdings GmbH, RWE AG, American Water Works Company, Inc., Thames Water Aqua U.S. Holdings, Inc. and Kentucky-American Water Company

010311.003026/3575619.1

# REPORT ON THE FIRST QUARTER OF FISCAL 2008

- Burdens from emissions trading costs and grid regulation
- Recurrent net income improved by 3% nevertheless
- Net income significantly down year on year due to American Water impairment
- Financial targets for the full 2008 fiscal year largely confirmed

RWE
The energy to lead

# At a glance

| RWE Group—Key Figures | | Jan – Mar 2008 | Jan – Mar 2007[1] | +/– in % | Jan – Dec 2007[1] |
|---|---|---|---|---|---|
| Electricity sales | billion kWh | 86.2 | 84.4 | 2.1 | 306.4 |
| Gas sales | billion kWh | 122.5 | 120.9 | 1.3 | 335.0 |
| External revenue | € million | 13,395 | 12,995 | 3.1 | 42,507 |
| Germany | € million | 8,262 | 7,881 | 4.8 | 24,840 |
| Outside Germany | € million | 5,133 | 5,114 | 0.4 | 17,667 |
| EBITDA | € million | 2,855 | 3,094 | –7.7 | 7,915 |
| Operating result | € million | 2,499 | 2,761 | –9.5 | 6,533 |
| Income from continuing operations before tax | € million | 2,213 | 2,534 | –12.7 | 5,246 |
| Net income | € million | 809 | 1,571 | –48.5 | 2,667 |
| Recurrent net income | € million | 1,423 | 1,382 | 3.0 | 2,985 |
| Earnings per share | € | 1.45 | 2.79 | –48.0 | 4.74 |
| Recurrent net income per share | € | 2.55 | 2.46 | 3.7 | 5.31 |
| Cash flows from operating activities[2] | € million | 1,384 | 908 | 52.4 | 6,085 |
| Capital expenditure[2] | € million | 672 | 679 | –1.0 | 4,227 |
| Property, plant and equipment | € million | 657 | 661 | –0.6 | 4,065 |
| Financial assets | € million | 15 | 18 | –16.7 | 162 |
| Free cash flow[2] | € million | 727 | 247 | 194.3 | 2,020 |
| | | 03/31/08 | 12/31/07 | +/– in % | |
| Net debt of the RWE Group[3] | € million | 16,001 | 16,514 | –3.1 | |
| Workforce[4] | | 64,517 | 63,439 | 1.7 | |

1 Figures partially adjusted; see commentary on page 11.
2 Discontinued operations are excluded from 2008 figures, but included in prior-year figures.
3 Besides net financial debt, this includes provisions for pensions and similar obligations, provisions for nuclear waste management, provisions for mining damage, and the capitalized surplus of plan assets over benefit obligations.
4 Converted to full-time positions.

# Contents

***» RWE earnings are currently expected to remain high, although emissions trading costs and grid regulation are affecting earnings more than last year. «***

Dear Shareholders,

The prerequisites are in place to deliver a successful 2008 fiscal year, even if the first quarter does not reflect this yet. In the first three months, our operating result declined by 9%. This was due to the negative effects of which we informed you in February and which overshadowed the positive overall trend in the first quarter. They primarily consisted of three factors: Since January, the $CO_2$ emissions trading scheme has had new underlying conditions that result in much higher costs for us. The second round of tariff cuts mandated by the German electricity and gas grid regulator has also had an impact since January. Furthermore, as expected, in the energy trading business, we were unable to match the extraordinarily high level of earnings achieved in the same period last year.

But we are confident of being able to catch up in the remaining quarters. We still aim to achieve an operating result that is at least on par with the €6.5 billion achieved last year. Wholesale electricity prices, which have risen in recent years and are now affecting revenue, will be one of the key factors contributing to this. In addition, we plan to expand cost-cutting measures across all divisions. We will increase the target for our existing efficiency-enhancement programme in August.

We are not satisfied with the development of net income. When we conducted a public offering of the first tranche of shares in American Water, we had to make concessions regarding the issue price. In the first quarter, this negatively affected our net income by approximately €600 million. In consequence, we will probably not meet our forecast for the full year, which envisioned improving net income by more than 10%. We expect to experience a slight decline compared with 2007.

Recurrent net income, which is the basis for calculating your next dividend, excludes the negative effect of the IPO. It was up 3% in the first quarter. We continue to anticipate that it will grow by over 10% for the year as a whole. If we manage to decrease our stake in American Water to less than 50% this year, you will benefit from an increased payout ratio of between 70% and 80% of recurrent net income. We are working hard to make sure that, for fiscal 2008, your company again pays one of the strongest dividends among the European power utilities.

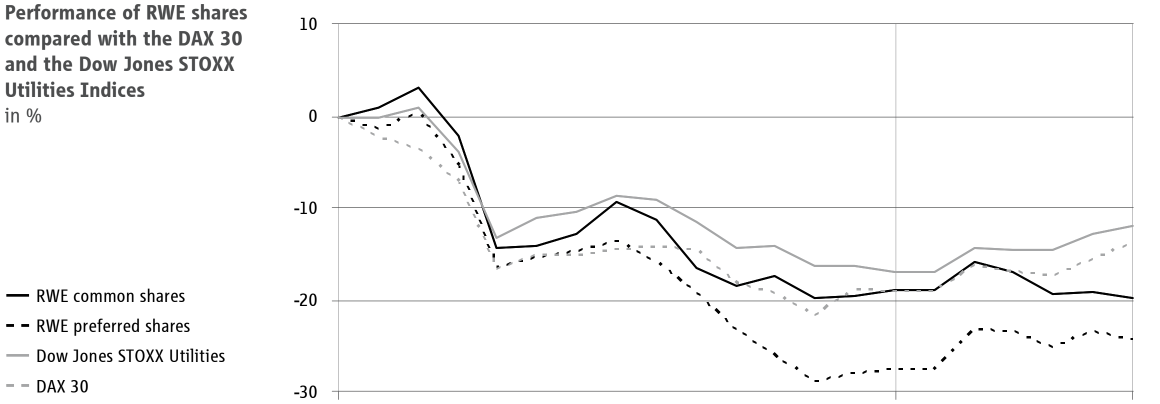
Sincerely yours,
Essen, May 2008

Jürgen Großmann

Dr. Jürgen Großmann
CEO of RWE AG

# *US subprime crisis sends stock exchanges on downward spiral—RWE shares also record significant loss*

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



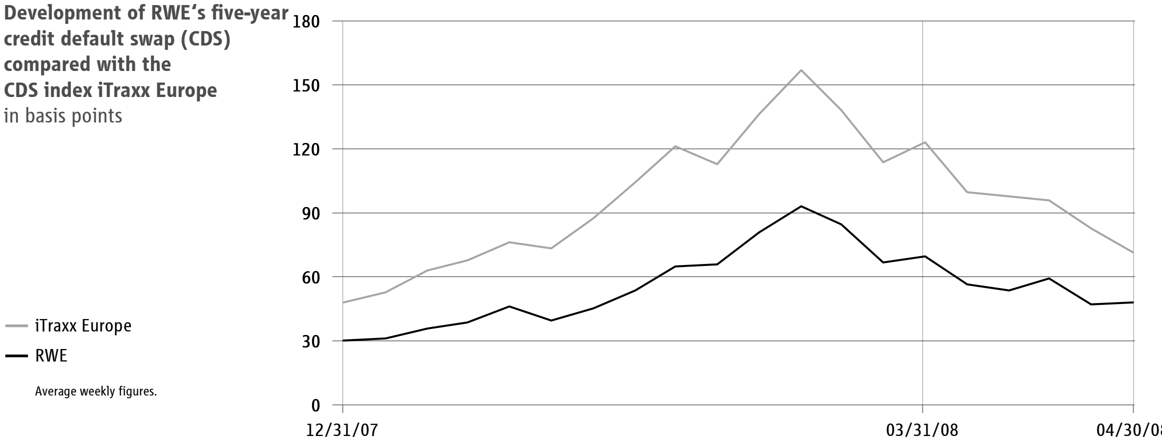

Average weekly figures.

The US subprime crisis has been an international financial crisis since the summer of 2007. Major write-offs, rumours of individual bank insolvencies, and the need for rescue operations to save lenders have been demolishing people's trust in the financial sector. This, along with continuously increasing raw material prices, fed the fear of a worldwide recession. Panic-driven sell-offs occurred on stock exchanges at the end of January 2008. The German lead index was down more than 7% on a single day (January 21). Despite the drop in the US Federal Reserve's prime rate, sentiment on financial markets remained tense for the duration of the first quarter. At the end of March 2008, the DAX 30 was at 6,535 points. This corresponds to a 19% decrease compared with the end of 2007. The index of the Eurozone's blue chips, the Dow Jones Euro STOXX 50, declined by 17% over the same period. Since then, stock markets have calmed down, in part due to the support measures taken by central banks. The DAX 30 regained some ground in April. It closed the month at 6,949 points.

RWE shares got off to a good start before, however, being pulled into the downward spiral caused by the stock exchanges' weakness. RWE common shares rose above the 100-euro mark (€100.64) for the first time on January 7. Afterwards, they dropped in price considerably as the financial crisis came to a head. Their closing quotation on March 31 was €77.86. Analogously to the DAX 30, this results in a 19% decline for the first three months of 2008. RWE's preferred stock lost 28%, dropping to €60.09. In sum, RWE shares thus performed slightly worse than the Dow Jones STOXX Utilities, the European sector index (-17%). This is partly because the 2008 earnings forecast we issued at the analyst conference on February 22 failed to meet the expectations of many analysts. The market reaction to this was a significant drop in our share price. In contrast, the statements we made concerning the RWE Group's future strategy were positively received. The recent high level of electricity prices on the German and UK wholesale markets helped bolster our share price as well.

The escalation of the international financial crisis left its mark on bond markets as well. The risk premiums on corporate bonds rose substantially in the first quarter. RWE bonds were also affected by this. Prices for hedging RWE's credit risk via five-year credit default swaps (CDSs) exceeded 90 basis points in mid-March, hitting an all-time high. The European CDS index, iTraxx Europe, which is made up of the CDS prices of 125 major European companies, climbed above 150 basis points in the same period. Since then, the situation on bond markets has calmed somewhat. At the end of April, prices for RWE CDSs were at 51, while the iTraxx Europe was at 73 basis points.

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




Average weekly figures.

# Economic environment

***Credit crunch depresses economy in industrialized countries***

The crisis on the financial markets and the rise in raw material prices limited the growth of the global economy. Based on current estimates, gross domestic product (GDP) in the Eurozone for the first quarter of 2008 was nearly 2% higher year on year. The appreciation of the euro over the US dollar had a dampening effect on the economy. Germany's GDP growth slowed to an estimated 1.5%. Corporate investment supported the economy, whereas consumer spending was low. The German export sector's high competitiveness was the main reason for the significant continued rise in exports despite the strength of the euro. The UK economy expanded by approximately 2.5%. The economic robustness of companies outside the bank and insurance sectors weakened the impact the financial crisis had on the economy in the first quarter. Economic momentum witnessed in EU member states in Central Eastern Europe was only slightly curtailed. Despite mounting prices, consumption maintained its strong upward trend. Dynamic growth in income and the high employment rate were the basis for this. One exception is Hungary, where measures for restructuring the state budget have been curbing both private consumption and corporate spending for a significant period of time.

***Weather a little cooler year on year***

While economic momentum is primarily reflected in the demand for energy of industrial enterprises, household power consumption is largely dependent on the weather. Temperatures witnessed in our core markets, i.e. Germany, the United Kingdom and Central Eastern Europe, clearly exceeded long-term averages in the period under review. However, they did not match the high level achieved in the first quarter of 2007. January and February were extremely mild winter months. Moderately cool weather experienced in March offset this slightly. Like energy consumption, electricity supplies are affected by the weather. Germany's first quarter was windier than average. The number of days on which extremely large amounts of wind power were generated, i.e. utilizing at least two thirds of installed capacity, was substantially higher than the long-term average. This had a dampening effect on electricity spot prices. However, wind power feed-ins in the same period in 2007 were unusually high as well.

***Rising energy consumption in RWE's core markets***

The fact that business activity in industry is still good and demand for electricity for heating purposes was marginally up year on year was largely responsible for the increase in energy consumption on our core markets. Demand for electricity in Germany in the first quarter was 1% up year on year, with the UK and Hungary posting advances of 2%. Even stronger rates of increase of up to 4% were recorded in Poland and Slovakia. Gas consumption on our main markets—Germany, the Czech Republic and the UK—rose as well. Demand in Hungary stagnated.

***Oil market: Brent prices surpass 100-dollar mark for the first time***

Prices on world crude oil markets hit new record highs in 2008. A barrel of North Sea Brent traded at over US$100 for the first time in February. It cost an average of US$97 in the period under review. This was nearly 70% more than in the first quarter of last year. However, the weak US dollar caused Brent prices to rise by a mere 44% in euro terms. The continued boom on the oil market is due to mounting pressure from demand originating from newly industrializing countries such as India and China. On the other hand, production capacity is limited. Fears of a recession triggered by the US subprime crisis and the US dollar's weakness led to a rise in cash investments on commoditiy markets. This drove up prices as well. Another factor was persistent geopolitical risk.

***Crude oil boom affects gas prices***

European gas prices mirror the oil market's price trends, typically with a lag of several months. Gas imports to Germany have become much more expensive as of late. However, average prices charged in the end customer business were slightly lower than in the first quarter of 2007, slipping by 1.5% for private households and 1% for industrial customers. This is because import prices are also passed through to customers with a time lag. Therefore, German end customers still benefit from the fact that European wholesale gas prices experienced a temporary decline until mid-2007. In the Czech Republic, our second-largest gas market, end customer prices were adjusted more quickly. Tariffs paid by corporate and industrial customers in the Czech Republic were up 16%, with private households experiencing a 14% rise. Prices on the UK gas spot market increased as well. A contributing factor besides the oil price was the considerable rise in demand. UK industrial and commercial customers paid an average of 17% more than in the same period in 2007. Price adjustments in this customer segment are effected much more rapidly than in the sales business with household customers, whose gas bills were an average of 5% down year on year.

***Hard coal more expensive than ever***

In February 2008, hard coal prices hit a new unprecedented record high. Hard coal on the Rotterdam spot market traded at up to US$148 per metric ton (including freight and insurance). The average price in the first three months was US$138. This is nearly twice the level recorded in the same period last year. As before, pressure continues to be caused by demand originating in the Asian region. In addition, sea freight rates have increased. In the period under review, the standard route from South Africa to Rotterdam cost an average of US$32 per metric ton, compared with US$23 in the same quarter last year. Prices which are relevant for German hard coal are determined by the German Federal Office of Economics and Export Control (BAFA). They track developments on the international market by several months. Official figures for the first quarter of 2008 are not available at present. Experts anticipate the average price to amount to €90 per metric ton of hard coal equivalent. The figure for the same period last year was €63.

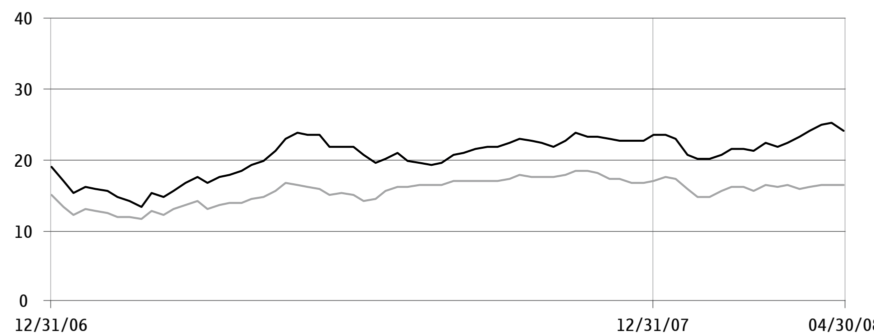
***$CO_2$ emissions trading: certificate prices much higher year on year***

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 certificates allocated by the state clearly exceeded overall actual emissions originating from the plants participating in the EU emissions trading scheme. This will no longer be the case from now on. This is because the national allocation plans which take effect in 2008 envision cuts in state allocations, some of which will be considerable. Therefore, many utilities will have to purchase a great number of additional certificates. Furthermore, they can curb their $CO_2$ emissions by making less use of high-emission power plants. The anticipated scarcity of available emissions allowances compared to the first trading period is reflected in their market prices. Whereas 2007 certificate prices had dropped to a few euro cents per metric ton of $CO_2$ by the end of December, 2008 certificates traded at an average of €21 in the first quarter of this year. The significant difference in price between 2007 and 2008 certificates arises because emissions certificates for the first trading period cannot be carried over 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 pre-determined ceiling by submitting CERs. The advantage lies in the fact that these certificates are generally cheaper than the emissions allowances allocated by EU member states. CERs traded at an average of €16 in the first quarter of 2008.

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

— EU Allowance (EUA) for 2008
— Certified Emission Reduction (CER) for 2008

Average weekly figures.
Source: RWE Trading.

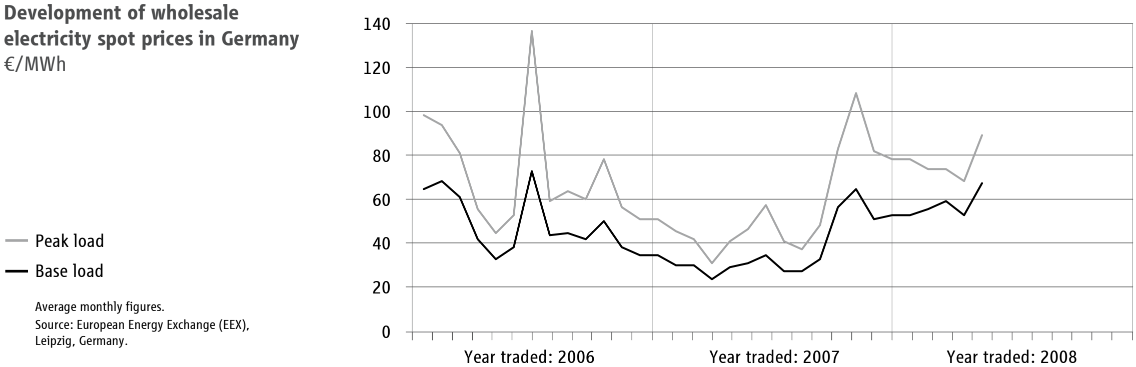



***Continued rise in prices on European electricity markets***

Increasing fuel and emissions allowance prices were reflected on Europe's wholesale electricity markets. In 2008 first-quarter spot trading at the European Energy Exchange (EEX) in Leipzig, Germany, base-load and peak-load contracts were traded at an average of €56 and €72 per megawatt hour (MWh), respectively. They thus cost 89% and 77% more than in last year's first quarter, respectively. The significant difference in the price of 2007 and 2008 emissions allowances had an especially strong impact. Prices in German electricity forward trading rose as well, albeit not quite as significantly as on the spot market. Contracts for the coming calendar year traded at an average of €63 per MWh of base-load power and €87 per MWh of peak-load power in the first quarter of 2008. This corresponds to an increase of 19% and 12% over the price of comparable contracts in the prior-year period. Quotations on the forward market have been displaying an upward trend for several years. This is partially due to the fact that market participants expect electricity generation capacity to become increasingly scarce.

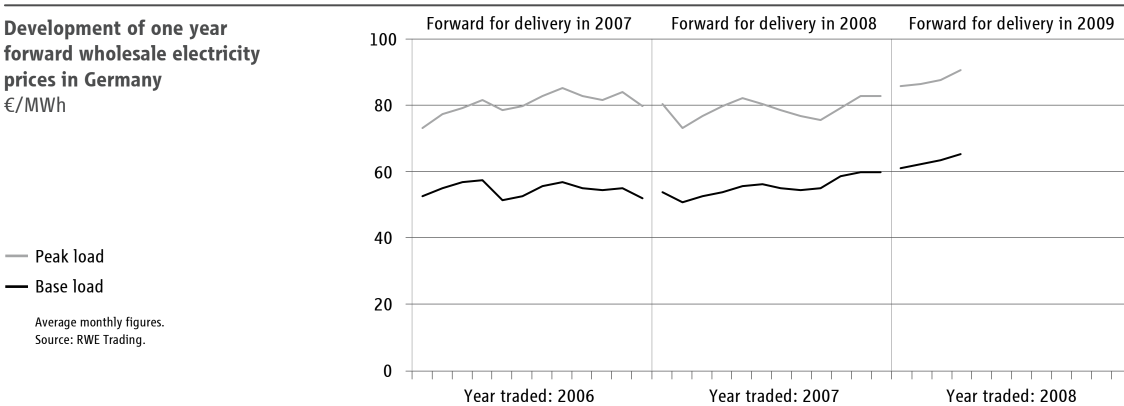
We sell forward nearly all our in-house electricity generation output in order to reduce sales and price risks. Therefore, current prices only have a minor impact on our income in the period under review. What is much more decisive is the price at which contracts for delivery in 2008 sold in preceding years. In the 2006/2007 trading period, 2008 base-load forward contracts on the German market traded at an average of €55 per MWh. The comparable figure for 2007 forwards was €47. Forward contracts for delivery in 2008 thus cost 17% more than those for 2007.

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




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

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



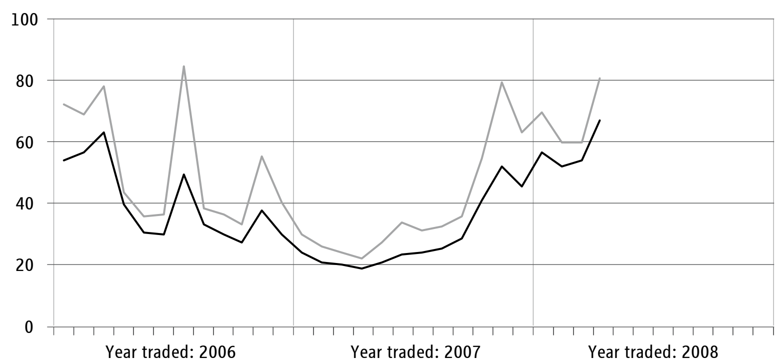

Average monthly figures.
Source: RWE Trading.

The trend in electricity prices for end customers and distributors in Germany reflects the rising prices on the wholesale market. Due to the sharp climb in the cost of purchasing electricity and an increase in the burdens stemming from the German law for the promotion of renewables-based energy (Renewable Energy Act), utilities raised their tariffs for all customer segments. In the first quarter of 2008, prices paid by households and small commercial operations were up an average of 5% over the corresponding period in 2007. Industrial enterprises had to pay 11% more. For deliveries to this customer group, the share of electricity procurement costs in the total price is especially high.

UK wholesale electricity prices rose considerably as well. In the first quarter of 2008, a megawatt hour of base-load power sold for an average of £54 (€71) on the spot market, as compared to £22 in the same period in 2007. Peak-load power increased in price from £27 to £63 (€82). UK prices were thus substantially higher than levels witnessed in Germany. In the UK, gas-fired power plants, which typically have higher variable costs, account for a larger share of generation capacity than in Germany, and thus have a stronger influence on the formation of electricity prices. Prices on the UK electricity forward market increased as well. In the first quarter of 2008, supply contracts for the 2009 calendar year traded at an average of £55 (€72) per MWh of base-load power. This is 55% more than the cost of 2008 forwards in the same period last year. Peak-load forward prices advanced by 43% to £67 (€86).

RWE sells most of the production from its UK power stations forward, similar to the policy it pursues in Germany. Revenue generated in the period being reviewed was thus primarily determined by the prices at which electricity supply contracts for delivery in 2008 were concluded in the preceding years. On the UK market, forward contracts for delivery in 2008 in the 2006/2007 trading period traded at an average of £45 (€66) per MWh of base-load power. The same figure applies to 2007 forwards in the 2005/2006 trading period. This reflects volatility of prices, including weakness in the second half of 2006 and in early 2007.

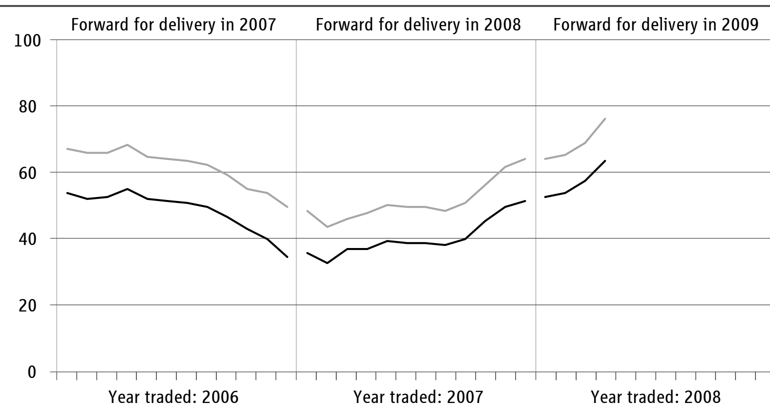
**Development of wholesale electricity spot prices in the UK**
£/MWh




— Peak load
— Base load

Average monthly figures.
Source: RWE Trading.

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




— Peak load
— Base load

Average monthly figures.
Source: RWE Trading.

Electricity tariffs in the UK end customer market only changed marginally. Most of the utilities had purchased electricity early to cover 2008 demand. As a result, the end customer price trend was still partially affected by the temporary decline in forward prices through the beginning of 2007. Electricity purchases by industrial and commercial customers were an average of 2% cheaper. Conversely, following price increases at the turn of the year, tariffs in the household and small commercial enterprise segment were about 3% higher than the level recorded in the comparable period in 2007.

Electricity prices advanced on our Central Eastern European markets as well. Private households in Poland, Hungary and Slovakia had to pay 17%, 10% and 3% more, respectively.

# Major events

## In the period under review

***Investment in LNG company agreed***

In February of 2008, RWE Supply & Trading signed an agreement for the acquisition of a 50% stake in US-based Excelerate Energy. The transaction has not yet been completed. Excelerate specializes in the transportation of liquefied natural gas (LNG). The company operates five tankers, four of which are equipped with a 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 can be expanded to nine ships by 2010. Furthermore, Excelerate operates special import facilities in the USA and "GasPort," which is located in Teesside, UK.

***RWE Innogy launches growth projects***

Founded as of February 1, 2008, RWE Innogy got off to a dynamic start to the financial year. Our renewables-based energy specialist gained access to wind power projects in Poland with a combined installed capacity of 200 MW. This gives us a project portfolio with a total of approximately 280 MW on the Polish market, 76 MW of which are already under construction. In addition, RWE Innogy acquired wind power projects in Hungary for a total of about 300 MW as well as the local project engineering firm AET Kft. RWE Innogy also made substantial progress in securing components for the long term. In February 2008, we signed a letter of intent with REpower Systems for the negotiation of framework agreements relating to an installed wind power capacity of up to 1,900 MW. This encompasses some 250 offshore turbines, each with an installed capacity of 5 or 6 MW as well as roughly 200 additional onshore facilities in the 2 MW class. The wind power plants are to be built and delivered by REpower Systems over a period of four to six years, starting on January 1, 2010. RWE Innogy is looking to strike similar agreements with other plant construction firms. These strategic partnerships are to make a substantial contribution to implementing the company's ambitious growth plans in the next years.

***RWE Power receives approval to build the hard coal-fired power plant in Hamm***

In March, RWE Power began to construct the 1,530 MW 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. Given their 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. Twenty-three municipal utilities from four German states are partners in the new power plant. They hold a combined stake of 350 MW. This was contractually agreed in February.

***Entry into the Russian market planned***

In March, RWE and the Russian Sintez Group agreed in a letter of intent to establish a joint venture which will acquire a majority stake in the Russian power utility TGK-2. This would give RWE a 51% interest in the joint venture. However, this transaction has not yet been concluded. In the middle of March, Sintez had placed a successful bid for TGK-2 within the scope of an auction organized by the state-owned electricity holding company RAO UES.

***RWE conducts share buyback***

Based on an authorization granted by the 2007 Annual General Meeting, RWE initiated a share buyback programme with an aggregate volume of €2.5 billion on February 21, 2008. By the end of April, we had already purchased 26.3 million RWE common shares on the stock exchange with a value of €2,076 million. This corresponds to 4.7% of the company's capital stock and some 5.0% of RWE AG's voting rights. We intend to complete the programme in May. On April 17, 2008, the Annual General Meeting renewed our authorization to conduct share buybacks. This allows the Executive Board to buy shares accounting for up to 10% of the company's capital stock until October 16, 2009.

## *After the period under review*

***IPO of American Water***

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 represents 36.25% of the shares in American Water. Proceeds from the initial public offering amount to about US$1.2 billion (€0.8 billion). Furthermore, we granted the issuing banks a 30-day option to purchase up to 8.7 million additional shares at the aforementioned issue price. Since the issue price was below the shares' carrying amount, we had to make a retroactive downward adjustment to the value of the entire stake in American Water as of the interim report's cut-off date (March 31, 2008), which had an adverse effect on our net income (see commentary on page 21). We still want to sell our investment in American Water in full. By conducting a further placement, we intend to have divested the majority of the shares in the company by the end of 2008, depending on the market environment. However, this will only be possible once the 180-day holding period agreed on within the scope of the IPO has expired.

# Notes on reporting

***Adjustment of reporting to reflect the Group's new structure***

Our financial reporting for the 2008 fiscal year reflects the most recent changes in the Group's structure. As of April 1, we combined RWE Trading and RWE Gas Midstream to form RWE Supply & Trading GmbH. In so doing, we pooled the RWE Group companies' gas procurement activities with our electricity, gas, coal, oil and $CO_2$ trading operations. We are already reporting the new company as an independent division in the first quarter of 2008. RWE Trading was previously part of the "Power Generation" Business Unit within the RWE Power Division. We used to report RWE Gas Midstream under "Other, consolidation" as part of the RWE Energy Division. Henceforth, we will 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. We have adjusted prior-year figures to the new reporting structure in order to allow for useful commentary.

***New company for renewables-based energy***

We have pooled our activities in the field of renewable energy in "RWE Innogy," the company which was founded as of February 1. This financial year, the company will remain assigned to "Other, consolidation." RWE Innogy has taken over the majority of the existing installed renewable electricity generation capacity from RWE Power, RWE npower and RWE Energy. Financial reporting reflects this reassignment with retroactive effect as of January 1, 2008. Since these operations are still small, we have not adjusted prior-year figures.

***American Water recognized as a "discontinued operation"***

As described on page 10, we already floated 36.25% of the shares in American Water on the New York Stock Exchange at the end of April 2008. In line with our intention to fully divest American Water, we have classified American Water as a "discontinued operation." Therefore, figures for the US water utility, which we refer to as the "Water Division," are no longer included in revenue, EBITDA, the operating result, the non-operating result, the financial result, or taxes on income. We adjusted the comparable figures for the first quarter of 2007 in accordance with IFRS. American Water is only included in the 2007 figures for capital expenditure and in the cash flow statement.

***Change in method applied to account for pension commitments (IAS 19.93A)***

In this interim report, 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 39 et seq. in the notes. According to IFRS, prior-year figures must be adjusted accordingly. This primarily affects provisions for pensions and similar obligations, other non-current receivables and other assets, deferred taxes and retained earnings. Staff costs recorded in the income statement for 2007 will be retroactively reduced by €2 million (first quarter) and €13 million (full year). Taxes on income are €1 million and €4 million higher, respectively.

# Business performance

| Electricity production January – March | RWE Power[1] | | RWE npower | | RWE Group[2] | |
|---|---|---|---|---|---|---|
| Billion kWh | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| In-house generation | 47.8 | 45.4 | 9.4 | 9.3 | 59.2 | 55.6 |
| Lignite | 18.9 | 19.8 | – | – | 18.9 | 19.8 |
| Nuclear | 12.4 | 8.4 | – | – | 12.4 | 8.4 |
| Hard coal | 12.7 | 13.7 | 4.7 | 4.9 | 17.7 | 18.8 |
| Gas | 3.1 | 2.0 | 4.7 | 4.1 | 8.2 | 6.6 |
| Renewable energies | 0.1 | 0.8 | - | 0.3 | 1.4 | 1.3 |
| Pumped storage, oil, other | 0.6 | 0.7 | - | - | 0.6 | 0.7 |
| Electricity purchased from third parties | – | – | 5.6[3] | 6.3[3] | 31.8 | 33.7 |
| **Total** | **47.8** | **45.4** | **15.0** | **15.6** | **91.0** | **89.3** |

1 Including electricity from power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. In the first quarter of 2008, they break down into 8.3 billion kWh (hard coal), 0.1 billion kWh (renewables) and 0.5 billion kWh (pumped storage, oil, other).
2 Including generation and electricity purchases of RWE Energy's regional companies; for 2008, also including renewables-based electricity generation transferred to RWE Innogy.
3 Electricity purchased by RWE npower largely via RWE Supply & Trading.

### *Electricity generation up 6%*

In the first quarter of 2008, the RWE Group produced 59.2 billion kWh of electricity—6% more than in the same period in 2007. In-house generation and power purchases combined for 91.0 billion kWh in electricity production. This was 2% higher year on year.

RWE Power contributed 47.8 billion kWh, or 81%, of the RWE Group's total in-house electricity production. 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 5% more electricity than in the first quarter of 2007. This was primarily due to the improved availability of the Biblis nuclear power plant. In the same period in 2007, both of the units were offline so that the faulty installation of screw anchors could be repaired. Block A went back online in February 2008, and Block B in November 2007. Our gas-fired power stations contributed to the rise in power production as well. Their generation output was increased because conditions on the market were more favourable than in the same period last year. By contrast, electricity generation from lignite and hard coal was down, in part due to a reduction in power plant availability. Renewables-based electricity generation was insignificant. RWE Power has transferred nearly all these activities to the newly established RWE Innogy.

RWE npower generated 9.4 billion kWh of electricity—a marginal year-on-year increase. We also raised electricity production from our gas-fired power plants in the UK on the strength of favourable margins. Electricity generation based on hard coal was slightly down since two of the three units at our Aberthaw location were only available to a limited extent due to delays in the installation of a flue gas desulphurization unit. Renewables-based energy activities were transferred to RWE Innogy.

RWE Innogy, our specialist for renewables-based electricity production, generated 1.0 billion kWh of electricity in the period under review. This production stems from capacities which the company took over from RWE Power, RWE npower and RWE Energy.

RWE Energy also generated 1.0 billion kWh of electricity. The majority of this is allocable to the German regional companies.

### *Gas production up, oil production down*

In the period under review, RWE Dea, our upstream company, produced 977 million m³ of gas and 643 thousand m³ of oil. In terms of oil equivalent, production totalled 10.0 million barrels. This is roughly on par with the year-earlier level. Our gas production increased by 17%. We started production in several UK North Sea gas fields over the course of last year, and we slightly increased production in Germany and Egypt. By contrast, oil production fell by 18%. This is mainly because we shed our concession in Dubai in April 2007. Furthermore, production was naturally reduced as existing reserves were depleted.

### *Electricity sales slightly above year-earlier level*

In the first three months of 2008, we sold 86.2 billion kWh of electricity to external customers—2% more than in the same period last year. Electricity sales are typically somewhat lower than the amount 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.

| **External electricity sales volume January – March** | RWE Power | | RWE Supply & Trading | | RWE Energy | | RWE npower | | RWE Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| Billion kWh | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008[1] | 2007 |
| Private and commercial customers | 0.1 | 0.1 | - | - | 10.7 | 11.0 | 6.5 | 6.4 | 17.4 | 17.6 |
| Industrial and corporate customers | - | - | - | - | 17.7 | 15.8 | 7.9 | 8.3 | 25.8 | 24.1 |
| Distributors | 3.3 | 3.7 | - | - | 20.3 | 20.3 | - | - | 23.8 | 24.0 |
| Electricity trading | - | - | 19.2 | 18.7 | - | - | - | - | 19.2 | 18.7 |
| **Total** | **3.4** | **3.8** | **19.2** | **18.7** | **48.7** | **47.1** | **14.4** | **14.7** | **86.2** | **84.4** |

1 Including electricity sales generated by RWE Innogy.

At 3.4 billion kWh, RWE Power's external electricity sales were low since 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, including generation by our Hungarian subsidiary Mátra. External sales include production by our German Gundremmingen and Emsland nuclear power stations, which is allocable to the minority shareholder in these plants. The decline in sales experienced by RWE Power primarily stems from the fact that some generation activities outside Germany were transferred to RWE Innogy.

RWE Supply & Trading sold 19.2 billion kWh of electricity. This output stems from the sale of in-house production on the wholesale market. These figures do not include pure trading transactions with electricity purchased from third parties. The slight 3% sales improvement results from the fact that we produced more electricity.

RWE Energy's electricity deliveries advanced by 3% to 48.7 billion kWh. We sold much more to industrial enterprises and corporate customers. Our successful acquisition of new key accounts was a contributing factor. Furthermore, the cyclically-induced expansion of industrial production led to an increase in demand. 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 (Renewable Energy Act). There was a decline in sales to private and small commercial customers, above all due to fiercer competition in the German sales sector. As of March 31, 2008, RWE Energy supplied electricity to 6.9 million homes and small commercial enterprises in Germany—200,000 fewer than at the end of 2007. These figures exclusively reflect our fully consolidated companies. However, there has recently been a substantial decline in churn. In April, the churn rate fell to one fourth of the level witnessed in January. Our loyalty offering to private customers in Germany was met with keen interest. It includes a fixed tariff for three years. By the end of April, 400,000 households had already opted for this innovative contract model. RWE Energy will invest an additional €50 million per year to improve service and increase customer retention.

RWE npower's electricity sales totalled 14.4 billion kWh and were thus slightly below the level achieved in the first quarter of 2007. The decline is allocable to business with industrial and corporate customers and is partially a result of energy savings. We recorded a marginal increase in sales to households and small commercial operations due to the slight rise in demand for electricity for heating purposes. As of March 31, 2008, we served 4.2 million electricity customers in this segment, where our customer base has decreased by 120,000 since the end of 2007. However, the average number of customers in the period under review was more or less equal to the level witnessed in the first quarter of 2007.

| **External gas sales volume January – March** | RWE Dea | | RWE Supply & Trading | | RWE Energy | | RWE npower | | RWE Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| Billion kWh | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Private and commercial customers | 0.1 | - | - | - | 26.8 | 27.9 | 19.6 | 18.2 | 46.5 | 46.1 |
| Industrial and corporate customers | 1.0 | 0.9 | - | - | 28.5 | 29.8 | 3.1 | 3.0 | 32.6 | 33.7 |
| Distributors | 5.3 | 5.0 | 2.7 | - | 35.4 | 36.1 | - | - | 43.4 | 41.1 |
| **Total** | **6.4** | **5.9** | **2.7** | **-** | **90.7** | **93.8** | **22.7** | **21.2** | **122.5** | **120.9** |

***Gas sales volume slightly up year on year***

External gas sales improved marginally, rising to 122.5 billion kWh. As explained earlier, temperatures were only slightly lower than in the same quarter last year, which was unusually warm. Therefore, positive effects on demand were limited.

In the period under review, RWE Dea delivered 6.4 billion kWh of gas to outside customers, exceeding the year-earlier figure by 8%. This is due to the company's increased production, especially in the UK.

We pooled the RWE Group companies' gas procurement activities in the newly established RWE Supply & Trading. The division's gas sales are primarily intragroup sales. RWE Supply & Trading sells gas to outside customers only to a limited extent. In the first quarter of 2008, external gas sales totalled 2.7 billion kWh. These sales are predominantly surplus purchasing volumes. The division did not have reportable gas sales in the year-earlier period. The rise is in part due to the fact that RWE Supply & Trading assumed RWE Transgas' midstream activities effective January 1, 2008. Besides all gas procured for the Czech market, they encompass the international marketing of gas purchases not required in the Czech Republic.

RWE Energy's gas sales dropped by 3% to 90.7 billion kWh, despite slightly positive weather-related effects. One of the reasons for this is that the midstream operations were reclassified to the RWE Supply & Trading Division. In addition, the downtime of a large-scale power plant we supply triggered a decline in output. We experienced competition-driven losses in sales in Germany as well: Some of our corporate and industrial customers switched suppliers or stopped covering their entire demand for gas with our products. The number of private households and commercial enterprises we serve only recorded a marginal decline. At the end of March, our customer base in this segment in Germany was at 1.0 million; we lost 10,000 customers over the course of the quarter. However, this was contrasted by gains made through successful customer acquisitions in the Netherlands.

RWE npower sold 22.7 billion kWh of gas, surpassing the year-earlier level by 7%. We increased sales predominantly in the private customer business. The rise in demand for gas for heating purposes had an impact here. By the end of March, RWE npower was supplying gas to 2.6 million homes and small commercial enterprises—roughly 70,000 fewer than on December 31, 2007. However, this did not result in a material year-on-year change in average customer figures in the period under review.

| **External revenue**[1] € million | Jan – Mar 2008 | Jan – Mar 2007 | +/- in % | Jan – Dec 2007 |
|---|---|---|---|---|
| RWE Power | 312 | 326 | - 4.3 | 1,329 |
| RWE Dea | 440 | 380 | 15.8 | 1,496 |
| RWE Supply & Trading | 1,435 | 1,231 | 16.6 | 3,793 |
| RWE Energy | 8,546 | 8,097 | 5.5 | 26,877 |
| German regions | 4,876 | 4,897 | - 0.4 | 16,015 |
| International regions | 2,051 | 1,740 | 17.9 | 5,589 |
| Supraregional operations | 1,547 | 1,396 | 10.8 | 5,012 |
| Other, consolidation | 72 | 64 | 12.5 | 261 |
| RWE npower | 2,562 | 2,932 | - 12.6 | 8,920 |
| Other, consolidation | 100 | 29 | 244.8 | 92 |
| **RWE Group** | **13,395** | **12,995** | **3.1** | **42,507** |
| of which: | | | | |
| Electricity revenue | 8,122 | 7,901 | 2.8 | 27,917 |
| Direct electricity tax | 273 | 269 | 1.5 | 961 |
| Gas revenue | 4,247 | 4,175 | 1.7 | 10,768 |
| Oil revenues | 290 | 281 | 3.2 | 1,023 |

1 Figures based on the Group's new structure and excluding the water utility American Water, which is stated as a "discontinued operation." The previous year's figures have been adjusted accordingly. Prior-year figures were not adjusted for a few small reclassifications. See commentary on page 11.

### *External revenue up 3% year on year*

In the first quarter of 2008, the RWE Group generated €13.4 billion in external revenue. This corresponds to a 3% rise compared with 2007. It was largely due to price increases in the electricity sales business, with which we passed increased costs through to our customers. However, currency effects dampened the rise in revenue. Sterling, our major foreign currency, lost in value compared to the euro: Averaged for the quarter, the exchange rate was £0.77/€ compared with £0.67/€ in the corresponding period last year. The US dollar was significantly devalued as well. The increase in value of the Czech crown had a counteracting effect. Organically, i.e. net of major currency and consolidation effects, Group revenue rose by 6%.

The following is an overview of the development of revenue by division:

External revenue posted by RWE Power amounted to €312 million, which was 4% below the level in the corresponding period last year. Since almost all our German electricity production is sold on the market by RWE Supply & Trading and RWE Energy, RWE Power's external revenue is insignificant. It primarily comes from electricity sales generated by non-German subsidiaries (predominantly Mátra in Hungary) and the marketing of lignite-based products (e.g. briquettes). The marginal decline in revenue is partially due to the fact that the renewables-based electricity generation activities have been transferred to RWE Innogy.

RWE Dea grew external revenue by 16% to €440 million. Our upstream subsidiary sold its crude oil production at markedly higher dollar prices. However, this effect was slightly weakened through the devaluation of the dollar relative to the euro. The decrease in oil production also had a counteracting effect. Revenue recorded in the gas business posted a considerable gain. Positive price and volume effects were the basis for this.

RWE Supply & Trading produced €1,435 million in external revenue. This was 17% 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 compared with last year. Another reason for the rise in revenue is the fact that we are also reporting the midstream activities of RWE Transgas previously assigned to the RWE Energy Division under RWE Supply & Trading for the first time.

External revenue generated by RWE Energy advanced by 6% to €8,546 million. Electricity revenue amounted to €5,154 million. Compared with the first quarter of last year, this represents a gain of 8%, which is partially due to the aforementioned improvements in sales. Moreover, we increased prices in order to pass through the rise in procurement costs and expenses incurred to comply with the German Renewable Energy Act. Most of our German regional companies (including RWE Rhein-Ruhr and RWE Westfalen-Weser-Ems) lifted their general tariffs effective January 1, 2008, in the household and small commercial enterprise segment. Another factor contributing to the rise in revenue was the acquisition of eprimo last year. Revenues generated by the web-based electricity sales specialist have only been included in our figures since April 1, 2007. Revenue achieved by RWE Energy from gas sales improved by 2% to €3,153 million despite slightly declining volumes. We were able to pass on part of the rise in gas procurement costs through prices. But some of RWE's regional companies did not adjust their tariffs in the private customer business until April 1, 2008. The increase in value of the Czech crown over the euro had a revenue-enhancing effect as well. The absence of revenue from the midstream business, which was transferred to RWE Supply & Trading, had a counteracting effect.

RWE npower recorded a 13% drop in external revenue to €2,562 million. This was largely due to currency effects. Electricity revenue was down 18% to €1,600 million, while gas revenue slipped 3% to €835 million. In Sterling terms, electricity revenue was only marginally lower, while gas revenue actually posted a substantial increase. RWE npower had lowered electricity and gas prices for household customers by an average of 3% and 16%, respectively, at the end of April 2007, followed by price increases of 12.7% and 17.2%, respectively, at the beginning of January 2008. This had a positive impact on earnings in the electricity sales business, whereas reductions in sales had a counteracting effect. In the gas business, we benefited from the general rise in consumption.

The following overview provides a breakdown of the RWE Group's internal revenue:

| **Internal revenue**[1] € million | Jan – Mar 2008 | Jan – Mar 2007 | +/- in % | Jan – Dec 2007 |
|---|---|---|---|---|
| RWE Power | 2,717 | 2,128 | 27.7 | 8,125 |
| RWE Dea | 58 | 64 | - 9.4 | 198 |
| RWE Supply & Trading | 5,493 | 4,434 | 23.9 | 13,617 |
| RWE Energy | 409 | 426 | - 4.0 | 1,596 |
| RWE npower | 2 | - | - | 5 |
| Other, consolidation | - 8,679 | - 7,052 | - 23.1 | - 23,541 |
| **RWE Group** | **-** | **-** | **-** | **-** |

1 Figures based on the Group's new structure and excluding the water utility American Water, which is stated as a "discontinued operation." The previous year's figures have been adjusted accordingly. Prior-year figures were not adjusted for a few small reclassifications. See commentary on page 11.

***Operating result down 9% year on year***

The RWE Group's earnings were burdened by the regulator's cuts to our German grid fees and the stricter conditions underlying the emissions trading system. Furthermore, as expected, our trading activities remained far behind the unusually good earnings achieved in the same period last year. Margin improvements in the wholesale electricity segment and the recommissioning of the Biblis nuclear power plant were unable to offset this. EBITDA was down 8% to €2,855 million, and the operating result declined by 9% to €2,499 million. Net of currency and consolidation effects, the declines were 6% (EBITDA) and 8% (operating result). However, as regards the full year, we expect to be able to fully compensate for the aforementioned burdens and at least match the level these two earnings figures reached last year.

| **EBITDA**[1] € million | Jan – Mar 2008 | Jan – Mar 2007 | +/- in % | Jan – Dec 2007 |
|---|---|---|---|---|
| RWE Power | 1,166 | 1,091 | 6.9 | 3,072 |
| RWE Dea | 247 | 234 | 5.6 | 755 |
| RWE Supply & Trading | 82 | 372 | - 78.0 | 534 |
| RWE Energy | 1,057 | 1,116 | - 5.3 | 2,802 |
| German regions | 598 | 623 | - 4.0 | 1,552 |
| International regions | 222 | 265 | - 16.2 | 760 |
| Supraregional operations | 211 | 263 | - 19.8 | 833 |
| Other, consolidation | 26 | - 35 | 174.3 | - 343 |
| RWE npower | 322 | 303 | 6.3 | 870 |
| Other, consolidation | - 19 | - 22 | 13.6 | - 118 |
| **RWE Group** | **2,855** | **3,094** | **- 7.7** | **7,915** |

1 Figures based on the Group's new structure and excluding the water utility American Water, which is stated as a "discontinued operation." The previous year's figures have been adjusted accordingly. Prior-year figures were not adjusted for a few small reclassifications. See commentary on page 11.

| Operating result[1] € million | Jan – Mar 2008 | Jan – Mar 2007 | +/- in % | Jan – Dec 2007 |
|---|---|---|---|---|
| RWE Power | 1,062 | 989 | 7.4 | 2,617 |
| RWE Dea | 185 | 183 | 1.1 | 492 |
| RWE Supply & Trading | 81 | 371 | - 78.2 | 532 |
| RWE Energy | 930 | 982 | - 5.3 | 2,355 |
| German regions | 512 | 535 | - 4.3 | 1,209 |
| International regions | 201 | 239 | - 15.9 | 692 |
| Supraregional operations | 190 | 241 | - 21.2 | 767 |
| Other, consolidation | 27 | - 33 | 181.8 | - 313 |
| RWE npower | 283 | 270 | 4.8 | 724 |
| Other, consolidation | - 42 | - 34 | - 23.5 | - 187 |
| **RWE Group** | **2,499** | **2,761** | **- 9.5** | **6,533** |

1 Figures based on the Group's new structure and excluding the water utility American Water, which is stated as a "discontinued operation." The previous year's figures have been adjusted accordingly. Prior-year figures were not adjusted for a few small reclassifications. See commentary on page 11.

The following is an overview of our operating result by division:

RWE Power improved its operating result by 7% to €1,062 million. Last year, an outage of the Biblis nuclear power station had a very adverse effect. Both blocks have since been put back online (see page 12). This had a positive impact on the operating result. Another contributing factor was that we realized higher prices for our German electricity production. RWE Power typically sells generation within the Group. It is then sold on the wholesale market by RWE Supply & Trading or to end customers and distributors via RWE Energy. However, the division's earnings trend was also marked by negative effects. Free state allocations of $CO_2$ certificates decreased substantially since the framework conditions governing the emissions trading scheme became stricter at the beginning of 2008. Therefore, RWE Power has to buy more emissions allowances than before. Costs incurred for this amounted to €307 million compared with €26 million in the same period in 2007. The rise in hard coal and power plant gas prices resulted in an additional expense of €100 million. Furthermore, staff costs advanced and no earnings were contributed by those power generation activities which had been transferred to RWE Innogy.

RWE Dea closed the reporting period with an operating result of €185 million, which was marginally higher year on year. The company benefited from the marked increase in crude oil prices, which, however, did not take full effect owing to the dollar's weakness. Higher prices and margins in the gas business also had a positive impact on the operating result. The decline in oil production had a counteracting effect. Moreover, exploration costs rose. We expect that the operating result will display much more dynamic development for the year as a whole than in the first quarter. The earnings situation in our gas production business is likely to improve considerably over the remaining course of the year. This will be the consequence of the fact that gas prices track oil prices, which recently experienced a strong increase.

RWE Supply & Trading posted an operating result of €81 million. Despite its good earnings situation, the division clearly fell short of the figure it recorded in the same period in 2007 (€371 million). It was very high since we were unusually successful in 2007, especially in the gas trading sector and the Continental European electricity trading business. As expected, we were unable to match this performance in the period under review. By contrast, our gas midstream activities closed the period up year on year. One contributing factor was the takeover of RWE Transgas' operations.

The operating result achieved by RWE Energy was down 5% to €930 million. This was primarily due to the reduction in our German grid fees. This led to a drop in earnings of around €100 million compared with the corresponding period last year. However, margin improvements and cost reductions partially offset this. The sale of business activities and reclassifications of operations to other divisions removed earnings contributions, which amounted to €36 million in the same period last year. Foreign exchange rates had a positive effect of €22 million. Despite the decline in the operating result in the first quarter, we expect it to grow by a single-digit percentage for the year as a whole. Amongst other things, we expect sales margins in the German gas business to recover. Moreover, the cost-cutting measures will have an increasing effect on earnings as they are progressively implemented.

RWE Energy's business units displayed the following earnings trends:

- German regions: RWE Energy's domestic regional companies saw their operating result decline by 4%, above all owing to the regulatory cuts to their electricity distribution grid fees. Sales shortfalls and higher procurement costs had an adverse effect on the earnings situation in the gas sales business. Furthermore, collectively bargained wage increases caused staff costs to grow, whereas cost-cutting measures provided relief.

- International regions: The operating result recorded by our Continental European sales activities outside Germany was 16% down year on year. This is partially due to the absence of result contributions from our Dutch gas grid operations, which we sold to the City of Eindhoven as of June 1, 2007. Transferring RWE Transgas' midstream activities to RWE Supply & Trading reduced the operating result as well. A counteracting effect was felt from the improvement in electricity margins in Hungary. In the Czech Republic, we benefited from price increases in the gas sales business and the aforementioned effect of foreign exchange rates.

- Supraregional operations: The operating result recorded by this business unit declined by 21%, largely due to regulatory cuts to our German electricity transmission grid fees. Another reason was that we transferred the key account contracting business to RWE Innogy.

RWE npower's operating result increased by 5% to €283 million, although Sterling's weakness was a considerable burden. Margin improvements in the electricity generation business were the main reason. However, we also felt the negative effects of the limited availability of the Aberthaw hard coal-fired power plant (see page 12). Expenses incurred to purchase $CO_2$ emissions allowances totalled €44 million, as compared with €36 million in the first quarter of 2007. We also achieved improvements in the sales business. This is primarily attributable to the commercial and corporate customer segment. In this segment, we have changed our sales contracts to seasonal pricing reflecting the fluctuations in our power procurement costs during the year. Previously, the combination of fluctuating purchase prices and fixed sales prices caused margins to change substantially over the course of the year. RWE npower's margins will now increase following this switch, especially in autumn and winter, when it is relatively expensive to purchase electricity. The margin advantage will be eroded in the spring and summer months. Therefore, one must not extrapolate the improvement in the operating result in the first quarter to the year as a whole. Excluding the one-off effect described earlier, the earnings situation in the sales business deteriorated. This is attributable to the household segment, where sales margins came under pressure from the rise in electricity and gas procurement costs. In addition, gas transmission became more expensive. Furthermore, costs associated with a government programme that obliges UK utilities to promote energy saving measures at households increased.

| **Non-operating result**<br>€ million | Jan – Mar<br>2008 | Jan – Mar<br>2007[1] | +/-<br>€ million | Jan – Dec<br>2007 |
|---|---|---|---|---|
| Capital gains | 31 | 96 | - 65 | 339 |
| Impairment losses | - | - | - | - |
| Restructuring, other | - 16 | - 63 | 47 | - 488 |
| **Non-operating result** | **15** | **33** | **- 18** | **- 149** |

1 Figures partially adjusted; see commentary on page 11.

***Reconciliation to net income: significant one-off charge due to American Water***

The reconciliation from the operating result to net income was characterized by one-off charges, largely relating to discontinued operations (American Water).

The non-operating result amounted to €15 million compared to €33 million in the same period last year. Its components developed as follows:

- Capital gains totalled €31 million. They largely stem from the transfer of an 8% stake in rhenag Rheinische Energie AG to RheinEnergie AG. We already divested a 25% interest in rhenag in the first quarter of 2007, which resulted in a high book gain.

- No impairment losses were recognized for continuing operations in the reporting period.

- The result stated under “Restructuring, other” improved by €47 million to -€16 million. The single-most important item is the amortization of RWE npower’s customer base, which amounted to €73 million; it was slightly lower than in last year's first quarter (-€83 million) owing to currency exchange rates. Changes made to nuclear provisions led to €34 million in income (first quarter of 2007: €41 million).

The financial result decreased by €41 million to -€301 million. The decline is primarily attributable to the “Other financial result,” which was unusually high in the first quarter of 2007 due to a one-off effect. At the end of March 2007, we transferred €7.9 billion in funds earmarked to finance pension commitments to an external asset management company (RWE Pensionstreuhand e.V.) within the scope of a contractual trust arrangement (CTA) and netted them out against provisions for pensions. The deconsolidation of special funds implemented in this context resulted in €155 million in non-recurrent income in 2007. The interest accretion to non-current provision was affected by the CTA as well. It was much lower than in the first quarter of 2007 due to the decline in provisions for pensions. Our net interest rose, partially because our net financial position improved further. The CTA resulted in a counteracting effect, since the externalization of securities removed interest income from our books.

| Financial result<br>€ million | Jan – Mar<br>2008 | Jan – Mar<br>2007[1] | +/-<br>in % | Jan – Dec<br>2007 |
|---|---|---|---|---|
| Interest income | 213 | 238 | - 10.5 | 855 |
| Interest expenses | - 237 | - 358 | 33.8 | - 1,334 |
| **Net interest** | **- 24** | **- 120** | **80.0** | **- 479** |
| Interest accretion to non-current provisions | - 190 | - 287 | 33.8 | - 771 |
| Other financial result | - 87 | 147 | - 159.2 | 112 |
| **Financial result** | **- 301** | **- 260** | **- 15.8** | **- 1,138** |

1 Figures adjusted; see commentary on page 11.

Our continuing operations generated income before tax amounting to €2,213 million. This is 13% less than in the first quarter of 2007. The effective tax rate was down by three percentage points to 31%. This was mainly due to the reduction of our German income tax rate caused by the 2008 German corporate tax reform. Income from continuing operations after tax declined 8% to €1,528 million.

The RWE Group's discontinued operations (American Water) closed the period with a loss of €634 million, which was caused by the one-off charges from the IPO of American Water. As mentioned on page 10, the issue price we realized when placing 36.25% of the shares in that company in April 2008 was lower than their carrying amount. Therefore, we recognized an impairment loss on our full stake in American Water as of the balance-sheet date (March 31). At €85 million, the minority interest was slightly down year on year.

| Reconciliation to net income | | Jan – Mar<br>2008 | Jan – Mar<br>2007[1] | +/-<br>in % | Jan – Dec<br>2007[1] |
|---|---|---|---|---|---|
| Operating result | € million | 2,499 | 2,761 | - 9.5 | 6,533 |
| Non-operating result | € million | 15 | 33 | - 54.5 | - 149 |
| Financial result | € million | - 301 | - 260 | - 15.8 | - 1,138 |
| **Income from continuing operations before tax** | **€ million** | **2,213** | **2,534** | **- 12.7** | **5,246** |
| Taxes on income | € million | - 685 | - 871 | 21.4 | - 2,081 |
| **Income from continuing operations** | **€ million** | **1,528** | **1,663** | **- 8.1** | **3,165** |
| Income from discontinued operations | € million | - 634 | - 1 | - | - 274 |
| **Income** | **€ million** | **894** | **1,662** | **- 46.2** | **2,891** |
| | | | | | |
| Minority interest | € million | 85 | 91 | - 6.6 | 224 |
| **Net income[2]** | **€ million** | **809** | **1,571** | **- 48.5** | **2,667** |
| **Recurrent net income** | **€ million** | **1,423** | **1,382** | **3.0** | **2,985** |
| Earnings per share | € | 1.45 | 2.79 | - 48.0 | 4.74 |
| Recurrent net income per share | € | 2.55 | 2.46 | 3.7 | 5.31 |
| Effective tax rate | % | 31 | 34 | - | 40 |

1 Figures partially adjusted; see commentary on page 11.
2 RWE shareholders' share in income.

This results in a decline in the RWE Group's net income of 49% to €809 million. Our earnings per share dropped from €2.79 to €1.45. The number of RWE shares outstanding decreased as a result of the share buyback programme described on page 10. There was an average of 558.4 million shares outstanding in the first quarter, compared with 562.4 million in the same period in 2007.

Recurrent net income is decisive for our dividend policy. It is calculated by subtracting from net income the non-operating result which is affected by one-off effects and major non-recurrent effects on the financial result, taxes, and income from discontinued operations. Accordingly, American Water's goodwill impairment is not considered in this figure, among other things. In the first quarter of 2008, recurrent net income totalled €1,423 million. This was 3% more than in the first quarter of last year. We expect an increase of over 10% for the year as a whole.

***Efficiency-enhancement programme: expansion envisioned***

The programme we initiated to improve efficiency is on schedule. Plans include measures to reduce costs and increase revenue. This should gradually grow our annual operating result by a total of €600 million by the end of 2010. One of the points of focus is to enhance the performance of our German electricity and gas grid business. The aim is to at least partially compensate for the effect of the tariff cuts mandated by the grid regulator. In addition, we plan to take comprehensive measures to improve the technical availability of our power plants. We already achieved an earnings contribution of about €100 million for fiscal 2007 with the programme. Our plans envision the same target for 2008, and €200 million for both 2009 and 2010. However, we are in the process of identifying further savings potential and have begun to analyze our key business processes extensively to this end. We expect to be able to expand the efficiency-enhancement programme this year.

| **Capital expenditure**<br>€ million | Jan – Mar<br>2008 | Jan – Mar<br>2007 | +/-<br>€ million | Jan – Dec<br>2007 |
|---|---|---|---|---|
| **Capital expenditure on property, plant and equipment**[1] | | | | |
| RWE Power | 329 | 267 | 62 | 1,127 |
| RWE Dea | 138 | 108 | 30 | 505 |
| RWE Supply & Trading | - | - | - | 3 |
| RWE Energy | 90 | 91 | - 1 | 1,147 |
| RWE npower | 67 | 82 | - 15 | 587 |
| Water Division | - | 106 | - | 635 |
| Other, consolidation | 33 | 7 | 26 | 61 |
| **Total** | **657** | **661** | **- 4** | **4,065** |
| **Total capital expenditure on financial assets** | **15** | **18** | **- 3** | **162** |
| **Total capital expenditure** | **672** | **679** | **- 7** | **4,227** |

1 Including intangible assets.

***Capital expenditure in the energy business up 17%.***

At €672 million, the RWE Group's capital expenditure was stable. American Water is not included in figures for 2008. Capital spending by our core business, energy, increased. We spent €657 million (first quarter of 2007: €661 million) on property, plant and equipment. Capital expenditure on financial assets amounted to €15 million and was thus of minor significance (first quarter of 2007: €18 million). Net of

American Water, capital spending increased by 17%. Roughly half of it was allocable to RWE Power: This division's major investment project is the construction of a 2,100-MW dual-block lignite-fired power plant in Neurath, Germany. Furthermore, RWE Power is constructing an 875-MW combined-cycle gas turbine power station in Lingen and a 1,530-MW hard coal twin-unit power plant in Hamm (both of which are located in Germany). RWE Dea stepped up its capital expenditure on the exploration of gas reserves in North Africa. RWE npower's biggest project is the construction of the 1,650-MW combined-cycle gas turbine power plant in Staythorpe, UK. RWE Energy earmarked most of the capital it spent for measures to maintain and improve grid infrastructure. Capital expenditure by RWE Innogy, which is in its startup phase, was still rather low (€19 million). The single-largest project is the construction of the 90-MW Rhyl Flats offshore wind farm off the west coast of the United Kingdom.

| **Cash flow statement**[1]<br>€ million | Jan – Mar<br>2008 | Jan – Mar<br>2007 | +/-<br>in % | Jan – Dec<br>2007 |
|---|---|---|---|---|
| Cash flows from operating activities | 1,384 | 908 | 52.4 | 6,085 |
| Impact of the change in working capital | - 1,019 | - 1,206 | 15.5 | - 222 |
| Cash flows from investing activities | 1,934 | - 3,028 | 163.9 | - 4,483 |
| Cash flows from financing activities | - 872 | 1,095 | - 179.6 | - 2,458 |
| Effects of changes in foreign currency exchange rates and other changes in value on cash and cash equivalents | - 2 | - 2 | - | - 16 |
| Total net changes in cash and cash equivalents | 2,444 | - 1,027 | 338.0 | - 872 |
| | | | | |
| Cash flows from operating activities | 1,384 | 908 | 52.4 | 6,085 |
| Minus capital expenditure on property, plant and equipment and intangible assets | - 657 | - 661 | 0.6 | - 4,065 |
| **Free cash flow** | **727** | **247** | **194.3** | **2,020** |

1 Figures for 2008 exclusively relate to the RWE Group's continuing operations.

### *Cash flow statement—key figures*

In the first quarter of 2008, we generated €1,384 million in cash flows from operating activities. These and the following figures for 2008 exclusively relate to our continuing operations, whereas the prior-year figures include American Water. We increased our cash flows from operating activities by €476 million, or 52%. We benefited especially from the improvement in earnings achieved by the electricity generation business. Furthermore, there were positive effects in working capital. On balance, capital expenditure and divestments (including cash investments) resulted in cash flows of €1,934 million. The proceeds largely stem from the sale of securities and were used to finance the redemption of a bond in April and the share buyback, among other things. Cash flows from financing activities totalled €872 million. The share buyback was the major item. We spent €1.4 billion on it through the end of March. Since the beginning of the year, our cash and cash equivalents have risen by €2,444 million.

Cash flows from operating activities, minus capital expenditure on property, plant and equipment, result in free cash flow, which rose by €480 million to €727 million. This was due to the increase in cash flows from operating activities.

| Net debt<br>€ million | 03/31/08 | 12/31/07[1] | +/-<br>in % |
|---|---|---|---|
| Cash and cash equivalents | 4,366 | 1,922 | 127.2 |
| Marketable securities | 8,857 | 11,302 | - 21.6 |
| Other financial assets | 2,160 | 2,125 | 1.6 |
| **Financial assets of continuing operations** | **15,383** | **15,349** | **0.2** |
| Bonds, notes payable, bank debt | 12,148 | 12,005 | 1.2 |
| Other financial liabilities | 1,398 | 1,280 | 9.2 |
| **Financial liabilities of continuing operations** | **13,546** | **13,285** | **2.0** |
| **Net financial assets of continuing operations** | **1,837** | **2,064** | **- 11.0** |
| Provisions for pensions and similar obligations | 3,288 | 3,565 | - 7.8 |
| Capitalized surplus of plan assets over benefit obligations | 790 | 507 | 55.8 |
| Provisions for nuclear waste management | 9,053 | 9,053 | - |
| Mining provisions | 2,833 | 2,822 | 0.4 |
| **Net debt of continuing operations** | **12,547** | **12,869** | **- 2.5** |
| Net debt of discontinued operations | 3,454 | 3,645 | - 5.2 |
| **Net debt of the RWE Group** | **16,001** | **16,514** | **- 3.1** |

1 Figures partially adjusted; see commentary on page 11.

### *Net debt further reduced*

As of March 31, 2008, our net debt totalled €16.0 billion. We have established a new definition for it: Net debt previously equalled net financial assets minus provisions for pensions. From the current financial year onwards, our net debt will also include provisions for nuclear waste management and mining damage as well as the surplus of plan assets over benefit obligations. As before, discontinued operations (American Water) are included in net debt. Compared with December 31, 2007, the RWE Group's net debt decreased by €0.5 billion. The primary effect felt here was the high level of free cash flow. Changes in provisions for pensions and the surplus of plan assets over benefit obligations reduced our debt by a total of €0.6 billion, while gains on divestments and currency effects decreased it by another €0.4 billion. The negative cash flow from the share buyback (€1.4 billion) had a counteracting effect. American Water's net debt declined in euro terms (-€0.2 billion). This was primarily due to the weakness of the US dollar.

### *Balance sheet structure*

As of March 31, 2008, our balance sheet total amounted to €85.2 billion. This was €1.8 billion more than the level at the end of 2007. The major changes to the balance sheet resulted from a rise in derivatives and trade accounts receivable. The devaluation of the US dollar and Sterling reduced the balance sheet total. As we already did in the 2007 financial statements, we state American Water as a "discontinued operation." Our equity ratio was down from 17.6% to 17.3%, in part due to the share buyback. The equity cover for non-current assets is 36.3%. This confirms that the RWE Group continues to have a robust asset and capital structure.

| RWE Group's balance sheet structure | 03/31/08 | | 12/31/07[1] | |
|---|---|---|---|---|
| | € million | in % | € million | in % |
| **Assets** | | | | |
| Non-current assets | 40,671 | 47.8 | 41,360 | 49.6 |
| Intangible assets | 11,630 | 13.7 | 11,882 | 14.2 |
| Property, plant and equipment | 20,238 | 23.8 | 20,038 | 24.0 |
| Current assets | 44,501 | 52.2 | 42,060 | 50.4 |
| Receivables and other assets[2] | 22,229 | 26.1 | 18,309 | 21.9 |
| Assets held for sale | 7,479 | 8.8 | 8,619 | 10.3 |
| **Total** | **85,172** | **100.0** | **83,420** | **100.0** |
| **Equity and liabilities** | | | | |
| Equity | 14,771 | 17.3 | 14,659 | 17.6 |
| Non-current liabilities | 36,166 | 42.5 | 36,796 | 44.1 |
| Provisions | 20,846 | 24.5 | 21,281 | 25.5 |
| Financial liabilities | 9,721 | 11.4 | 10,046 | 12.0 |
| Current liabilities | 34,235 | 40.2 | 31,965 | 38.3 |
| Other liabilities[2] | 19,032 | 22.3 | 17,116 | 20.5 |
| Liabilities held for sale | 5,566 | 6.5 | 5,897 | 7.1 |
| **Total** | **85,172** | **100.0** | **83,420** | **100.0** |

1 Figures partially adjusted; see commentary on page 11.
2 Including trade accounts receivable and payable.

### *Employee headcount increases by 2%*

As of March 31, 2008, the RWE Group employed 64,517 people (full time equivalent), 40% (25,587) of whom worked outside Germany. The workforce expanded by 1,078 employees, or 1.7%, vis-à-vis December 31, 2007. American Water is not included in these figures because we recognize this company as a “discontinued operation.” RWE Power created jobs within the scope of our power plant investment programme. RWE npower increased its headcount in the sales and customer service areas of its business. Internal reclassification of businesses also had an impact on employee numbers, due to the founding of RWE Innogy (as “Other”) and RWE Supply & Trading.

| Workforce[1] | 03/31/08 | 12/31/07 | +/- in % |
|---|---|---|---|
| RWE Power | 17,411 | 17,238 | 1.0 |
| RWE Dea | 1,118 | 1,091 | 2.5 |
| RWE Supply & Trading | 693 | 660 | 5.0 |
| RWE Energy | 28,644 | 28,323 | 1.1 |
| RWE npower | 11,904 | 11,975 | - 0.6 |
| Other | 4,747 | 4,152 | 14.3 |
| **RWE Group** | **64,517** | **63,439** | **1.7** |

1 Converted to full-time positions.

***Research and development: improving efficiency and lowering emissions***
In the first quarter of 2008, we spent €17 million on research and development (R&D) (first quarter of 2007: €11 million). Furthermore, we capitalized €6 million in development costs. Enhancing the efficiency and reducing the emissions of our fossil fuel-fired power plants are the centrepiece of our R&D measures. In this field, we cooperate with partners in plant engineering and the chemical industry. As a result, the activities are only partially included in our R&D expenditure.

One of the main determinants of our competitiveness is whether we succeed in bringing the generation of electricity using fossil fuels—especially coal—in line with climate-protection goals. Among the keys to achieving this is the capture and storage of carbon dioxide produced during the electricity generation process. We are currently preparing to construct the world's first large-scale coal-fired power plant using this type of technology. This involves combining coal gasification with carbon capture and generating electricity using combined-cycle gas turbines located downstream of these processes. If the project stays on schedule, the plant could go online in 2014. In parallel, we joined forces with BASF, Linde, American Electric Power (AEP) and Alstom to conduct projects to remove $CO_2$ from flue gas ("$CO_2$ scrubbing"). The objective is to reduce emissions permanently by retrofitting existing power stations with this technology. Moreover, we are conducting our own projects and participating in research consortia to examine the possibility of safely storing carbon dioxide in deep geological formations.

In addition, we constantly work on improving the efficiency of our power plants. One highlight in this context is the construction of a demonstration plant in which lignite will be pre-dried before combustion at our site in Niederaussem, Germany, which is scheduled for commissioning in autumn 2008. With this technology, lignite-based power production can gain four percentage points in terms of efficiency. Efficiency improvements of a similar order can be achieved by using what is termed a 700-degree power plant. Our engineers are working with partners to test power plant components and materials in a test unit within the Scholven hard coal power station in Gelsenkirchen, Germany, which can be used reliably at these temperatures and under high pressure. We expect to see the results in 2009.

We are clearly stepping up our research and development activity in the field of renewables-based energy as well. One focal point is the search for additional ways to make use of biomass to generate electricity and heat. We are also exploring how to improve the productivity of wind power plants and optimally integrate them into the electricity grid. Furthermore, RWE Innogy invests in technologies that can be used to generate electricity from tidal and wave movement.

Among other things, R&D work we do in the upstream business aims to maintain the high success rate of our exploration drilling. At RWE Energy, we pursue the objective of operating our electricity and gas grids safely, profitably and in an environmentally compatible manner. We will take innovative approaches to measuring electricity consumption, among other things. We are currently testing "automatic meter reading" (AMR). This concept defines a new generation of power meters that enable homes to monitor their consumption at all times. It gives customers better control over their electricity consumption and gives them an incentive to save energy.

We have included detailed information on R&D work done by the RWE Group on page 92 et seqq. of RWE's 2007 annual report and on the web at "www.rwe.com/RandD."

# Outlook for 2008

***US credit crisis to dampen economic growth***

Global economic growth is likely to be weaker in 2008 than in 2007 (3.2%). According to leading economic research institutes, however, a massive economic collapse is unlikely, despite the financial crisis. Germany, our main market, is expected to experience a 1.8% increase in real gross domestic product (2007: 2.5%). Growth in the UK is also anticipated to come in close to the 2% mark (2007: 3.1%). Non-financial companies are in good shape, contributing significantly to supporting the economy in these countries. The prognosis for Central Eastern Europe's EU member states is much more favourable. GDP in a large number of these economies is expected to expand by more than 5% in real terms.

***Boom on energy markets continues***

Despite the slowing world economy, pressure from demand on global energy markets will hardly let up, primarily because of the major needs for raw materials in newly industrializing countries such as China and India. This is contrasted by continued limited production and transportation capacity. At the same time, the energy markets are subject to sudden influences stemming, e.g., from weather conditions and political action. The situation on the international oil markets has recently become even tighter. The price of a barrel of Brent crude continuously hits new all-time highs. At the end of April, it amounted to US$110. Market participants expect the price of Brent averaged for the year to significantly exceed the comparable figure for 2007 (US$72 per barrel). Since gas supply agreements are commonly linked to price developments on the oil market, it is expected that natural gas prices will clearly exceed last year's level as well. In addition, an end to the hard coal boom is not in sight. At the end of April, a metric ton of hard coal traded at US$146 on the Rotterdam spot market (including freight and insurance to Rotterdam). All indications point to the average price level in the current year clearly exceeding that of 2007 (US$89). The same applies to German BAFA prices (2007 annual average: €68 per metric ton of hard coal equivalent).

***$CO_2$ emissions trading: high certificate prices for the period starting in 2008***

This year, RWE will be faced with substantial burdens from the EU $CO_2$ emissions trading scheme. As explained earlier, a substantial shortage of emissions allowances can be expected as compared to the first trading period (2005 to 2007). Therefore, many utilities will have to purchase a great number of certificates. Furthermore, they can curb their $CO_2$ emissions by making less use of high-emission power plants. Emissions trading will provide the necessary price signals. At the end of April, certificates for 2008 were quoted at €24 per metric ton of $CO_2$. At the same time, emissions allowances from "Clean Deveopment Mechanism" projects for 2008 traded at €16. We expect that prices will continue to remain high.

***Prices on European electricity markets continue to rise***

Electricity prices are expected to remain high as well. This is the result of market expectations regarding the development of costs associated with fuel and $CO_2$ certificates. In addition, we anticipate that generation capacity on many European energy markets will continue to be scarce. Recently, electricity prices on the German forward market recorded another rise. Base-load contracts for delivery in 2009 traded at €66 per MWh at the end of April 2008 and were thus far more expensive than the average witnessed in 2007 (€55). Prices quoted for electricity on the UK forward market are also still on the rise.

At the end of April, the forward price for 2009 base-load deliveries was £66 per MWh (€83 per MWh). The RWE Group has sold forward more than 90% of its 2008 electricity production. We have also sold a large part of our 2009 electricity generation (already more than 55% in Germany).

***Revenue expected to be higher year on year***
External revenue earned by the RWE Group is anticipated to surpass last year's level. This and the following forecasts are based on an assumed exchange rate of £0.75/€. The rise in revenue will be largely driven by electricity and gas price increases, with which we pass through to the customer the rise in procurement costs.

***Stable earnings trend despite higher $CO_2$ costs and grid regulation***
We confirm the 2008 earnings forecast we published in our 2007 annual report in February this year. The only exception is the prognosis for net income, which envisioned a rise of more than 10%. Due to the one-off charge resulting from the initial public offering of American Water, we now expect net income to close this year slightly down on the last one. This will not affect EBITDA, the operating result or recurrent net income, which is the key determinant for calculating the dividend. We continue to expect to at least match 2007 levels in terms of both EBITDA and the operating result. We will be faced with substantial negative effects stemming from the stricter conditions underlying $CO_2$ emissions trading as well as further cuts in our German grid fees mandated by the regulator. In sum, we believe that these two factors will hamper earnings by about €1.5 billion compared with last year. Recurrent net income, which is adjusted for one-off effects, is expected to increase by more than 10%. As mentioned earlier, we will expand our €600 million efficiency-enhancement programme, which runs until 2010, over the course of the year. We expect the programme to contribute about €100 million in earnings in 2008.

Operating result by division:

RWE Power is expected to post another improvement in its operating result. We anticipate an increase of more than 10%. This will be driven above all by the marked rise in electricity prices on the German wholesale market. In addition, the two units of the Biblis nuclear power plant, which have gone back online, will have a positive effect on output. However, we will be faced with massive burdens stemming from $CO_2$ emissions costs. The German allocation plan for the second trading period (2008 to 2012) envisions a much reduced allocation of free emissions allowances. We expect that RWE Power will have to purchase an average of about 40% of the $CO_2$ certificates it needs on the market during this period, or obtain them via Kyoto "Clean Development Mechanism" and "Joint Implementation" projects insofar as possible. The percentage shortage of emissions allowances in 2008 is anticipated to be much higher than the five-year average and to drop afterwards. We anticipate further adverse effects on earnings to come from higher hard coal and gas prices. Moreover, staff and other costs are expected to clearly surpass the levels witnessed in 2007.

From our present point of view, we expect RWE Dea to lift its operating result by more than 10%. This is based on the assumption that we will be able to realize higher gas and oil prices. However, production and operating costs are likely to rise.

RWE Supply & Trading is expected to close the year with an operating result that is lower than in 2007. This is because we do not anticipate that we will be able to match the unusually high trading result posted in 2007. We will probably generate a positive operating result from our gas midstream activities, following the startup losses incurred last year. If so, we would exceed our original expectations.

Our forecast for RWE Energy envisions a single-digit percent increase in its operating result. This is based on the assumption that we will manage to increase electricity deliveries by successfully acquiring key accounts and that we will sell more gas due to the weather. Tariff cuts made by the German Federal Network Agency that apply to our German grids are a major burden. To limit the impact this will have on earnings, RWE Energy plans to implement further extensive cost reductions, focussing on Germany. Furthermore, we will continue to pursue our value-oriented policy in the electricity and gas sales business. At the same time, we want to limit customer losses across market segments by developing 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. Moreover, we will expand our web-based sales subsidiary eprimo.

From our current point of view, we do not expect RWE npower to match the operating result it recorded in 2007. We expect the weakness of Sterling to have a negative impact. Net of currency effects, we anticipate that the power generation business' earnings situation will remain stable. RWE npower will probably have to purchase over 30% of the $CO_2$ certificates it requires on the market, which would be more than originally forecasted. This is based on the assumption that the capacity utilization of our UK hard coal-fired power plants will be higher than planned. Staff costs are expected to rise, partially because our capital expenditure on power plants will result in an increased need for manpower. The market environment of our electricity and gas sales businesses will remain difficult, above all due to the persistently fierce competition and the recent rise in purchasing prices. As mentioned on page 16, we had to lift tariffs for household customers at the beginning of the year. Mounting gas transmission costs could increase the pressure on margins. In addition we anticipate that a government programme that obliges UK utilities to promote energy-saving measures for household customers will result in additional burdens. Furthermore, we made a commitment vis-à-vis the government to take more action to support low-income households significantly.

***Capital expenditure stepped up***

We will clearly increase capital expenditure on property, plant and equipment in 2008. The greatest rise is planned for RWE Power. We started to construct the twin-unit hard coal power plant in Hamm, Germany, this year (see page 9). Work on the gas-fired power plant in Lingen, Germany, and on the dual-block lignite power plant in Neurath, Germany, has made further progress. The commissioning of these two plants is scheduled for 2009 and 2010/2011, respectively. Power station component prices have recently recorded a substantial rise. By concluding contracts at an early stage, we were able to limit the rise in costs associated with our large-scale projects. Our upstream subsidiary, RWE Dea, will invest much more in gas production—above all in North Africa. RWE Energy has increased its capex budget substantially 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 will also step up capital expenditure. Our main projects in the UK are the new gas-fired power stations in Staythorpe and Pembroke. RWE Innogy's focus is on the construction of wind power plants in the UK and Poland. 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 billion in 2008. This would represent an increase of over 70% compared to 2007.

***Net debt down year on year***

Despite the share buyback, the dividend payment and our markedly increasing capital spending, we will probably reduce net debt even further in the current financial year. The main drivers will be the expected high level of cash provided by operating activities and our assumption of being able to sell at least the majority of the shares in American Water by the end of 2008. Thanks to the good reputation we have as bond issuer, we always have access to short and long-term financing sources. €1.6 billion in bonds will mature in 2008.

***Employee headcount: significant rise expected***

This financial year, we anticipate that our workforce will expand across all divisions. Our current planning envisions the payroll to grow by some 2,900 employees, in part due to the rise in investing activity.

***Research and development: budget enlarged***

We will spend far more than before on research and development (R&D). We plan to have R&D expenditure total in excess of €100 million in 2008 and trend upwards thereafter. We will continue to focus on projects to improve efficiency and reduce emissions from electricity generation. More than two-thirds of our R&D budget have been earmarked for this. A milestone we will pass in 2008 is the commissioning of the first lignite pre-drying plant in Niederaussem, Germany. We intend to extend the cooperative ventures with partners in the chemicals and plant engineering industries initiated last year, focussing on methods to separate carbon dioxide from flue gas. In addition, by launching RWE Innogy, we set the course towards intensifying R&D activities in the field of renewable energy. We are also working on electricity grids. Steps we take in this area are directed to reducing voltage losses, intelligent grid usage and innovative energy measurement. Furthermore, we want to make a contribution to securing know-how in the field of nuclear energy over the long term. This will allow us to keep open the option of making use of this climate-friendly technology in a changing energy industry and social environment.

# *Development of opportunities and risks*

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 have formed risk-management boards both at the Group and divisional levels. They are responsible for the risk management system's continued development and establish rules for the risk-management process. The basis for this is provided by a groupwide risk management guideline.

Our risk-management activities are designed to obtain information on risks and their financial impact as early as possible, in order to be able to counteract them with suitable measures. Moreover, the planning and controlling process also aims to identify and make use of opportunities as well as associated earning potential. We evaluate risks according to their probability of occurrence and damage potential and aggregate them at the business unit, divisional, and Group levels. The damage potential is defined against the operating result and equity of the business unit concerned and the Group as a whole. We can thus ensure a systematic and uniform analysis of our current situation throughout the Group, on the basis of which specific risk-control initiatives can be developed. Our risk reporting scheme is fully integrated in our standardized planning and controlling process. The RWE Group's management and supervisory bodies are regularly informed of the current risk situation. The efficiency and effectiveness of our risk management system are monitored internally.

We break down major risks and opportunities into the following categories:

- **Volatility of commodity and product prices:** Risks and opportunities arise for the Group above all in our electricity generation business. The latter is significantly influenced by the development of market prices for electricity, fossil fuels—especially hard coal and gas—as well as by the development of the price of $CO_2$ certificates. A risk arises, e.g., if higher commodity prices cannot be passed on by increasing electricity prices. Opportunities stem from the higher margin between electricity prices and prices for fossil fuels. Additional risks and opportunities stem from our oil and gas production operations. The impact of unexpected disadvantageous changes in price in this area is minimized through the strategic use of derivative hedges. In addition to production, supply operations are also exposed to risks. Such risks arise, e.g., as a result of unexpected fluctuations in demand owing to changes in temperature. Our price risks on purchasing and sales markets are determined using special evaluation models, while taking current forward prices and expected price volatility into account. Among other things, we use financial and commodity derivatives to mitigate risks associated with sales and procurement.

  Our electricity and gas businesses face the price and sales risks as well as marketing opportunities resulting from the deregulation of Europe's electricity and gas markets. We address these risks with differentiated pricing strategies and appropriate marketing policies as well as with effective measures to cut costs. Earnings risks can also arise from the loss of concessions in the grid business.

  On the one hand, our trading division business functions as a central platform for hedging commodity price risks throughout the RWE Group. This enables us to create a stable basis of planning for our company. On the other hand, while staying within trading limits, we conclude trades in order to take targeted advantage of changes in prices on energy markets. This leads to risks from unexpected price fluctuations. In addition, we are exposed to credit risks in the event that counterparties fail to fulfil their contractual obligations. The RWE Group's integrated trading and risk management system for the energy trading business is firmly aligned with best practice as applied to the trading business. Specific benchmarks for price risks are established on a daily basis. The RWE AG Risk Committee sets risk limits that are continuously monitored. Among other things, we calculate the Value at Risk (VaR) to quantify price risks associated with energy trading. The central risk controlling parameter is the Global Value at Risk, which has a cap of €40 million and applies to all of the trading transactions concluded by RWE Supply & Trading. The VaR figures within the RWE Group are generally based on a confidence interval of 95% and a holding period of one day. The Global VaR thus indicates the maximum daily loss from all trading transactions, which RWE Supply & Trading does not exceed with a probability of 95%. In the first quarter of 2008, the Global VaR used by RWE Supply & Trading averaged €12 million.

- ***Volatility of financial prices:*** Within the scope of our operations, we are also exposed to currency, interest-rate and share-price risks. Due to our international presence, currency risk management is very important. Group companies are generally 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 Value at Risk is used to measure and mitigate risks. In the period under review, the average VaR for the foreign currency position of RWE AG's ledger was less than €1 million.

  Interest rate management is also ascribed significant importance. Our interest-rate risks primarily stem from our financial debt and interest-bearing investments. Negative changes in value caused by unexpected interest rate movements are hedged with non-derivative and derivative financial transactions. In the period under review, the VaR for interest-rate risks associated with our financial debt and related hedges averaged €141 million. The VaR from interest-bearing investments including hedges amounted to €60 million. We are also exposed to both risks and opportunities associated with share investments. The VaR for our share-price risks was €18 million.

  Opportunities and risks 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:*** Most of the credit transactions performed by our finance and trading departments are with banks and business partners of good creditworthiness. We mitigate credit risks from these activities by placing limits on transactions and—if necessary—receiving cash collateral. In addition, we make use of credit insurance policies and bank guarantees. Credit risks are monitored daily for energy trading transactions and weekly for finance transactions. In our supply business, we are exposed to credit risks due to the possibility that customers may fail to meet their financial obligations. We mitigate this risk by subjecting our customer portfolio to regular creditworthiness checks on the basis of credit risk guidelines.

- ***Continuity of business activities:*** We operate technologically complex and interconnected production plants all along our value chain. Earnings risks can arise from uninsured damage to our lignite mining equipment, production plants, power plant components or grids. There is an increasing risk of outages in power plants due to the ageing of their components. Our grid business is exposed to the risk of facilities being destroyed 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. As 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 an impact on earnings. Lignite and hard coal power plants account for a significant portion of our electricity generation portfolio. Therefore, we are exposed to a risk due to the EU-wide $CO_2$ emissions trading system. Risks can arise from unexpected increases in the cost of procuring $CO_2$ certificates. Therefore, $CO_2$ risk management is an integral component of our centralized risk-management system. The European Commission adopted a new set of climate-protection measures for the period from 2013 to 2020. They include binding goals for all EU member states regarding the reduction of greenhouse gas emissions and the share of electricity consumption accounted for by renewable energy. The European Commission’s proposals are currently the subject of controversial discussions at the European Parliament and the European Council. However, RWE anticipates that costs will be much higher than in the current trading period, which will last until 2012. We intend to continue reducing $CO_2$ emissions and make our power generation portfolio more flexible through our current power plant projects. 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” and “Joint Implementation.”

  Risks exist in our German electricity and gas grid business as a result of regulatory intervention, especially against the backdrop of the cost review that is currently being conducted by the regulatory authority. The German Federal Network Agency has nearly issued all of the notices for the electricity sector. Now there is more clarity as regards incentive-based regulation from 2009 onwards. The regulation’s cornerstones have been laid out in a directive which was passed by the German Upper House in September 2007. We intend to partially offset some of the negative effects stemming from the regulation by taking measures to cut costs and enhance efficiencies throughout RWE Energy. We are also exposed to regulatory risks within the scope of our Central European activities.

  In Germany, risks can also arise from the stricter monitoring of anti-competitive pricing practices, which entered into force at the end of 2007. An antitrust investigation has been initiated. In March 2008, the German Federal Cartel Office instituted the corresponding proceedings against numerous gas utilities, including seven RWE subsidiaries. To make a more accurate assessment, we will have to wait until the concrete thrust of this procedure becomes apparent.

- ***Capital expenditure and divestments:*** Decisions approving acquisitions and capital expenditure on property, plant and equipment must take into account both the opportunities and risks associated with tying up capital for extensive periods of time. At RWE, such decisions are prepared and implemented in adherence with specific accountability rules and approval processes. The same applies to divestments such as the sale of our North American water activities.

- ***Legal procedures:*** Some RWE Group companies are involved in litigations and arbitration proceedings connected with their operations. In addition, out-of-court claims have been filed against individual Group companies in connection with sales of companies. However, we do not expect any major negative repercussions for 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.

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 company law. The conversion ratios and cash compensation have been calculated on the basis of expert opinions and verified by auditors. If the legally enforceable decisions come up with a different result, the compensation will be carried out by making an additional cash payment to the affected shareholders, including those who are not involved in the conciliation proceedings.

The EU Commission conducted follow-up inquiries at several European power utilities in May and December of 2006. This also affected RWE AG and other RWE Group companies in Germany. Afterwards, the EU Commission filed requests with companies including RWE for information on individual energy market issues.

The EU Commission initiated an abuse procedure against RWE in early May 2007. It suspects that we hindered access to the natural gas transmission system located in Germany in order to attain a purportedly market-dominating position in the gas supply business. This allegation primarily affects RWE Transportnetz Gas, a subsidiary of RWE Energy. However, the Commission expressly points out that the initiation of this procedure does not mean that it has conclusive evidence of any wrongdoing by RWE.

We have included additional information on opportunities and risk management on page 97 et seqq. of our 2007 annual report.

This report contains forward-looking statements regarding the future development of the RWE Group and its companies as well as economic and political developments. These statements are assessments that we have made based on information available to us at the time this document was prepared. In the event that the underlying assumptions do not materialize or additional risks arise, actual performance can deviate from the performance expected at present. Therefore, we cannot assume responsibility for the correctness of these statements.

# Consolidated Financial Statements (condensed)

## Income Statement[1]

| € million | Jan – Mar 2008 | Jan – Mar 2007 |
|---|---|---|
| **Revenue (including natural gas tax/electricity tax)** | **13,395** | **12,995** |
| Natural gas tax/electricity tax | –471 | –461 |
| **Revenue** | **12,924** | **12,534** |
| Changes in finished goods and work in progress/other own work capitalized | 75 | 5 |
| Cost of materials | –8,520 | –7,914 |
| Staff costs | –1,012 | –965 |
| Depreciation, amortization, and impairment losses | –527 | –511 |
| Other operating result | –522 | –448 |
| **Income from operating activities of continuing operations** | **2,418** | **2,701** |
| Income from investments accounted for using the equity method | 81 | 77 |
| Other income from investments | 15 | 16 |
| Financial income | 956 | 945 |
| Finance costs | –1,257 | –1,205 |
| **Income from continuing operations before tax** | **2,213** | **2,534** |
| Taxes on income | –685 | –871 |
| **Income from continuing operations** | **1,528** | **1,663** |
| Income from discontinued operations | –634 | –1 |
| **Income** | **894** | **1,662** |
| Minority interest | –85 | –91 |
| **Net income/income attributable to RWE AG shareholders** | **809** | **1,571** |
| **Basic and diluted earnings per common and preferred share in €** | **1.45** | **2.79** |
| of which: from continuing operations in € | (2.59) | (2.79) |
| of which: from discontinued operations in € | (–1.14) | |

1 Prior-year figures adjusted.

# *Balance Sheet*[1]

| Assets<br>€ million | 03/31/08 | 12/31/07 |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | 11,630 | 11,882 |
| Property, plant and equipment | 20,238 | 20,038 |
| Investment property | 154 | 153 |
| Investments accounted for using the equity method | 2,512 | 2,421 |
| Other non-current financial assets | 767 | 1,011 |
| Accounts receivable and other assets | 3,353 | 3,353 |
| Deferred taxes | 2,017 | 2,502 |
| | **40,671** | **41,360** |
| **Current assets** | | |
| Inventories | 1,915 | 2,352 |
| Trade accounts receivable | 9,824 | 8,816 |
| Accounts receivable and other assets | 12,405 | 9,493 |
| Marketable securities | 8,512 | 10,858 |
| Cash and cash equivalents | 4,366 | 1,922 |
| Assets held for sale | 7,479 | 8,619 |
| | **44,501** | **42,060** |
| | **85,172** | **83,420** |

| Equity and Liabilities<br>€ million | 03/31/08 | 12/31/07 |
|---|---|---|
| **Equity** | | |
| RWE Group interest | 13,924 | 13,925 |
| Minority interest | 847 | 734 |
| | **14,771** | **14,659** |
| **Non-current liabilities** | | |
| Provisions | 20,846 | 21,281 |
| Financial liabilities | 9,721 | 10,046 |
| Other liabilities | 3,672 | 3,584 |
| Deferred taxes | 1,927 | 1,885 |
| | **36,166** | **36,796** |
| **Current liabilities** | | |
| Provisions | 5,812 | 5,713 |
| Financial liabilities | 3,825 | 3,239 |
| Trade accounts payable | 7,428 | 8,054 |
| Other liabilities | 11,604 | 9,062 |
| Liabilities held for sale | 5,566 | 5,897 |
| | **34,235** | **31,965** |
| | **85,172** | **83,420** |

1 Prior-year figures adjusted.

## *Cash Flow Statement*[1]

| € million | Jan – Mar 2008 | Jan – Mar 2007 |
|---|---|---|
| Income | 894 | 1,662 |
| Depreciation, amortization, impairment losses, write-backs | 529 | 577 |
| Changes in provisions | –57 | –252 |
| Deferred taxes/non-cash income and expenses/ income from disposal of non-current assets and marketable securities | 1,037 | 127 |
| Changes in working capital | –1,019 | –1,206 |
| **Cash flows from operating activities of continuing operations** | **1,384** | **908** |
| Cash flows from operating activities of discontinued operations | 52 | |
| **Cash flows from operating activities** | **1,436** | **908** |
| Capital expenditure on non-current assets | –672 | –679 |
| Proceeds from disposal of non-current assets | 73 | 208 |
| Changes in marketable securities and cash investments | 2,533 | –2,557 |
| **Cash flows from investing activities of continuing operations** | **1,934** | **–3,028** |
| Cash flows from investing activities of discontinued operations | –109 | |
| **Cash flows from investing activities** | **1,825** | **–3,028** |
| **Cash flows from financing activities of continuing operations** | **–872** | **1,095** |
| Cash flows from financing activities of discontinued operations | 60 | |
| **Cash flows from financing activities** | **–812** | **1,095** |
| Net cash change in cash and cash equivalents | 2,449 | –1,025 |
| Effect of changes in foreign exchange rates and other changes in value on cash and cash equivalents | –2 | –2 |
| Minus net cash change in cash and cash equivalents of discontinued operations | –3 | |
| **Net change in cash and cash equivalents** | **2,444** | **–1,027** |
| Cash and cash equivalents at beginning of reporting period | 1,922 | 2,794 |
| **Cash and cash equivalents at end of reporting period** | **4,366** | **1,767** |

1 Prior-year figures adjusted.

## *Statement of Recognized Income and Expenses*[1]

| € million | Jan – Mar 2008 | Jan – Mar 2007 |
|---|---|---|
| **Income** | **894** | **1,662** |
| Currency translation adjustment | 220 | –60 |
| Fair valuation of financial instruments available for sale | –132 | –116 |
| Fair valuation of financial instruments used for hedging purposes | 214 | 358 |
| Actuarial gains and losses on defined benefit pension plans and similar obligations | 354 | –228 |
| **Other comprehensive income** | **656** | **–46** |
| **Total comprehensive income** | **1,550** | **1,616** |
| of which: total comprehensive income attributable to RWE AG | 1,401 | 1,538 |
| of which: total comprehensive income attributable to minority interests | 149 | 78 |

1 Figures stated after taxes.

# Notes

## Statement of Changes in Equity[1]

| € million | Subscribed capital and additional paid-in capital of RWE AG | Retained earnings and distributable profit | Own shares | Accumulated other comprehensive income | **RWE Group interest** | Minority interest | **Total** |
|---|---|---|---|---|---|---|---|
| **Balance at 12/31/06 (as reported)** | **2,728** | **10,557** | | **154** | **13,439** | **672** | **14,111** |
| Changes in accounting policies | | –425 | | | –425 | –26 | –451 |
| **Balance at 01/01/07 (adjusted)** | **2,728** | **10,132** | | **154** | **13,014** | **646** | **13,660** |
| Dividends paid | | | | | | –47 | –47 |
| Other comprehensive income | | –211 | | 178 | –33 | –13 | –46 |
| Income | | 1,571 | | | 1,571 | 91 | 1,662 |
| Total comprehensive income | | 1,360 | | 178 | 1,538 | 78 | 1,616 |
| Other changes | | | | | | 20 | 20 |
| **Balance at 03/31/07** | **2,728** | **11,492** | | **332** | **14,552** | **697** | **15,249** |
| | | | | | | | |
| **Balance at 12/31/07 (as reported)** | **2,728** | **11,283** | | **120** | **14,131** | **787** | **14,918** |
| Changes in accounting policies | | –206 | | | –206 | –53 | –259 |
| **Balance at 01/01/08 (adjusted)** | **2,728** | **11,077** | | **120** | **13,925** | **734** | **14,659** |
| Share buybacks | | | –1,402 | | –1,402 | | –1,402 |
| Dividends paid | | | | | | –93 | –93 |
| Other comprehensive income | | 285 | | 307 | 592 | 64 | 656 |
| Income | | 809 | | | 809 | 85 | 894 |
| Total comprehensive income | | 1,094 | | 307 | 1,401 | 149 | 1,550 |
| Other changes | | | | | | 57 | 57 |
| **Balance at 03/31/08** | **2,728** | **12,171** | **–1,402** | **427** | **13,924** | **847** | **14,771** |

1 Prior-year figures adjusted.

## *Accounting policies*

The interim report for the period ended March 31, 2008, which received clearance for publication on May 13, 2008, was prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable in the EU.

With the exception of the changes and new rules described in the following section, this interim report was prepared using the accounting policies applied in the consolidated financial statements for fiscal 2007. For further information, please see the consolidated financial statements for the period ended December 31, 2007, which provide the basis for this interim report. In line with IAS 34, the scope of reporting for the presentation of the consolidated financial statements of RWE AG for the period ended March 31, 2008, was condensed compared with the scope applied to the consolidated financial statements for the full year.

The interest rates applied to provisions for nuclear waste management, provisions for mining damage, and other non-current provisions are the same as the ones used as of December 31, 2007. Provisions for pensions and similar obligations are discounted at an interest rate of 6.0% in Germany and 6.87% abroad (December 31, 2007: 5.5% in Germany and 5.95% abroad).

Due to the German Corporate Tax Reform Act of 2008, the average comprehensive income tax rate for enterprises taxed in Germany declined from 39.4% to 30.9% as of fiscal 2008. This tax rate will be used as a basis for calculating both current income taxes in fiscal 2008 as well as deferred taxes.

## *Changes in accounting policies*

***Application of IAS 19.93A:*** To increase the transparency of reporting, in accordance with IAS 19.93A, 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. This method replaces the 'corridor method.' According to the 'corridor method' applied previously, actuarial gains and losses were recognized in 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. According to the amended method, all actuarial gains and losses are recognized immediately. They are reported as a component of other comprehensive income outside profit or loss, in a consolidated statement of recognized income and expenses. After having been reported as part of other comprehensive income for the first time, actuarial gains and losses are immediately assigned to retained earnings. They remain outside profit or loss in subsequent periods as well. This retroactive adjustment increased provisions for pensions and similar obligations as of January 1, 2007, by €257 million to a total of €11,841 million. Furthermore, it reduced other non-current receivables and other assets by €413 million to €680 million, because these items include the surplus of plan assets over benefit obligations. Taking the €219 million in deferred taxes recognized outside profit or loss into account, equity as of January 1, 2007, declined by a total of €451 million. Due to the discontinuation of the amortization of actuarial gains and losses recognized with an effect on income, staff costs for the first quarter in 2007 decreased by €2 million, and income taxes increased by €1 million.

Furthermore, the International Financial Reporting Interpretations Committee (IFRIC) approved a new interpretation, which must be applied by the RWE Group from fiscal 2008 onwards:

***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 does not have an effect on the RWE Group's consolidated financial statements.

## *New accounting policies*

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

***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 the cancellation. This amendment of IFRS 2 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.

***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 appropriate 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. The first-time application of IAS 1 (2007) will primarily result in extended disclosure in the notes to the RWE Group'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. The impact of the application of the new rules on the RWE Group's consolidated financial statements is currently being reviewed.

***IAS 27 (2008) "Consolidated and Separate Financial Statements":*** By revising IAS 27, the IASB changed the regulations on the treatment of transactions between the non-controlling and 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 over the subsidiary are to be accounted for as equity transactions without an effect on profit or loss. Moreover, the standard regulates how deconsolidation gains are to be calculated and how residual ownership interest in the former subsidiary is to be measured. The revised version of IAS 27 must be applied 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. The change stipulates above all that certain financial instruments that were previously classified as liabilities are to be recognized as equity in the future. The amended rules become effective for the first time for fiscal years starting on or after January 1, 2009. Their 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 RWE's consolidated financial statements is currently being reviewed.

The following IFRSs, which became effective on January 1, 2008, are not being applied by the RWE Group since they are 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. The first-time application of IFRIC 12 is not expected to have a material 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 is not expected to have a material impact on the RWE Group's consolidated financial statements.

## *Scope of consolidation*

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

Changes in the first quarter of 2008 primarily relate to the RWE Energy Division, in which 11 companies were consolidated for the first time.

The scope of consolidation is as follows:

| | 03/31/08 | 12/31/07 |
|---|---|---|
| Fully consolidated companies | 302 | 290 |
| Investments accounted for using the equity method | 92 | 89 |

***Discontinued operations:*** The sale of American Water Works Company Inc., Wilmington/Delaware, USA, was initiated in fiscal 2007. The companies assigned to the Water Division thus far have been reported as discontinued operations since December 31, 2007. In accordance with IFRS 5, the prior-year figures in the income statement have been adjusted; the prior-year figures in the balance sheet and cash flow statement, however, have not been adjusted.

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

| **Key figures for American Water** € million | 03/31/08 | 12/31/07 |
|---|---|---|
| Non-current assets | 7,167 | 8,290 |
| Current assets | 312 | 329 |
| Non-current liabilities | 4,798 | 5,210 |
| Current liabilities | 768 | 687 |

| € million | Jan – Mar 2008[1] | Jan – Mar 2007 |
|---|---|---|
| Revenue | 332 | 364 |
| Expenses/income | –278 | –364 |
| Ordinary income from discontinued operations before tax | 54 | |
| Taxes on income | –21 | –1 |
| Net income | 33 | –1 |
| Fair value adjustments | –667 | |
| Income from discontinued operations | –634 | –1 |

1 Excluding depreciation (or amortization) in accordance with IFRS 5.25.

| € million | Jan – Mar 2008 | Jan – Mar 2007 |
|---|---|---|
| Cash flows from operating activities | 52 | 18 |
| Cash flows from investing activities | –109 | –105 |
| Cash flows from financing activities | 60 | 251 |

On April 23, 2008, RWE sold 58 million shares (36.25%) in American Water on the New York Stock Exchange at a price of 21.50 US dollars per share. In accordance with IFRS 5, discontinued operations are recognized at fair value, less costs to sell. The issuance price was taken into account when measuring American Water as of March 31, 2008.

## *Revenue*

Revenue generated by energy trading operations is stated as net figures. This means that revenue only reflects realized gross margins.

## *Research and development costs*

In the first quarter of 2008, research and development costs totalled €17 million (first quarter of 2007: €11 million).

## *Intangible assets*

Intangible assets include €1,365 million (December 31, 2007: €1,241 million) in goodwill from put options and forward purchases of minority interests that are recognized in accordance with IAS 32.

# Equity

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).

Pursuant to the resolution passed by the Annual General Meeting on April 18, 2007, 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 17, 2008. This resolution was replaced by the resolution passed by the Annual General Meeting on April 17, 2008, in which 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. As per the preceding resolution, share buybacks may also be conducted by exercising put or call options.

On March 31, 2008, RWE Group companies held 17,758,503 no-par-value common shares in RWE AG amounting to €1,402 million, which were deducted from the carrying amount of equity. They account for €45,461,767.68 of the company's share capital (3.16% of subscribed capital).

Furthermore, in the first quarter of 2008, RWE Group companies bought 2,673 common shares on the capital market at an average cost of €88.25 per share for issuance to employees. They account for €6,842.88 of the company's share capital (0.01‰ of subscribed capital).

Employees of RWE AG and its subsidiaries received a total of 1,463 common shares at an average price of €57.27 per share within the scope of capital formation schemes and 1,210 common shares at an average price of €64.62 on the occasion of service anniversaries. Proceeds from the share issuance amounted to €161,976.21. The purchase price rebates offered to employees were recognized in the income statement as share-based payments at the fair value they had at their time of issuance.

# Share-based payment

Detailed information was provided on groupwide share-based payment plans for executive staff at RWE AG and at subsidiaries in the financial statements for the period ended December 31, 2007.

In the first quarter of 2008, another tranche was issued within the framework of the Long-Term Incentive Plan for executive staff ("Beat").

## Dividend distribution

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

## Other liabilities

Other liabilities include €798 million (December 31, 2007: €792 million) in non-current and €1,283 million (December 31, 2007: €1,159 million) in current redemption liabilities from put options and forward purchases of minority interests that are recognized in accordance with IAS 32. In the first quarter of 2008, the current redemption liabilities increased by €124 million, which resulted in an adjustment to goodwill by the same amount, without an effect on profit or loss.

## Earnings per share

| | | Jan – Mar 2008 | Jan – Mar 2007 |
|---|---|---|---|
| Net income | € million | 809 | 1,571 |
| Number of shares outstanding (weighted average) | thousands | 558,389 | 562,405 |
| **Basic and diluted earnings per common and preferred share** | in € | **1.45** | **2.79** |

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

## Contingent liabilities

As of December 31, 2007, €50 million in contingent liabilities related to surety bonds; they no longer exist as of March 31, 2008.

## *Related party disclosures*

The RWE Group classifies associated companies as related parties. In the first quarter of 2008, transactions concluded with material related parties generated €176 million in income (first quarter of 2007: €177 million) and €133 million in expenses (first quarter of 2007: €24 million). As of March 31, 2008, accounts receivable amounted to €583 million (December 31, 2007: €814 million), and accounts payable totalled €8 million (December 31, 2007: €4 million). All business transactions are concluded at arm's length conditions and on principle do not differ from those concluded with other companies.

Furthermore, since October 1, 2007, the companies of the Georgsmarienhütte Group have been classified as related companies, as the CEO of RWE AG, Dr. Jürgen Großmann, is a partner in Georgsmarienhütte Holding GmbH. In the first quarter of 2008, RWE Group companies provided services and deliveries to companies of the Georgsmarienhütte Group amounting to €1.8 million. In the first quarter of 2008, companies of the Georgsmarienhütte Group provided services and deliveries to RWE Group companies amounting to €0.8 million. As of March 31, 2008, the Georgsmarienhütte Group had €0.2 million in accounts receivable (December 31, 2007: €0 million) and €0.4 million in accounts payable (December 31, 2007: €0.7 million) to RWE Group companies. All business transactions were completed at arm's length conditions and do not differ from the scope of supply and services provided to other enterprises.

The RWE Group did not conclude or carry out any material transactions with related persons.

## *Events after the balance-sheet date*

Information on events after the balance-sheet date is presented in the review of operations.

# Review Report

## To RWE Aktiengesellschaft, Essen

We have reviewed the condensed consolidated interim financial statements – comprising the condensed balance sheet, condensed income statement, condensed cash flow statement, condensed statement of recognised income and expense and selected explanatory notes – and the interim group management report of RWE Aktiengesellschaft, Essen, for the period from January 1 to March 31, 2008 which are part of the quarterly financial report pursuant to § (Article) 37x Abs. (paragraph) 3 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

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

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

Essen, May 14, 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Manfred Wiegand | Markus Dittmann |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| (German Public Auditor) | (German Public Auditor) |

# Supervisory Board

***Dr. Thomas R. Fischer***
Chairman

***Frank Bsirske***
Deputy Chairman

***Dr. Paul Achleitner***

***Werner Bischoff***

***Carl-Ludwig von Boehm-Bezing***

***Heinz Büchel***

***Dieter Faust***

***Simone Haupt***

***Andreas Henrich***
– since April 1, 2008 –

***Heinz-Eberhard Holl***

***Dr. Gerhard Langemeyer***

***Dagmar Mühlenfeld***

***Erich Reichertz***
– until March 31, 2008 –

***Dr. Wolfgang Reiniger***

***Günter Reppien***

***Karl-Heinz Römer***

***Dagmar Schmeer***

***Dr. Manfred Schneider***

***Dr.-Ing. Ekkehard D. Schulz***

***Uwe Tigges***

***Prof. Karel Van Miert***

# Executive Board

***Dr. Jürgen Großmann***
CEO

***Berthold Bonekamp***

***Alwin Fitting***

***Dr. Ulrich Jobs***

***Dr. Rolf Pohlig***

# *Financial Calendar 2008/2009*[1]

| | |
|---|---|
| ***08/14/2008*** | Interim report for the first half of 2008<br>– Press conference<br>– Analyst conference |
| ***11/11/2008*** | Interim report for the first three quarters of 2008 with analyst conference call |
| ***02/26/2009*** | Annual report for fiscal 2008<br>– Press conference<br>– Analyst conference |
| ***04/22/2009*** | Annual General Meeting |
| ***04/23/2009*** | Ex-dividend date |
| ***05/14/2009*** | Interim report for the first quarter of 2009 with analyst conference call |
| ***08/13/2009*** | Interim report for the first half of 2009<br>– Press conference<br>– Analyst conference |
| ***11/12/2009*** | Interim report for the first three quarters of 2009 with analyst conference call |

This is a translation of the German interim report. In case of divergence from the German version, the German version shall prevail.

1 All events will be broadcasted 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.

**RWE Aktiengesellschaft**

Opernplatz 1
45128 Essen
Germany

T +49 201 12-00
F +49 201 12-15199
I www.rwe.com

Investor Relations

T +49 201 12-15025
F +49 201 12-15265
E invest@rwe.com

Private investors are welcome to call our
Investor Relations hotline:

T +49 1801 451280

**RWE AG, ESSEN, GERMANY**
**CONSOLIDATED INCOME STATEMENT OF THE RWE GROUP (1)**
**FOR THE SIX MONTHS ENDED MARCH 31, 2008**

| | Euros in millions (except for per share data) Three months ended Mar 31 | | U.S. dollars in millions (except for per share data) Three months ended Mar 31 | |
|---|---|---|---|---|
| Exchange rates | | | 1,5812 | 1,3318 (2) |
| | **2008** | **2007** | **2008** | **2007** |
| **Revenue (including natural gas tax / electricity tax)** | **13.395** | **12.995** | **21.180** | **17.307** |
| Natural gas tax / electricity tax | -471 | -461 | -745 | -614 |
| **Revenue** | **12.924** | **12.534** | **20.435** | **16.693** |
| Changes in finished goods and work in progress / other own work capitalized | 75 | 5 | 119 | 7 |
| Cost of materials | -8.520 | -7.914 | -13.472 | -10.540 |
| Staff costs | -1.012 | -965 | -1.600 | -1.285 |
| Depreciation, amortization, and impairment losses | -527 | -511 | -833 | -681 |
| Other operating result | -522 | -448 | -826 | -597 |
| **Income from operating activities of continuing operations** | **2.418** | **2.701** | **3.823** | **3.597** |
| Income from investments accounted for using the equity method | 81 | 77 | 128 | 103 |
| Other income from investments | 15 | 16 | 24 | 21 |
| Financial income | 956 | 945 | 1.512 | 1.259 |
| Finance costs | -1.257 | -1.205 | -1.988 | -1.605 |
| **Income from continuing operations before tax** | **2.213** | **2.534** | **3.499** | **3.375** |
| Taxes on income | -685 | -871 | -1.083 | -1.160 |
| **Income from continuing operations** | **1.528** | **1.663** | **2.416** | **2.215** |
| Income from discontinued operations | -634 | -1 | -1.002 | -2 |
| **Income** | **894** | **1.662** | **1.414** | **2.213** |
| Minority interest | -85 | -91 | -135 | -121 |
| **Net income / income attributable to RWE AG shareholders** | **809** | **1.571** | **1.279** | **2.092** |
| | **Euros** | **Euros** | **U.S. dollars** | **U.S. dollars** |
| **Basic and diluted earnings per common and preferred share** | **1,45** | **2,79** | **2,29** | **3,72** |
| of which: from continuing operations | 2,59 | 2,79 | (4,09) | (3,72) |
| of which: from discontinued operations | -1,14 | | -(1,80) | |

(1) Prior-year figures adjusted.
(2) As required by the order all numbers were converted to U.S. dollars using the exchange rates existing at the end of the period.

**RWE AG, ESSEN, GERMANY**
**CONSOLIDATED BALANCE SHEET OF THE RWE GROUP [1]**
**AS OF MARCH 31, 2008**

| | | | | |
|---|---|---|---|---|
| Exchange rates | | | 1,5812 | 1,4721 [2] |

| **ASSETS** | **Euros in millions** | | **U.S. dollars in millions** | |
|---|---|---|---|---|
| | **March 31 2008** | **December 31 2007** | **March 31 2008** | **December 31 2007** |
| **Non-current assets** | | | | |
| Intangible assets | 11.630 | 11.882 | 18.389 | 17.492 |
| Property, plant and equipment | 20.238 | 20.038 | 32.000 | 29.498 |
| Investment property | 154 | 153 | 244 | 225 |
| Investments accounted for using the equity method | 2.512 | 2.421 | 3.972 | 3.564 |
| Other non-current financial assets | 767 | 1.011 | 1.213 | 1.488 |
| Accounts receivable and other assets | 3.353 | 3.353 | 5.302 | 4.936 |
| Deferred taxes | 2.017 | 2.502 | 3.189 | 3.683 |
| | **40.671** | **41.360** | **64.309** | **60.886** |
| **Current assets** | | | | |
| Inventories | 1.915 | 2.352 | 3.028 | 3.462 |
| Trade accounts receivable | 9.824 | 8.816 | 15.534 | 12.978 |
| Accounts receivable and other assets | 12.405 | 9.493 | 19.615 | 13.975 |
| Marketable securities | 8.512 | 10.858 | 13.459 | 15.984 |
| Cash and cash equivalents | 4.366 | 1.922 | 6.903 | 2.829 |
| Assets held for sale | 7.479 | 8.619 | 11.826 | 12.689 |
| | **44.501** | **42.060** | **70.365** | **61.917** |
| | **85.172** | **83.420** | **134.674** | **122.803** |

| **EQUITY AND LIABILITIES** | **Euros in millions** | | **U.S. dollars in millions** | |
|---|---|---|---|---|
| | **March 31 2008** | **December 31 2007** | **March 31 2008** | **December 31 2007** |
| **Equity** | | | | |
| RWE Group interest | 13.924 | 13.925 | 22.017 | 20.499 |
| Minority interest | 847 | 734 | 1.339 | 1.081 |
| | **14.771** | **14.659** | **23.356** | **21.580** |
| **Non-current liabilities** | | | | |
| Provisions | 20.846 | 21.281 | 32.962 | 31.328 |
| Financial liabilities | 9.721 | 10.046 | 15.371 | 14.789 |
| Other liabilities | 3.672 | 3.584 | 5.806 | 5.276 |
| Deferred taxes | 1.927 | 1.885 | 3.047 | 2.774 |
| | **36.166** | **36.796** | **57.186** | **54.167** |
| **Current liabilities** | | | | |
| Provisions | 5.812 | 5.713 | 9.190 | 8.410 |
| Financial liabilities | 3.825 | 3.239 | 6.048 | 4.768 |
| Trade accounts payable | 7.428 | 8.054 | 11.745 | 11.856 |
| Liabilities held for sale | 5.566 | 5.897 | 8.801 | 8.682 |
| Other liabilities | 11.604 | 9.062 | 18.348 | 13.340 |
| | **34.235** | **31.965** | **54.132** | **47.056** |
| | **85.172** | **83.420** | **134.674** | **122.803** |

(1) Prior-year figures adjusted.
(2) As required by the order all numbers were converted to U.S. dollars using the exchange rates existing at the end of the period.

**RWE AG, ESSEN, GERMANY**
**CONSOLIDATED CASH FLOW STATEMENT OF THE RWE GROUP (1)**
**FOR THE SIX MONTHS ENDED MARCH 31, 2008**

| | Euros in millions Three months ended Mar 31 | | U.S. dollars in millions Three months ended Mar 31 | |
|---|---|---|---|---|
| Exchange rates | | | 1,5812 | 1,3318 (2) |
| | **2008** | **2007** | **2008** | **2007** |
| Income | 894 | 1.662 | 1.414 | 2.214 |
| Depreciation, amortization, impairment losses, write-backs | 529 | 577 | 836 | 768 |
| Changes in provisions | -57 | -252 | -90 | -336 |
| Deferred taxes / non-cash income and expenses / income from disposal of non-current assets and marketable securities | 1.037 | 127 | 1.640 | 169 |
| Changes in working capital | -1.019 | -1.206 | -1.611 | -1.606 |
| **Cash flows from operating activities of continuing operations** | **1.384** | **908** | **2.189** | **1.209** |
| Cash flows from operating activities of discontinued operations | 52 | | 82 | 0 |
| **Cash flows from operating activities** | **1.436** | **908** | **2.271** | **1.209** |
| Capital expenditure on non-current assets | -672 | -679 | -1.063 | -904 |
| Proceeds from sale of assets | 73 | 208 | 116 | 277 |
| Changes in marketable securities and cash investments | 2.533 | -2.557 | 4.005 | -3.405 |
| **Cash flows from investing activities of continuing operations** | **1.934** | **-3.028** | **3.058** | **-4.032** |
| Cash flows from investing activities of discontinued operations | -109 | | -172 | 0 |
| **Cash flows from investing activities** | **1.825** | **-3.028** | **2.886** | **-4.033** |
| **Cash flows from financing activities of continuing operations** | **-872** | **1.095** | **-1.379** | **1.458** |
| Cash flows from financing activities of discontinued operations | 60 | | 95 | 0 |
| **Cash flows from financing activities** | **-812** | **1.095** | **-1.284** | **1.458** |
| Net cash change in cash and cash equivalents | 2.449 | -1.025 | 3.873 | -1.365 |
| Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents | -2 | -2 | -3 | -3 |
| Minus net cash change in cash and cash equivalents of discontinued operations | -3 | | -5 | 0 |
| **Net change in cash and cash equivalents** | **2.444** | **-1.027** | **3.865** | **-1.368** |
| Cash and cash equivalents at beginning of reporting period | 1.922 | 2.794 | 3.039 | 3.721 |
| **Cash and cash equivalents at end of reporting period** | **4.366** | **1.767** | **6.904** | **2.353** |

(1) Prior-year figures adjusted.
(2) As required by the order all numbers were converted to U.S. dollars using the exchange rates existing at the end of the period.