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, give notice of the report on the first three quarters of 2008 of RWE AG, which is attached and available at www.rwe.com.

Attached 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.

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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 November 14, 2008; that on November 14, 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, upon:

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REPORT ON THE FIRST THREE QUARTERS OF 2008

- Operating result 5 % up year on year
- Full-year financial goals confirmed
- Payout ratio for the next dividend raised to 70 – 80 %

The energy to lead

At a glance

RWE Group—Key Figures		Jan–Sep 2008	Jan–Sep 2007[1]	+/– in %	Jan–Dec 2007[1]
Electricity sales	billion kWh	235.8	228.1	3.4	306.4
Gas sales	billion kWh	225.9	222.6	1.5	335.0
External revenue	€ million	34,454	30,272	13.8	42,507
Germany	€ million	21,585	18,718	15.3	24,840
Outside Germany	€ million	12,869	11,554	11.4	17,667
EBITDA	€ million	6,844	6,432	6.4	7,915
Operating result	€ million	5,788	5,505	5.1	6,533
Income from continuing operations before tax	€ million	4,263	4,582	–7.0	5,246
Net income	€ million	2,211	2,834	–22.0	2,667
Recurrent net income	€ million	3,077	2,572	19.6	2,985
Earnings per share	€	4.09	5.04	–18.8	4.74
Recurrent net income per share	€	5.69	4.57	24.5	5.31
Cash flows from operating activities[2]	€ million	4,349	4,801	–9.4	6,085
Capital expenditure[2]	€ million	3,426	2,492	37.5	4,227
Property, plant and equipment	€ million	2,525	2,413	4.6	4,065
Financial assets	€ million	901	79	–	162
Free cash flow[2]	€ million	1,824	2,388	–23.6	2,020
		09/30/08	12/31/07	+/– in %	
Net debt of the RWE Group[3]	€ million	18,428	16,514	11.6	
Workforce[4]		65,440	63,439	3.2	

1 Figures partially adjusted; see commentary on page 13.
2 Discontinued operations are still included in figures for 2007, but not in those for 2008.
3 Besides net financial debt, this includes provisions for pensions and similar obligations, provisions for nuclear waste management, and provisions for mining damage. The capitalized surplus of plan assets over benefit obligations is subtracted.
4 Converted to full-time positions.

Contents

»We confirm our outlook for fiscal 2008 despite the imminent recession. We operate in relatively stable markets and are soundly financed.«

Dear Shareholders,

The economic environment has deteriorated dramatically since my last letter in August. What began as a US subprime crisis soon turned into a worldwide financial crisis. This led to panic selling on stock markets and massive share price declines. The financial crisis may lead into a deep recession under which the global economy is likely to suffer far beyond 2009.

But crises always bring two things in their wake: risks and opportunities. We have taken extensive precautionary measures to mitigate risk in recent years. Through our presence on relatively stable European electricity and gas markets. And through forward contracts concluded early, with which we have already secured the margins on the sale of a large portion of our electricity generation for 2009 and 2010. In addition, we have a strong balance sheet: We have almost no net financial debt. Our need for refinancing until the end of 2011 is minor, amounting to €1.2 billion, and we can solidly finance all our planned capital expenditure. Last, but not least, in recent years we have focused on organic growth and avoided making expensive acquisitions. This puts us in a good position to take advantage of new opportunities for growth. The price of power plant components, projects and investments will fall now. We also see opportunities in the fields of environmental and energy policy. Whenever the economy is tight, economic issues relating to such topics as climate protection and nuclear power come more into focus.

We confirm our outlook for fiscal 2008 despite the imminent recession. The first three quarters displayed a positive trend: We increased our operating result by 5 %. Recurrent net income, which is the yardstick we use to determine your dividend, was even up 20 %. Furthermore, we will raise the payout ratio for fiscal 2008 from our usual range of between 50 and 60 % to between 70 and 80 % of recurrent net income. So you can look forward to another attractive dividend!

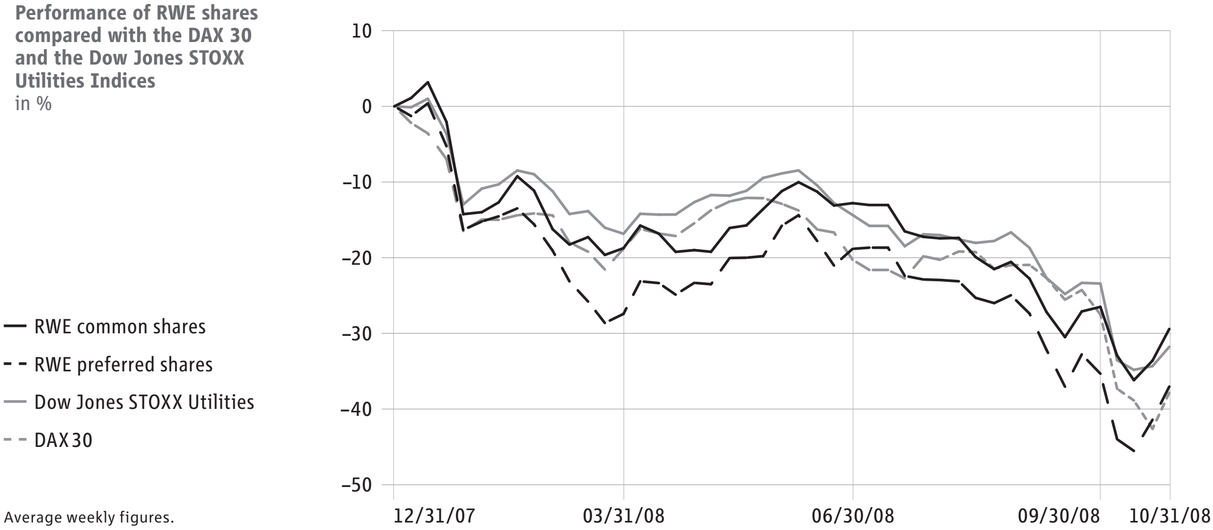
Sincerely yours,

Dr. Jürgen Großmann
CEO of RWE AG

Essen, November 2008

Crisis on financial markets 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 %



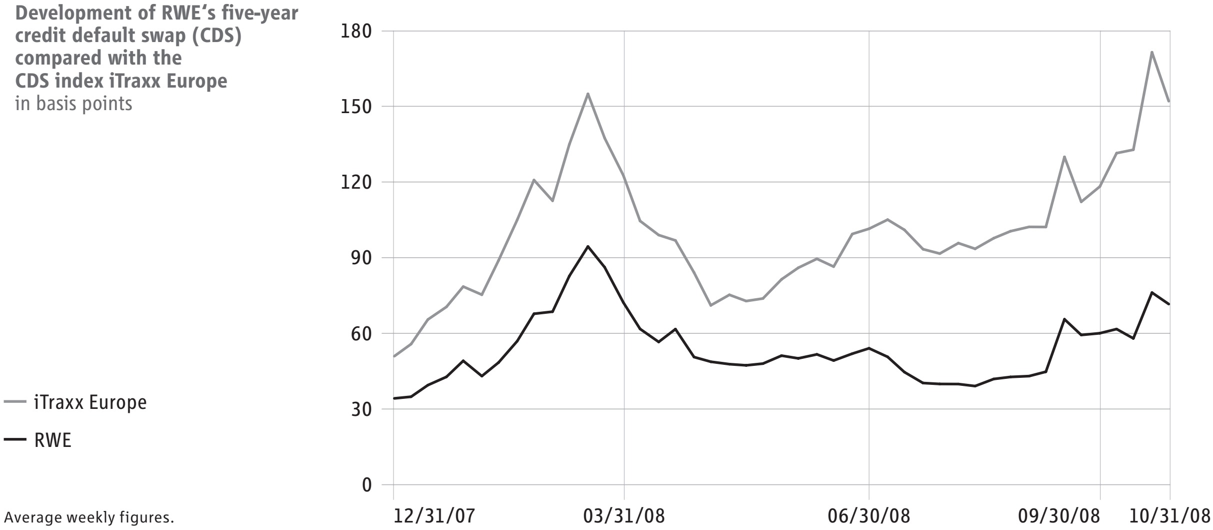
Average weekly figures.

The crisis on international financial markets came to a head over the course of the year, resulting in massive declines in share prices on the world's stock markets. In the first three quarters, the DAX 30 lost 28 % of its value. The Dow Jones Euro STOXX 50, the index consisting of the Eurozone's blue chips, slipped 29 %. October saw the collapse continue, with financial stocks intermittently in free fall. The DAX closed the month at 4,988 points, down 38 % on the level recorded as of December 31, 2007. Turbulence on the stock markets originated from the US subprime crisis, which has since affected the entire financial sector and caused banks to collapse. Numerous financial institutions avoided failure only thanks to state rescue measures. Nearly all of the large industrialized countries have introduced aid packages for banks, in order to strengthen trust in the financial system. So far, these steps have failed to brighten sentiment on stock markets significantly, since there is a general fear that the financial market's crisis might be the beginning of a prolonged, worldwide recession.

RWE shares got off to a good start before being pulled into the downward spiral caused by the stock market turmoil. RWE common shares rose above the 100-euro mark (€100.64) for the first time ever on January 7. Share prices collapsed as the financial crisis came to a head. The total return (including the dividend) for the first nine months experienced a corresponding drop. It was –27 % for common shares and –36 % for preferred shares. By comparison, the Dow Jones STOXX Utilities—the European sector index—recorded a 24 % decline during the same period. On October 10, our common shares dropped to their low for the year so far of €52.53, before closing the month up again, at €64,79. The development of RWE's share price was also affected by prices on commodity markets. Raw material prices worldwide rose considerably in the first half of the year, triggering an increase in quotations on European electricity exchanges. Share prices of utilities with a strong generation business like RWE reacted positively to this. But since July, in view of the crisis on financial markets and mounting fear of recession, commodity prices have declined considerably, accelerating the fall in RWE's share prices.

The international financial crisis was also reflected by the bond markets. Confidence in corporate solvency has been badly affected. Prices for five-year credit default swaps (CDSs) for debt issued by banks reached several hundred basis points. Europe's CDS index, the iTraxx Europe, which is made up of the CDS prices of 125 major European companies across all sectors, also increased significantly. It was at 118 basis points on September 30, which was more than twice as high as at the beginning of the year. The end of October saw it reach its peak of 171 basis points for the year to date, after it had briefly climbed to over 150 basis points in March due to the crisis on financial markets. RWE's credit standing is considered to be well above average on the market. Five-year CDSs used to hedge RWE's credit risk cost 34 basis points at the beginning of January and 59 at the end of September. Although the financial crisis came to a head in October, spreads have not climbed to the high of over 90 basis points seen in March.

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

World economy heading towards recession

The global economy has deteriorated significantly since the middle of the year. This was primarily caused by the crisis on international financial markets. The atmosphere remains tense despite comprehensive support measures taken by central banks and state aid programmes initiated to bolster equity in the financial sector. It is impossible to predict the exact extent of the crisis. All of the big industrialized countries are on the verge of a recession. In addition, growth in most emerging countries has cooled considerably.

Eurozone gross domestic product (GDP) in the period under review was an estimated 1.4 % higher year on year. Growth slowed substantially in the third quarter, although the euro lost considerable ground against the US dollar during the same period and the price of crude oil fell sharply. Following a strong start to the year, the German economy lost some of its strength as well. However, according to preliminary figures for the first nine months, German GDP was up 1.7 % nevertheless. Weak consumer spending continues to slow economic growth. Investing and export activity have also waned as of late. The UK economy, similar to the US, is suffering from a real estate crisis. Furthermore, it is greatly affected by the recent development on the capital markets, owing to London’s importance as a financial centre. Despite this, however, the UK economy expanded by 1.3 % during the first three quarters of the year. Whereas the countries of Central Eastern Europe reported high growth rates and strong currencies at the mid-year point, their situation also worsened considerably over the course of the third quarter. However, economic output by the region as a whole was up between 4 and 5 % in the period under review.

Weather cooler year on year

While economic momentum is primarily reflected in energy demand from industrial enterprises, household energy consumption is largely affected by the weather. This is because temperatures drive demand for domestic heating, leading to seasonal fluctuations in revenue and earnings, among other things. Accordingly, we generate about two thirds of our gas sales volume in the winter and autumn months (first and fourth quarters). But weather conditions also play a role when comparing financial years. In our core markets, i. e., Germany, the UK and Central Eastern Europe, the weather was cooler than it was during the same period in 2007, when it was very mild. Weather conditions not only affect energy consumption, but also electricity production, above all the amount of power generated by wind mills. In the period under review, there was slightly more wind in Germany than the long-term average.

Higher energy consumption in RWE's core markets

Initially strong industrial demand and the increased need for heating energy compared with the same period last year were chiefly responsible for the fact that more energy was consumed in our core markets. Most of all, demand for gas rose. In Germany, it was up an estimated 5 % on the level recorded in the corresponding period in 2007, in the UK up 5 % and it increased as much as 10 % in the Czech Republic. Growth in electricity consumption is estimated at just over 1 % in Germany, whereas initial data for the UK indicate a stagnation. Electricity usage was up 2 % in Poland and Hungary and 4 % in Slovakia.

Oil price: major decline following record high in July

The rapid rise in prices on international crude oil markets observed in the first half of the year led to record quotations exceeding US$ 140 per barrel of Brent at the beginning of July 2008. However, prices slipped considerably thereafter, ending up far below the 100-dollar mark at the close of September. A barrel of Brent crude cost an average of US$ 111 in the first nine months. This is 65 % more than in the same period last year. In euro terms, the price increase amounted to 46 % as a result of the weaker dollar year on year. Reasons for the climb in crude oil prices through the middle of the year included higher demand from newly industrializing countries such as India and China and limited production capacity. Furthermore, political tension such as over Iran's nuclear programme led to fears about adequate supply. Increased cash investments in raw materials also contributed to the rise in prices. The decrease in quotations since the mid-year point reflects the expectation of an economic slow down and the associated weakening of demand for crude oil.

Gas prices much higher year on year due to oil price trend

European gas prices track developments on the oil market, typically with a lag of several months. Germany's gas imports were about 30 % more expensive compared with the first three quarters of 2007. Changes in import prices are passed through to end customers with a delay as well. Therefore, gas bills paid by industrial customers were only an average of roughly 13 % higher than the level witnessed in the corresponding period in 2007. Bills for households and small commercial enterprises rose approximately 5 %. In the Czech Republic, our second-largest gas market, end customer prices were adjusted more quickly. Tariffs increased some 27 % for industrial enterprises and about 18 % for households and commercial customers. Prices on the UK gas spot market more than doubled year on year. A contributing factor besides the oil price was the considerable rise in demand. According to preliminary data, UK industrial and commercial customers had to pay about 55 % more than in 2007. Price adjustments in this segment are implemented much more rapidly than in sales to households, where gas was estimated to be 15 % more expensive. Gas prices on the Hungarian market were up 11 % for industrial enterprises and 9 % for households.

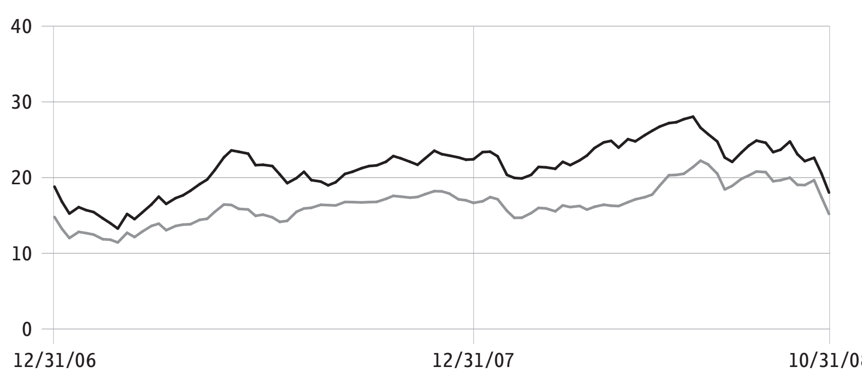
Hard coal twice as expensive as in 2007

The price curve on international hard coal markets was similar to that of crude oil. Prices quoted in Rotterdam spot trading climbed from US$ 129 at the start of the year to a record US$ 220 per metric ton (including freight and insurance) at the beginning of July, before falling significantly. At the end of September, a metric ton traded at US$ 164. The average price for the first nine months was US$ 168. This is more than twice as much as in the same period in 2007 (US$ 77). The substantial rise in demand from Asia was the main driver of the increase in prices. However, the dampening effect of the crisis on the financial markets and mounting fear of recession have prevailed since the middle of the year. Sea freight rates have recently become much cheaper as well, compared with the extremely high quotations through the mid-year point. At the end of September, the standard route from South Africa to Rotterdam only cost US$ 21 per metric ton, following temporary levels of up to US$ 64. In the first nine months, prices averaged US$ 38, clearly beating last year's comparable figure (US$ 27). 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 with a small lag. The BAFA price for the first half of the year was €99 per metric ton of hard coal unit. There are no official figures for the third quarter as of yet. Experts anticipate a price in the order of €125. In sum, BAFA prices in the first nine months were thus considerably higher than in the corresponding period of 2007 (€65).

CO_2 emissions trading: certificate prices much higher year on year

The second period of the European CO_2 emissions allowance trading scheme began on January 1, 2008, and will last until the end of 2012. Framework conditions are much less favourable for power producers, compared with the first trading period from 2005 to 2007. In the past, the number of allowances allocated by the state exceeded overall actual emissions originating from the plants participating in the EU emissions trading scheme. This is no longer the case from 2008 onwards, since the national allocation plans for the second trading period envision reductions in state allocations, some of which are substantial. Therefore, many utilities will have to obtain a great number of certificates. Alternatively, they can curb their CO_2 emissions by making less use of high-emission power plants.

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 Supply & Trading.

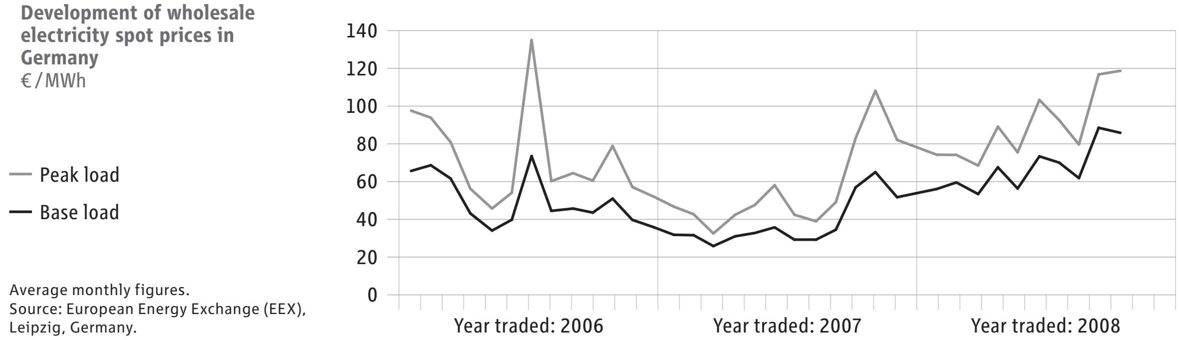
The anticipated scarcity of available emissions allowances compared to the first trading period is reflected in their market price. Whereas certificates for 2007 traded at just a few euro cents per metric ton of CO_2 at the end of last year, certificates for 2008 sold for an average of €24 in the period under review. The significant difference in price is only possible because market participants were not allowed to carry over surplus emissions allowances from the first to the second trading period. An increasing number of Certified Emission Reductions (CERs) are currently being generated. These are certificates obtained from emissions reductions achieved in developing and newly industrializing countries within the scope of the Clean Development Mechanism. European companies may cover domestic emissions up to a pre-determined level by submitting CERs. The advantage is that the costs for these types of certificates are usually lower than the market prices of state-allocated emissions allowances. Averaged for the first three quarters, 2008 CERs traded at €18 per metric ton of CO_2.

Substantial rise in prices on European electricity markets

The development of prices for fuel and emissions allowances was reflected on Europe's wholesale electricity markets as well. In spot trading on the European Energy Exchange (EEX) in Leipzig, Germany, base-load contracts were concluded at an average of €65 per megawatt hour (MWh) in the first three quarters of 2008. This was twice as high as in the same period in 2007 (€31). Peak-load electricity rose in price from €44 to €86. Among other things, the quotations reflected the significant difference in the cost of emissions certificates for 2008 versus 2007. Prices in German electricity forward trading rose as well. In the reporting period, contracts for the coming calendar year ("2009 forwards") sold for an average of €72 per MWh for base-load power and €101 per MWh for peak-load power. In comparison, 2008 forwards cost €55 and €79 on average, respectively, in the same period last year. Forward prices have been influenced above all by the development of hard coal and gas prices, leading to a substantial increase in electricity prices in the first six months. On July 1, 2008, 2009 base-load forwards, which sold for €62 per MWh at the beginning of the year, hit a record high of €90, before dropping to €77 at the end of September. The price decline since the middle of the year was thus more moderate than the one witnessed on international fuel markets. Changes in foreign exchange rates were a contributing factor. For instance, since the mid-year point, the price of hard coal, the fuel with the greatest influence on prices on the German electricity market, has fallen much less in euro terms than in US dollar terms. The fact that electricity forward prices remained relatively stable despite falling fuel prices also reflects other factors such as concerns about security of supply caused by tight generation capacity.

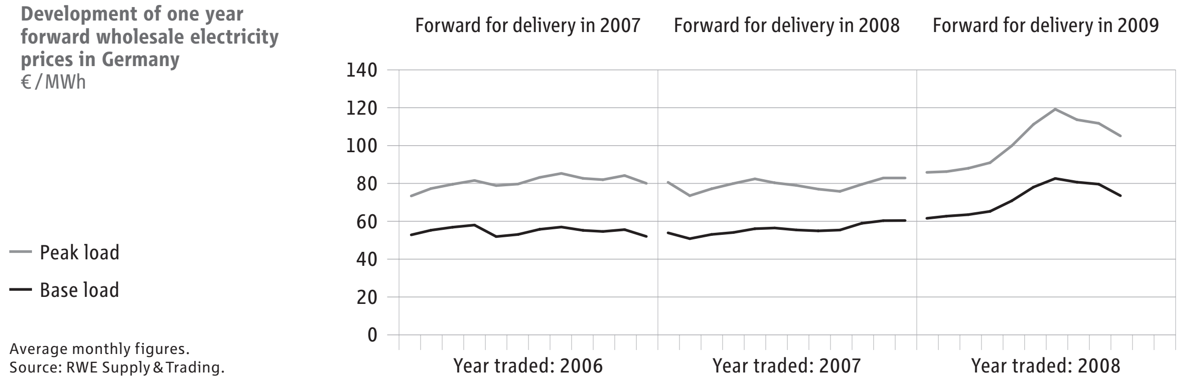
We sell forward nearly all our in-house electricity generation output in order to reduce sales and price risks. Therefore, current prices only have a minor impact on our income in the period under review. What is much more decisive is the price at which contracts for delivery in 2008 were concluded in preceding years. In the 2006 / 2007 trading period, German 2008 base-load forwards 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 Supply & Trading.

The trend in electricity prices for end customers and distributors in Germany reflects the rising prices on the wholesale market. Utilities had to lift tariffs across all customer segments due to the increase in electricity purchasing costs. In the first nine months 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 around 13 % more. For deliveries to this customer group, the share of electricity procurement costs in the total price is especially high.

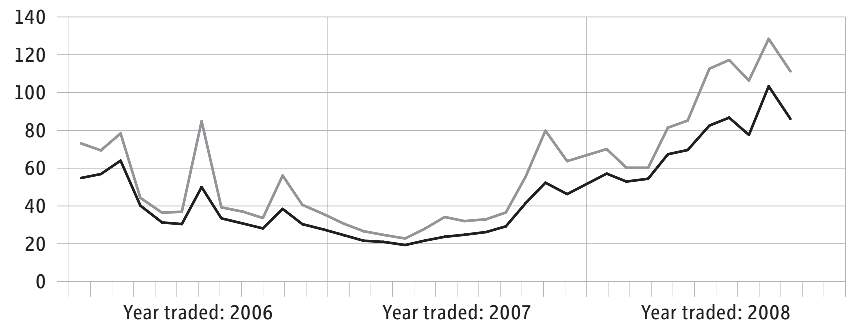
UK wholesale electricity prices were also markedly up year on year. In the first nine months of 2008, a megawatt hour of base-load power sold for an average of £ 72 (€ 92) on the spot market. This is more than triple the figure for the same period in 2007, which was £ 23 (€ 35). Peak-load power increased in price from £ 30 (€ 44) to £ 91 (€ 116). Electricity prices were significantly higher than those in Germany because in the UK, gas-fired power plants, which typically have high variable costs, account for a larger share of generation capacity, and thus have a stronger influence on the formation of electricity prices. Prices on the UK electricity forward market climbed as well. From January to September 2008, contracts for the 2009 calendar year traded at an average of £ 70 (€ 89) per MWh of base-load power. This is 85 % more than the cost of 2008 forwards in the same period last year. Peak-load forward prices advanced by 72 % to £ 84 (€ 107).

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, forwards for delivery in 2008 in the 2006 / 2007 trading period sold for 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.

Electricity tariffs in the UK end customer business rose to a much lesser extent than spot prices on the wholesale market. This is because most of the energy companies had purchased electricity for 2008 early on. As a result, their procurement costs were still affected by the development of forward prices in preceding years. Electricity purchases by industrial and commercial customers were an average of 12 % more expensive than in the first three quarters of 2007. The price increase in the household and small commercial enterprise segment was of a similar magnitude.

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

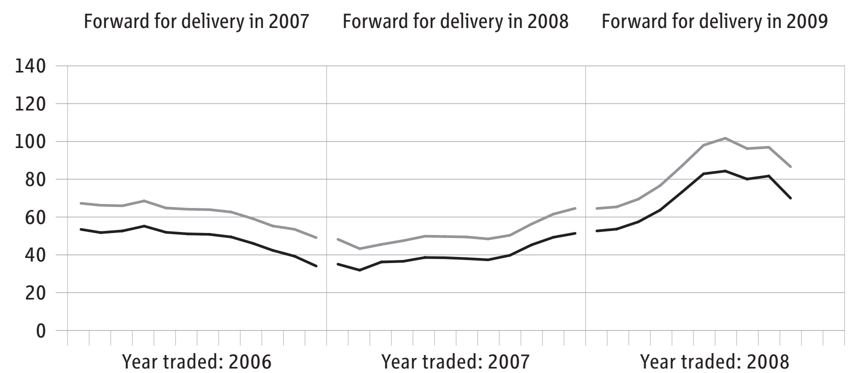
— Peak load
— Base load



Average monthly figures.
Source: RWE Supply & Trading.

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

— Peak load
— Base load



Average monthly figures.
Source: RWE Supply & Trading.

The price of electricity rose on our markets in Central Eastern Europe as well. Households in Slovakia were charged 3 % more year on year. Electricity bills for this customer group in Poland and Hungary were up even more, rising by 12 % and 18 %, respectively. In some instances price increases for industrial enterprises were even higher, amounting to 10 % in Slovakia, 23 % in Poland and 15 % in Hungary.

Major events

In the period under review

RWE no longer links increased payout ratio to sale of American Water
In September, the Executive Board of RWE AG decided that the prospective increase of the dividend payout ratio for fiscal 2008 will no longer depend on the successful placement of a majority of shares in American Water on the capital market. We are aiming for a payout ratio of 70 to 80 % of recurrent net income, irrespective of the progress of this transaction. The Executive and Supervisory Boards will decide on the dividend proposal to be made to the April 2009 Annual General Meeting in February next year. We confirm our intention to sell all of our shares in American Water—RWE’s last major non-core business—on the capital market. We have already placed 39.5 % of American Water on the New York Stock Exchange. Our intention is to increase this proportion to over 50 % by year-end. However, our adherence to this schedule is subject to the development of the market environment.

RWE chosen as strategic investor for a nuclear energy project in Bulgaria
The Bulgarian national electricity company NEK selected RWE as its partner in the construction of a nuclear power plant at the Belene site in the north of Bulgaria. The plant is to consist of two units, each with an installed capacity of 1,000 MW. NEK is offering us the opportunity to acquire a 49 % stake in the project company, which will handle the facility’s planning, construction and operation. NEK will retain a 51 % interest itself. We are in negotiations with the company over the details of a joint venture agreement. RWE is considering to involve additional partners. The joint venture will address major technical, legal and economic issues in the subsequent project phase. Compliance with the highest safety standards is the central prerequisite for our participation in the project.

Russian acquisition not implemented
In September, we decided not to take an interest in the Russian regional utility TGK-2. The plan to purchase a majority shareholding in TGK-2 in a joint venture with the Sintez Group was not expedient, partly based on RWE’s acquisition criteria. Irrespective of this decision, the Russian market remains attractive to RWE. We are still exploring other acquisition targets in this region.

RWE Innogy sets stage for construction of biomass and biogas plants
In September, RWE Innogy acquired 100 % of UK-based Helius Energy Alpha Ltd. Helius owns the rights for the development and operation of a 65 MW biomass power station in Lincolnshire (East Midlands), the construction of which is scheduled to begin in 2009. All the necessary permits have already been granted. RWE Innogy will invest a total of approximately €260 million in the project. The facility will be fuelled with wood residuals. In September, we also announced the construction of a biogas plant with a net installed thermal capacity of 6.5 MW in Güterglück in Saxony-Anhalt (Germany). Our plans envision production of biogas in this facility starting in the summer of 2009. The installation will process the biogas to natural gas grade quality and feed it into the local gas grid. Furthermore, we signed a letter of intent with Schmack Biogas for the construction of up to ten additional facilities of this kind.

RWE chooses site for climate-friendly coal-fired power plant

The planned large-scale power plant, which will feature an integrated gasification combined cycle (IGCC) as well as carbon capture, transportation and storage, will be built at the Goldenbergwerk site in Hürth near Cologne (Germany) and fuelled by Rhenish lignite resources. The construction of the plant, which will have a gross installed capacity of 450 MW, a pipeline and a CO_2 storage facility, will cost around €2 billion. RWE will invest €1 billion. In addition, we are seeking the participation of partners and state subsidies for the project. The ambitious timeframe foresees completion of the power station by the end of 2014. About 90 % of the CO_2 generated by the power plant will be captured and stored in suitable geological rock formations. RWE Dea plans to investigate potential storage locations in Schleswig-Holstein. Furthermore, in order to transport the carbon dioxide from the power plant site to the north of Germany, the upstream subsidiary plans to build a climate-protection pipeline. We aim to initiate the regional planning process for the pipeline route before the end of 2008.

RWE again qualifies for inclusion in two renowned sustainability indices

RWE received two major distinctions in the fields of sustainable management and climate protection. We were included in the Carbon Disclosure Leadership Index, the world's first climate protection index, for the second time since 2006. This was announced by the Carbon Disclosure Project (CDP) investor group in September. RWE thus ranks among the world's leading companies in the field of climate protection. The CDP is a collaboration among major institutional investors with the aim of providing transparency for financial markets regarding carbon dioxide emissions and precautionary climate strategies. In addition, RWE was also included in the internationally renowned Dow Jones Sustainability Index (DJSI) for another year in September. RWE is the only German utility to have been included in the DJSI without interruption since its inception in 1999. The Dow Jones Sustainability indices are established and published by SAM Sustainable Asset Management in cooperation with Dow Jones Indexes. They are widely recognized as the world's prime index group for sustainable corporate performance. The funds licensed according to DJSI criteria account for nearly US$ 6 billion.

Dr. Leonhard Birnbaum appointed to the Executive Board of RWE AG

The Supervisory Board of RWE AG appointed Dr. Leonhard Birnbaum (41) to the Executive Board of RWE AG effective October 1, 2008. He will succeed Berthold Bonekamp as Chief Strategy Officer (CSO). This Executive Board mandate comprises Corporate Strategy and Business Development, Mergers & Acquisitions, Research and Development and Renewable Energies. Berthold Bonekamp will leave the company at the end of the year and retire, as previously announced. Until then, Leonhard Birnbaum will be responsible for the Board Corporate Strategy / Business Development mandates—the areas he was hired to head up when he joined the RWE Group in April 2008. Before then, Dr. Birnbaum worked for the McKinsey consulting group, exiting as senior partner (director). The focus of his consulting activities were the utilities sector and the energy-intensive industry.

After the period under review

RWE Innogy acquires stake in Greater Gabbard UK offshore wind farm

RWE took a 50% interest in the construction and operation of the Greater Gabbard wind farm 25 kilometres off the south eastern coast of England. The UK utility Scottish and Southern Energy is its partner in the project. On completion in 2011, the wind farm will have 140 turbines with a combined installed capacity of 509 MW, which will be supplied by Siemens. The two partners will have to invest a total of £1.3 billion. This does not include grid connection costs. All of the required permits have been obtained. Onshore construction work has already commenced, while offshore activities are scheduled to start in the middle of 2009. Part of the wind farm is expected to begin operation as early as 2010.

RWE commences preparatory work for hard coal power plant in the Netherlands

October saw RWE begin doing work in the run-up to the construction of a dual-unit hard coal-fired power station in Eemshaven, the Netherlands. Major plant permits have been obtained. But the deadlines for objections and complaints have not yet expired. We expect to be able to start construction work at the beginning of 2009. If the project stays on schedule, the first unit could go online as early as 2012. The power station will have a net installed capacity of 1,560 MW and an efficiency of over 46%, making it one of the most modern of its kind worldwide. Biomass can be used for up to ten percent of the heat generation. Furthermore, the plant's design will allow for units to be retrofitted in order to extract CO_2 from flue gas. Based on our estimates, the capex budget will total €2.4 billion.

EU Commission fines RWE Dea for infringement of antitrust ban

The EU Commission fined several companies, including RWE, for contravening the antitrust ban. The companies have been charged with price fixing when selling paraffin wax. The RWE Group's paraffin wax business was run by Dea Mineraloel, which we sold to Shell in 2002. RWE has to pay a fine of €37 million. In sum, the companies affected by the Commission's ruling have been fined a total of €676 million. However, our 2008 earnings will not be affected, since we already accrued a provision in 2007. We are considering whether to take legal recourse against the EU Commission's decision.

Notes on reporting

Adjustment of reporting to reflect the Group's new structure

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

New company for renewables-based energy

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

American Water recognized as a "discontinued operation"

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. In accordance with IFRS, we adjusted the comparable figures for the first three quarters of 2007. As far as capital expenditure and the cash flow statement are concerned, American Water is only included in the figures for 2007.

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

As of 2008, we recognize actuarial gains and losses on defined-benefit pension plans and similar obligations using a new method pursuant to IAS 19.93A. For detailed commentary, please turn to page 47 in the notes. According to IFRS, prior-year figures had to be adjusted accordingly. This primarily affects provisions for pensions and similar obligations, other non-current receivables and other assets, deferred taxes and retained earnings. There are minor retroactive changes to the staff costs and taxes on income in the income statement for 2007.

Business performance

Electricity production January – September	RWE Power[1]		RWE npower		RWE Group[2]	
Billion kWh	2008	2007	2008	2007	2008	2007
In-house generation	135.8	129.6	27.1	23.6	168.2	155.4
Lignite	55.1	56.4	–	–	55.1	56.4
Nuclear	37.1	23.7	–	–	37.1	23.7
Hard coal	33.1	39.0	11.9	10.0	45.7	49.5
Gas	8.5	6.4	14.9	12.9	24.5	20.3
Renewable energies	0.5	2.4	–	0.6	4.0	3.7
Pumped storage, oil, other	1.5	1.7	0.3	0.1	1.8	1.8
Electricity purchased from third parties	–	–	12.9[3]	18.8[3]	80.0	84.7
Total	**135.8**	**129.6**	**40.0**	**42.4**	**248.2**	**240.1**

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 three quarters of 2008, they break down into 22.1 billion kWh (hard coal), 0.4 billion kWh (renewables) and 1.1 billion kWh (pumped storage, oil, other).
2 Including generation and electricity purchases of RWE Energy's regional companies and the renewables-based electricity generation, which was transferred to RWE Innogy in 2008.
3 Electricity purchased by RWE npower largely via RWE Supply & Trading.

Electricity generation up 8 %

In the first nine months of 2008, the RWE Group produced 168.2 billion kWh of electricity—8 % more than in the same period in 2007. In-house generation and power purchases combined for 248.2 billion kWh. This was 3 % higher year on year.

RWE Power contributed 135.8 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 nine months 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 favourable and less maintenance work was done than in the same period last year. In contrast, electricity production by our hard coal-fired power stations experienced a margin-driven decline compared to the year-earlier level. We also generated less electricity from lignite. This was largely due to an increase in maintenance work and unplanned outages resulting from boiler damage.

Power production at RWE npower was up 15 % to 27.1 billion kWh. This is primarily due to improved market conditions for our UK gas and hard coal power plants. However, two of the three hard coal units at our Aberthaw location were only available to a limited extent due to delays in the installation of a flue gas desulphurization unit.

RWE Innogy, our specialist for renewables energies, generated 2.9 billion kWh in the period under review. This production predominantly stems from capacity which the company took over from RWE Power, RWE npower and RWE Energy.

RWE Energy generated 2.4 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 produced 2,457 million m³ of gas and 1,826 thousand m³ of oil. In terms of oil equivalent, output totalled 4,205 thousand m³, which equals 26.4 million barrels. Our total production was thus roughly on par with the year-earlier level. Gas output was up 9 %. The biggest gain was recorded in Germany where we benefited from measures to improve production yield. Output was higher in Egypt as well, because a concession agreement was modified to our benefit. Furthermore, we commissioned an additional production well there. By contrast, crude oil output was down 12 %. This was largely because we sold our license in Dubai in April 2007. Production from our oil fields is declining as reserves are being exhausted. This is happening primarily in our fields in Germany—as well as in Norway, where production outages occurred due to maintenance work. Conversely, we increased output in Egypt and Denmark.

Electricity sales slightly above year-earlier level

In the first nine months of 2008, we sold 235.8 billion kWh of electricity to external customers—3 % 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 – September	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	0.2	0.2	–	–	26.2	26.7	15.6	15.9	42.2	43.0
Industrial and corporate customers	–	–	–	–	52.3	48.4	22.8	24.4	75.6	72.8
Distributors	10.1	10.7	–	–	54.6	51.6	–	–	65.3	62.3
Electricity trading	–	–	52.7	50.0	–	–	–	–	52.7	50.0
Total	**10.3**	**10.9**	**52.7**	**50.0**	**133.1**	**126.7**	**38.4**	**40.3**	**235.8**	**228.1**

1 Including electricity sales generated by RWE Innogy.

At 10.3 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 also encompass production by our German Gundremmingen and Emsland nuclear power stations, which is allocable to the minority shareholder in these plants. The main reason for the drop in sales compared to 2007 is that renewables-based generation capacity was transferred to RWE Innogy.

RWE Supply & Trading sold 52.7 billion kWh of electricity. Volumes stem from the sale of in-house production on the wholesale market. Pure trading transactions with electricity purchased from third parties are not included in our figures. The 5 % sales improvement results from the fact that RWE generated more electricity.

RWE Energy's electricity deliveries advanced by 5 % to 133.1 billion kWh, in part because we acquired new industrial and corporate customers. In addition, the cyclically-induced expansion of industrial production at the beginning of the year led to a rise in consumption. 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). In contrast, sales to household and commercial customers decreased, above all as a result of fiercer competition in the German sales business. As of September 30, 2008, RWE Energy supplied electricity to 6.9 million homes and small commercial enterprises in Germany—some 190,000 fewer than at the end of 2007. These figures exclusively refer to our fully consolidated companies. There were substantial customer losses at the beginning of the year. In the second quarter, customers gained and lost nearly offset each other. As of late, we have recorded marginal gains. Our Internet sales company eprimo was successful in this context, as it grew its customer base from 200,000 to 330,000 in the period being reviewed. Our "loyalty electricity offering" for German private customers, which includes a fixed tariff over three years, was very well received as well. By the end of October, some 500,000 households had signed up for this product.

RWE npower's electricity sales totalled 38.4 billion kWh, which was 5 % less year on year. The decline is primarily allocable to the industrial and corporate customer segment and is partially due to the fact that some of the companies we supplied switched providers. We benefited from a rise in demand for electricity for heating purposes in the household and small commercial segment. However, customer losses led to a drop in sales. In this segment, we served 4.2 million electricity customers as of September 30, 2008. This is about 200,000 fewer than at the end of 2007.

External gas sales volume January – September	RWE Dea		RWE Supply & Trading		RWE Energy		RWE npower		RWE Group[1]	
Billion kWh	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Private and commercial customers	–	–	–	–	39.2	37.4	32.0	29.8	71.2	67.2
Industrial and corporate customers	2.0	2.2	–	–	66.8	74.1	6.5	6.8	75.3	83.1
Distributors	12.3	11.4	6.5	–	60.6	60.5	–	–	79.4	72.3
Total	**14.3**	**13.6**	**6.5**	**–**	**166.6**	**172.0**	**38.5**	**36.6**	**225.9**	**222.6**

1 Including minor gas sales by RWE Power.

Gas sales volume slightly up year on year

External gas sales amounted to 225.9 billion kWh. This was slightly more than in the year-earlier period. As explained earlier, temperatures in our sales regions were lower overall than in the same period last year, which had been unusually warm. This resulted in higher demand for gas from households for heating purposes. Customer losses on our core markets, namely Germany and the UK, had a counteracting effect.

RWE Dea delivered 14.3 billion kWh of gas to external customers—5 % more than a year earlier. Including internal sales, gas sales rose by 11 % to 24.8 billion kWh. This is due to the company’s increased production, especially in Germany.

RWE Supply & Trading’s gas sales are primarily internal sales. We pooled the RWE Group companies’ gas procurement activities in the newly established division. RWE Supply & Trading sells gas to external customers only to a limited extent. Whereas there were no reportable external sales in this division in 2007, they totalled 6.5 billion kWh in the first nine months of this year. This is predominantly due to the fact that we began stating RWE Transgas’ midstream activities under RWE Supply & Trading effective January 1, 2008. They were previously assigned to the RWE Energy Division. In addition to the gas procurement for the Czech market, they encompass the international marketing of gas purchases not required for the Czech Republic.

Gas sales by RWE Energy amounted to 166.6 billion kWh. They were thus 3 % lower than in the same period last year, despite the generally cooler weather. We felt the consequences of increasingly fierce competition on the German gas market. Some of our industrial and corporate customers switched suppliers or started diversifying their gas procurement. Fiercer competition also had a negative effect on the distributor segment. The number of private households and commercial operations we serve only declined slightly. At the end of September, our gas customer base in this segment in Germany totalled approximately one million. During the course of the period under review, we lost about 40,000 customers. We intend to limit the decline by marketing innovative products, among other things. Since September 1, 2008, we have been giving households and small commercial enterprises in Germany the option to purchase gas at a fixed price for a period of three years, similar to our offering in the electricity business. By the end of October, we had already won 120,000 customers for this product. Our sales activities in the Netherlands were especially successful, enabling us to increase our customer base in that country.

RWE npower grew its gas deliveries by 5 % to 38.5 billion kWh, despite marginal customer losses. This gain exclusively stems from business with households and small commercial enterprises and is largely due to the increased demand for gas for heating purposes. At the end of September, RWE npower provided gas to 2.6 million customers in this segment—roughly 65,000 fewer than as of December 31, 2007.

External revenue[1] € million	Jan – Sep 2008	Jan – Sep 2007	+ / – in %	Jan – Dec 2007
RWE Power	1,011	932	8.5	1,329
RWE Dea	1,362	1,032	32.0	1,496
RWE Supply & Trading	4,106	2,645	55.2	3,793
RWE Energy	21,646	19,171	12.9	26,877
German regions	12,130	11,463	5.8	16,015
International regions	4,719	3,711	27.2	5,589
Supraregional operations	4,596	3,813	20.5	5,012
Other, consolidation	201	184	9.2	261
RWE npower	6,076	6,405	–5.1	8,920
Other, consolidation	253	87	190.8	92
RWE Group	**34,454**	**30,272**	**13.8**	**42,507**
of which:				
Electricity revenue	23,133	20,481	12.9	27,917
Direct electricity tax	697	696	0.1	961
Gas revenue	8,150	7,245	12.5	10,768
Oil revenue	970	772	25.6	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 13.

External revenue up 14 % year on year

In the first three quarters of 2008, the RWE Group generated € 34.5 billion in external revenue. Compared with 2007, this corresponds to a 14 % rise, which is due to increased electricity and gas prices, with improved sales also playing a role. Net of major currency and consolidation effects, Group revenue rose by 16 %. Sterling, our major foreign currency, lost in value compared to the euro: Averaged for the period under review, the exchange rate was £ 0.78 / € compared with £ 0.68 / € in the corresponding period in 2007. The US dollar depreciated as well, whereas the Czech crown increased in value.

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

External revenue posted by RWE Power amounted to €1,011 million, which was 8 % above the level in the corresponding period in 2007. As explained, almost all our German electricity production is sold on the market by RWE Supply & Trading and RWE Energy. Therefore, RWE Power's external revenue is relatively low.

It primarily comes from electricity sales generated by non-German subsidiaries (predominantly by Mátra in Hungary) and the marketing of lignite-based products (e. g. briquettes). The increase in revenue is mainly due to the fact that we were able to sell our power generation in Hungary at higher prices. The transfer of the renewables-based power production business to RWE Innogy had a counteracting effect.

RWE Dea lifted its external revenue by 32 % to €1,362 million. External revenue earned by the oil business increased markedly despite declining sales volumes, as we were able to sell our production at higher dollar prices than in the same period last year. RWE Dea recorded strong revenue growth in the gas business as well. Positive price and volume effects were the basis for this.

RWE Supply & Trading produced €4,106 million in external revenue. This was 55 % 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 external revenue is the fact that we started reporting revenue earned by the midstream activities of RWE Transgas under RWE Supply & Trading in 2008.

RWE Energy recorded a gain of 13 % to €21.6 billion. At €14.7 billion, electricity revenue was also 13 % higher than in the same period last year. The aforementioned expansion of the sales volume contributed to this. Moreover, we had to increase prices owing to the rise in energy procurement costs and expenses incurred to comply with the German Renewable Energy Act. 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 full consolidation of eprimo last year. Revenue generated by the web-based electricity sales specialist has been included in our figures as of April 1, 2007. RWE Energy contributed €6.3 billion in external revenue from gas sales. This figure was up 13 % as well. The substantial rise in the price of gas purchases compared to 2007 caused us and our competitors to increase prices. All of RWE's regional companies have lifted tariffs in the German household customer business over the course of the year. The development of our gas revenue in the Czech Republic benefited from the appreciation of the Czech crown over the euro.

RWE npower recorded a 5 % drop in external revenue to €6,076 million. This was largely due to the devaluation of the pound Sterling compared to the euro. Electricity revenue was down 5 % to €4,437 million, while gas revenue slipped 10 % to €1,307 million. Net of currency effects, however, revenue increased by 10 % and 5 %, respectively. RWE npower had reduced electricity and gas prices for household customers by an average of 3 % and 16 % at the end of April 2007, followed by price increases of 12.7 % and 17.2 % at the beginning of January 2008 and 14 % and 26 % at the end of August. This had a positive impact on earnings, whereas reductions in electricity sales volumes 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 – Sep 2008	Jan – Sep 2007	+ / – in %	Jan – Dec 2007
RWE Power	7,412	5,836	27.0	8,125
RWE Dea	131	149	–12.1	198
RWE Supply & Trading	13,264	9,924	33.7	13,617
RWE Energy	1,361	1,124	21.1	1,596
RWE npower	6	3	100.0	5

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 13.

Operating result improved 5 %

Thanks to a strong third quarter, the RWE Group was able to lift its operating result year on year. Our EBITDA in the first nine months improved by 6 % to € 6,844 million. We increased our operating result by 5 % to € 5,788 million. Net of currency and consolidation effects, the rises were 7 % (EBITDA) and 6 % (operating result). This earnings growth was primarily driven by our German power generation business, which benefited from improved margins and the positive volume effect of the recommissioning of the Biblis nuclear power plant. However, we also had to cope with burdens in the period under review—especially as a result of the significant reduction in emissions allowance allocations and regulatory cuts to our German grid fees. Following weak earnings in the first half of the year, our energy trading operations had a very successful third quarter. But as expected, they closed the period markedly down on the unusually strong result achieved a year earlier. In sum, divisional earnings are on track. Based on current expectations, we will achieve our targets for the full year.

Reconciliation of income from operating activities to EBITDA € million	Jan – Sep 2008	Jan – Sep 2007[1]	+ / – in %	Jan – Dec 2007[1]
Income from operating activities	4,938	4,990	–1.0	5,788
+ Income from investments	344	430	–20.0	596
– Non-operating result	506	85	495.3	149
Operating result	5,788	5,505	5.1	6,533
– Operating income from investments	–345	–369	6.5	–541
+ Operating depreciation and amortization	1,401	1,296	8.1	1,923
EBITDA	**6,844**	**6,432**	**6.4**	**7,915**

1 Figures partially adjusted; see commentary on page 13.

EBITDA[1] € million	Jan – Sep 2008	Jan – Sep 2007	+ / – in %	Jan – Dec 2007
RWE Power	2,943	2,469	19.2	3,072
RWE Dea	620	546	13.6	755
RWE Supply & Trading	369	648	–43.1	534
RWE Energy	2,344	2,213	5.9	2,802
German regions	1,334	1,242	7.4	1,552
International regions	569	530	7.4	760
Supraregional operations	610	679	–10.2	833
Other, consolidation	–169	–238	29.0	–343
RWE npower	506	635	–20.3	870
Other, consolidation	62	–79	178.5	–118
RWE Group	**6,844**	**6,432**	**6.4**	**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 13.

Operating result[1] € million	Jan – Sep 2008	Jan – Sep 2007	+ / – in %	Jan – Dec 2007
RWE Power	2,678	2,189	22.3	2,617
RWE Dea	436	394	10.7	492
RWE Supply & Trading	341	647	–47.3	532
RWE Energy	1,971	1,867	5.6	2,355
German regions	1,075	995	8.0	1,209
International regions	512	475	7.8	692
Supraregional operations	518	629	–17.6	767
Other, consolidation	–134	–232	42.2	–313
RWE npower	379	535	–29.2	724
Other, consolidation	–17	–127	86.6	–187
RWE Group	**5,788**	**5,505**	**5.1**	**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 13.

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

RWE Power achieved an operating result of €2,678 million in the first three quarters of 2008—a gain of 22 %. Last year, an outage of the Biblis nuclear power station had a very adverse effect. Both blocks have since been brought back online (see page 14) with a positive impact on the operating result. Another contributing factor was that we realized higher prices for our German electricity production. However, the division's earnings trend was also marked by negative effects. As mentioned earlier, the free state allocation of emissions allowances has decreased substantially. As a result, RWE Power has to buy more emissions certificates than in the past. Costs incurred for this in the reporting period amounted to €861 million (first three quarters of 2007: €111 million). The rise in hard coal and power plant gas prices resulted in an additional expense of about €300 million in total. Material and staff costs rose as well. The transfer of the power generation activities to RWE Innogy had a further effect on earnings.

RWE Dea improved its operating result by 11% to €436 million despite much higher production and exploration costs. The company benefited from the marked increase in crude oil prices in the first six months. However, RWE Dea had already secured the price of some of its production previously. Therefore, it was unable to take full advantage of the market's development. The depreciation of the dollar year on year and the decline in oil production also dampened the earnings rise. In contrast, RWE Dea posted gains in terms of both price and volume in the gas business.

RWE Supply & Trading earned an operating result of €341 million. The division thus clearly remained below the year-earlier level (€647 million), although our underlying business performance was essentially as successful as it was during the same period last year. Under IFRS some of our trading transactions are recognized in the operating result with a delay. This applies to the external marketing of electricity produced by RWE Power and RWE npower. Income from these trading transactions can only be accounted for as profit or loss at the time of delivery of the electricity. Thus, a significant portion of the contracts entered into in 2008 will not be recognized until 2009. In addition, the business is suffering this year from substantially lower margins on contracts entered in previous years which are being realized in 2008. The first-time inclusion of the purchasing activities of the gas midstream business of RWE Transgas made a substantial contribution to the operating result.

The operating result achieved by RWE Energy was up 6% to €1,971 million. This was due to earnings improvements in the electricity sales business and cost reductions. However, this was contrasted by significant burdens owing to regulatory reductions in German grid fees, which led to a drop in earnings of around €350 million compared with the corresponding period last year. Furthermore, we incurred additional expenses to procure balancing power. The net effect of consolidation and reclassification on the operating result was an increase of €74 million; foreign exchange rate differentials had an additional impact of €72 million.

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

- German regions: RWE Energy's domestic regional companies closed the reporting period 8% up year on year—despite fee cuts imposed on their distribution grids. The resulting burdens were curbed by cost-reducing measures. Earnings in the German electricity sales business recorded a marginal improvement, despite the significant rise in pressure from competition. Slight gains in sales volume contributed to this. The first-time consolidation of small companies also had a positive effect. However, the rise in procurement costs in the gas sales business had a counteracting impact. In the period being reviewed, we were only able to pass part of the cost increase through to our end customers. Several regional companies did not implement the necessary tariff rises until September and October.

- International regions: We recorded an 8 % gain in the Continental European grid and sales business outside Germany. In Hungary, we benefited from higher electricity margins. Our earnings in the Dutch gas sales business also improved. Positive volume-related effects resulting from customer acquisitions were felt here as well as margin improvements. Moreover, earnings benefited from the appreciation of the Czech crown over the euro. The absence of a contribution from our Dutch gas grid operations, which we sold to the City of Eindhoven as of June 1, 2007, had a counteracting effect.

- Supraregional operations: The operating result recorded by this business unit declined by 18 %, largely due to regulatory cuts to our German electricity transmission grid fees. In addition, costs incurred to purchase balancing power were higher. This is used to balance sudden fluctuations in amounts of electricity fed into and withdrawn from the power grid. There has recently been a much increased need for balancing power predominantly owing to the rise in wind power. In addition to the aforementioned burdens, we had to deal with higher costs associated with action taken to strengthen eprimo's market position.

RWE npower's operating result declined by 29 % to €379 million, partially due to currency effects. In Sterling terms, the operating result was down 18 %. Our earnings in the UK electricity generation business improved. We lifted earnings through improved plant availability and short-term position management. Expenses incurred to purchase CO_2 emissions certificates totalled €156 million, compared with €64 million in the corresponding period in 2007. In contrast, the operating result achieved by the sales business declined considerably—also net of currency effects. 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 and bad debt increased. Furthermore, the British government obliges UK utilities to promote energy savings in homes and to provide assistance to low-income customers. RWE npower spent substantially more on this than in the same period last year.

Reconciliation to net income: accounting effect and one-off charge due to American Water

The reconciliation from the operating result to net income was characterized by one-off charges. These were related to discontinued operations (American Water), among other things. Another negative effect was felt from the IFRS accounting treatment of commodity derivatives, which, however, will be offset in later periods. Furthermore, we had lower capital gains compared with the same period last year. The drop in the effective tax rate had a positive impact.

Non-operating result € million	Jan – Sep 2008	Jan – Sep 2007[1]	+ / – € million	Jan – Dec 2007
Capital gains	47	327	–280	339
Impairment losses	–	–	–	–
Restructuring, other	–553	–412	–141	–488
Non-operating result	**–506**	**–85**	**–421**	**–149**

1 Figures adjusted; see commentary on page 13.

In the first nine months, the non-operating result decreased from –€85 million to –€506 million. Its components developed as follows:

- Capital gains totalled €47 million and were thus markedly down on the figure achieved a year earlier (€327 million). The latter included the book gain on the sale of our Dutch gas grids. Furthermore, we had transferred a 25% stake in rhenag Rheinische Energie AG to RheinEnergie AG in 2007. We divested another 8% in rhenag in the period under review, which resulted in a capital gain.

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

- The result stated under "Restructuring, other" decreased although there were substantial negative effects in the same period last year. It dropped by €141 million to –€553 million. This was primarily due to a special item relating to the accounting treatment of derivative transactions, which are mainly concluded to hedge the prices of future gas sales by RWE Supply & Trading. Pursuant to IFRS, these derivatives are accounted for at fair value at the corresponding balance sheet date, whereas the underlying transactions are only recognized with an effect on profit or loss later on, when they are realized. This results in short-term effects on earnings, which are neutralized over time. In the reporting period, the rise in fuel prices caused RWE Supply & Trading's aforementioned oil price-linked gas supply agreements to gain value, whereas reductions in value in the same amount were incurred from the hedges (which show the exact opposite reaction). Since the one-sided disclosure of changes in the fair value of derivatives does not reflect economic reality, we have been recognizing the changes in the non-operating result since the interim financial statements for the first half of 2008. These derivatives caused us to incur a charge of €320 million as of September 30, 2008. This is already much less than in the first half of the year (€430 million). The decline in oil prices in the third quarter was the main reason. By year-end, the negative effect on earnings is likely to decrease further, since we will have realized part of the counteracting underlying transactions with an effect on earnings by then.

  The "Restructuring, other" item also includes the amortization of RWE npower's customer base. It amounted to €214 million and was thus marginally lower than 2007's comparable figure (€247 million) for currency-related reasons. Changes made to nuclear provisions led to €69 million in income (first three quarters of 2007: €125 million).

Financial result € million	Jan – Sep 2008	Jan – Sep 2007[1]	+ / – in %	Jan – Dec 2007
Interest income	624	648	–3.7	855
Interest expenses	–660	–1,025	35.6	–1,334
Net interest	**–36**	**–377**	**90.5**	**–479**
Interest accretion to non-current provisions	–561	–629	10.8	–771
Other financial result	–422	168	–351.2	112
Financial result	**–1,019**	**–838**	**–21.6**	**–1,138**

1 Figures adjusted; see commentary on page 13.

The financial result decreased by €181 million to –€1,019 million. The decline is primarily attributable to the "Other financial result," which was clearly in negative territory at –€422 million. A contributing factor was that we wrote down securities or sold them at a book loss. In the prior-year period, the "Other financial result" was unusually high, partially due to income from the reduction of our interest in Heidelberger Druckmaschinen (€142 million). Furthermore, we had benefited from a one-off effect stemming from the externalization of our pension obligations: At the end of March 2007, we had transferred €7.9 billion in funds, earmarked to finance pension commitments to an external asset management company (RWE Pensionstreuhand e. V.) within the scope of a contractual trust arrangement (CTA) and netted them against provisions for pensions. The deconsolidation of special funds implemented in this context led to €155 million in one-off income. The negative development witnessed in the "Other financial result" is contrasted by a €341 million improvement in net interest. One factor that came to play here was that our average net financial debt over the course of the first three quarters of 2008 was lower than in the corresponding period in 2007. The interest accretion to non-current provisions also displayed positive development. It was down by €68 million. This was primarily due to the decline in provisions for pensions in connection with the CTA.

Our continuing operations generated income before tax amounting to €4,263 million—7 % less than in 2007. Our effective tax rate was down ten percentage points to 28 %. This is mainly due to the fact that German income tax rates were cut as part of the 2008 German corporate tax reform. Furthermore, we successfully concluded tax litigation cases. The RWE Group's normalized tax rate for 2008 is 31 %, compared with 39 % in the same period last year.

Income from continuing operations after tax improved by 8 % to €3,057 million.

The RWE Group's discontinued operations (American Water) closed the period with a loss of €598 million, which was largely caused by the IPO of American Water. When we floated 39.5 % of the shares in the US water utility, we recognized an impairment loss and had to write down the value of our remaining stake in the company accordingly.

The minority interest totalled €248 million, which was substantially more than in the same period last year. Some of the companies in which entities outside the RWE Group hold a minority stake posted considerable rises in income. This mainly holds true for RWE Energy's regional companies in the Czech Republic and Hungary.

The RWE Group's net income declined by 22 % to €2,211 million. Our earnings per share dropped from €5.04 to €4.09. The number of RWE shares outstanding decreased as a result of the share buyback programme concluded in May. There was an average of 541.1 million shares outstanding in the period under review, compared with 562.4 million a year earlier.

Reconciliation to net income		Jan – Sep 2008	Jan – Sep 2007[1]	+ / – in %	Jan – Dec 2007[1]
Operating result	€ million	5,788	5,505	5.1	6,533
Non-operating result	€ million	–506	–85	–495.3	–149
Financial result	€ million	–1,019	–838	–21.6	–1,138
Income from continuing operations before tax	€ million	**4,263**	**4,582**	**–7.0**	**5,246**
Taxes on income	€ million	–1,206	–1,751	31.1	–2,081
Income from continuing operations	€ million	**3,057**	**2,831**	**8.0**	**3,165**
Income from discontinued operations	€ million	–598	141	–524.1	–274
Income	€ million	**2,459**	**2,972**	**–17.3**	**2,891**
Minority interest	€ million	248	138	79.7	224
Net income[2]	€ million	**2,211**	**2,834**	**–22.0**	**2,667**
Recurrent net income	€ million	**3,077**	**2,572**	**19.6**	**2,985**
Earnings per share	€	4.09	5.04	–18.8	4.74
Recurrent net income per share	€	5.69	4.57	24.5	5.31
Effective tax rate	%	28	38	–26.3	40

1 Figures partially adjusted; see commentary on page 13.
2 RWE shareholders' share in income.

Another important performance indicator is recurrent net income. It is net income adjusted for one-off effects and is decisive for our dividend policy. It does not include the non-operating result. Material one-off effects in the financial result, taxes and discontinued operations are deducted as well. In consequence, the goodwill impairment for American Water is disregarded, as is the burden on earnings from the aforementioned changes in the fair value of commodity derivatives. In the first three quarters of the year, recurrent net income totalled €3,077 million. This represents an increase of 20 % compared with the same period in 2007. We expect to see a rise of over 10 % for the year as a whole.

Efficiency-enhancement programme: the 2008 year-end target will be achieved

Our programme designed to improve efficiency is on schedule. It includes measures to reduce costs and increase revenue, which should gradually improve our annual earnings by €1.2 billion by the end of 2012. 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 network regulator. Further savings are to be achieved through improvements in IT services and purchasing as well as the pooling of back-office functions. Moreover, we plan to increase revenue by taking extensive measures to improve the technical availability of our power plants, among other things. As in 2007, we will generate an additional earnings contribution of €100 million with the programme this year.

Capital expenditure € million	Jan – Sep 2008	Jan – Sep 2007	+ / – € million	Jan – Dec 2007
Capital expenditure on property, plant and equipment[1]				
RWE Power	1,009	772	237	1,127
RWE Dea	431	354	77	505
RWE Supply & Trading	–	1	–1	3
RWE Energy	579	448	131	1,147
RWE npower	302	379	–77	587
Water Division	–	430	–430	635
Other, consolidation	204	29	175	61
Total	**2,525**	**2,413**	**112**	**4,065**
Capital expenditure on financial assets				
RWE Power	1	1	–	67
RWE Dea	–	–	–	–
RWE Supply & Trading	293	–	293	1
RWE Energy	100	47	53	55
RWE npower	–	–	–	–
Water Division	–	–	–	9
Other, consolidation	507	31	476	30
Total	**901**	**79**	**822**	**162**
Total capital expenditure	**3,426**	**2,492**	**934**	**4,227**

1 Including intangible assets.

Capital expenditure 37 % up year on year

The RWE Group spent €3,426 million in capital in the first three quarters of 2008. American Water is no longer included in this figure. The €2,492 million recorded in the same period last year, which still included the US water utility, was exceeded by 37 %. This is predominantly allocable to capital expenditure on financial assets, which at €901 million was far above the low figure (€79 million) achieved in the corresponding period in 2007. The single-largest item was RWE Supply & Trading's acquisition of a 50 % interest in Excelerate Energy, a US-based company that specializes in the transportation of liquefied natural gas. This transaction was completed at the end of May. Moreover, RWE Innogy undertook new growth projects, namely the acquisition of wind power plant operator Iberian Renovables Corporación (formerly "Urvasco Energía") and the establishment of a joint venture with Fri-El Green Power for the development of wind and biomass projects in Italy. Our capital spending on property, plant and equipment totalled €2,525 million and was thus 5 % up year on year. Excluding American Water, it was 27 % higher. Forty percent of the funds were spent by RWE Power. The 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 building 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 has stepped up its capital expenditure on the exploration of gas reserves in North Africa. RWE npower's biggest project is the construction of a 1,650-MW combined-cycle gas turbine power plant in Staythorpe, UK. RWE Energy earmarked most of the capital it spent on property, plant and equipment for measures to maintain and improve grid infrastructure. Capital expenditure on property, plant and equipment by RWE Innogy, which is in its startup phase, was still rather low (€143 million). Most of it was used to increase our wind-based power generation capacity.

Cash flow statement[1] € million	Jan–Sep 2008	Jan–Sep 2007	+/– in %	Jan–Dec 2007
Cash flows from operating activities	4,349	4,801	–9.4	6,085
Impact of the change in working capital	–1,176	208	–665.4	–222
Cash flows from investing activities	1,661	–2,646	162.8	–4,483
Cash flows from financing activities	–5,387	–2,524	–113.4	–2,458
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	4	–11	136.4	–16
Total net changes in cash and cash equivalents	627	–380	265.0	–872
Cash flows from operating activities	4,349	4,801	–9.4	6,085
Minus capital expenditure on property, plant and equipment and intangible assets	–2,525	–2,413	–4.6	–4,065
Free cash flow	**1,824**	**2,388**	**–23.6**	**2,020**

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

Cash flow statement—key figures

In the first three quarters of 2008, we generated €4,349 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. Cash flows from operating activities were down €452 million, partly because American Water was not considered (–€353 million). Furthermore, our tax payments were higher year on year, despite the lower tax charge. In addition, there was a special item resulting from the sale of part of our power generation via futures on the European Energy Exchange (EEX) in Leipzig, Germany, at firm prices early on. We use these types of hedging transactions to limit the short-term influence of volatile commodity prices on our earnings. On the balance sheet date, electricity market prices were higher than the sales prices established on conclusion of the futures. RWE had to provide the EEX with payments called "variation margins" for the differences. These amounted to €0.6 billion as of September 30. However, the payments only have a temporary effect because they will be recovered no later than when the electricity is delivered. We suffered a much larger burden on liquidity in the interim financial statements for the first half of 2008 owing to the higher level of electricity prices. Our cash flows from investing and divesting activities (including cash investments) amounted to €1,661 million in the period under review. The proceeds largely stem from the sale of securities (€3.8 billion). Cash flows from financing activities totalled €5,387 million. This primarily reflects the share buyback (€2.5 billion), our dividend payments (€2.0 billion) and a bond redemption (€1.3 billion).

Cash flows from operating activities, minus capital expenditure on property, plant and equipment, result in free cash flow, which decreased by €564 million to €1,824 million.

Increase in net debt due to share buyback and dividend payments

As of September 30, 2008, net debt of the RWE Group (including discontinued operations) totalled €18.4 billion. We have established a new definition for it: Net debt previously equalled net financial debt plus provisions for pensions. From 2008 onwards, our net debt also includes provisions for nuclear waste management and mining damage. The capitalized surplus of plan assets over benefit obligations is subtracted. To ensure comparability, we calculated the prior-year figure using the new definition as well. The RWE Group's net debt was up €1.9 billion from the end of 2007. This was largely driven by the share buyback and the dividend payments. Currency effects had a debt-reducing impact of €0.3 billion. The weakness of the pound Sterling was a major contributing factor.

Net debt € million	09/30/08	12/31/07[1]	+/– in %
Cash and cash equivalents	2,549	1,922	32.6
Marketable securities	7,000	11,302	–38.1
Other financial assets	2,857	2,125	34.4
Financial assets of continuing operations	**12,406**	**15,349**	**–19.2**
Bonds, notes payable, commercial paper, bank debt	10,189	12,005	–15.1
Other financial liabilities	2,354	1,280	83.9
Financial liabilities of continuing operations	**12,543**	**13,285**	**–5.6**
Net financial debt of continuing operations	**137**	**–2,064**	**106.6**
Provisions for pensions and similar obligations	3,113	3,565	–12.7
Capitalized surplus of plan assets over benefit obligations	377	507	–25.6
Provisions for nuclear waste management	9,187	9,053	1.5
Mining provisions	2,828	2,822	0.2
Net debt of continuing operations	**14,888**	**12,869**	**15.7**
Net debt of discontinued operations	3,540	3,645	–2.9
Net debt of the RWE Group	**18,428**	**16,514**	**11.6**

1 Figures partially adjusted; see commentary on page 13.

Crisis in financial sector has limited effect on RWE

Thanks to its robust financial position, RWE is only affected by the current crisis on financial markets to a limited extent. The capital market confirms our strong creditworthiness, as evidenced by our good credit ratings and the below-average prices for hedging RWE credit risk via credit default swaps (see page 3). RWE has always pursued a comprehensive risk management policy and has thus coped well in the current financial crisis.

As of September 30, 2008, we had a total of €9.2 billion in cash and cash equivalents and securities that can be sold at short notice to cover our need for liquidity. Given the relatively low price of RWE credit default swaps, we believe that our existing US$ 5 billion commercial paper programme and our €20 billion debt issuance programme will allow us to obtain sufficient financing on the capital market. By September 30, we had used US$ 544 million (€380 million) of the commercial paper programme. As of the balance-sheet date, the bonds we had issued within the scope of the debt issuance programme amounted to €9.2 billion and had a weighted average remaining term to maturity of about ten years. €1.2 billion of them come due by the end of 2011. A CHF 500 million bond has to be redeemed before year-end. We had already repaid a €1.3 billion bond in April.

Furthermore, RWE has access to a €3.6 billion syndicated credit line. This facility is held to hedge commercial paper when it matures and has not been used so far. It is divided into a short-term credit line (364 days) in the amount of €1.6 billion and a long-term credit line (expiring in October 2011) in the amount of €2.0 billion. The short-term credit line is provided by a syndicate of 20 banks, and the long-term facility by a syndicate of 26 banks.

RWE Group's balance sheet structure	09/30/08		12/31/07[1]	
	€ million	in %	€ million	in %
Assets				
Non-current assets	42,336	46.9	41,360	49.6
Intangible assets	11,928	13.2	11,882	14.2
Property, plant and equipment	21,370	23.7	20,038	24.0
Current assets	47,991	53.1	42,060	50.4
Receivables and other assets[2]	27,724	30.7	18,309	21.9
Assets held for sale	8,249	9.1	8,619	10.3
Total	**90,327**	**100.0**	**83,420**	**100.0**
Equity and liabilities				
Equity	13,522	15.0	14,659	17.6
Non-current liabilities	36,429	40.3	36,796	44.1
Provisions	21,344	23.6	21,281	25.5
Financial liabilities	9,708	10.7	10,046	12.0
Current liabilities	40,376	44.7	31,965	38.3
Other liabilities[2]	26,475	29.3	17,116	20.5
Liabilities held for sale	6,168	6.8	5,897	7.1
Total	**90,327**	**100.0**	**83,420**	**100.0**

1 Figures partially adjusted; see commentary on page 13.
2 Including trade accounts receivable and payable.

Balance sheet structure

As of September 30, 2008, our balance sheet total amounted to €90.3 billion. This was €6.9 billion more than the level at the end of 2007. The main reason was that the fair value of our commodity derivatives rose. It was up €9.3 billion on the assets' side and €9.7 billion on the equity and liabilities' side. The rise was much more moderate than in the half-year financial statements due to the recent decline in electricity and raw material prices. In the first three quarters of 2008, we divested €4.2 billion in securities held for sale. The proceeds helped finance dividend payments, our share buyback and the redemption of bonds. Our equity ratio dropped from 17.6 % to 15.0 %. This largely stemmed from the increase in the balance sheet total, the share buyback and the dividend payments. Our non-current assets are more than fully covered by equity and non-current liabilities.

Workforce[1]	09/30/08	12/31/07	+/– in %
RWE Power	17,491	17,238	1.5
RWE Dea	1,140	1,091	4.5
RWE Supply & Trading	754	660	14.2
RWE Energy	28,762	28,323	1.5
RWE npower	12,328	11,975	2.9
Other	4,965	4,152	19.6
RWE Group	**65,440**	**63,439**	**3.2**

1 Converted to full-time positions.

Employee headcount increases by 3 %

As of September 30, 2008, the RWE Group employed 65,440 people (converted to full-time positions), 40 % (26,198) of whom worked outside Germany. The workforce expanded by 2,001 employees, or 3.2 %, compared to December 31, 2007. American Water is not included in these figures. 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. The internal reclassification of activities to RWE Innogy (included in "Other") and to RWE Supply & Trading had an additional impact on employee numbers.

Research and development: focus on improving efficiency and lowering emissions

In the first three quarters of 2008, research and development (R & D) costs amounted to €58 million, compared to €44 million in the prior-year period. Furthermore, we capitalized €30 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. RWE created a corporate R & D division at the holding company in April 2008. In so doing, we are underpinning the mounting importance of these activities. We coordinate ongoing projects from our corporate headquarters and initiate cross-divisional endeavours. R & D operations will largely remain with our subsidiaries.

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 following this approach. The site we have picked is Hürth, which is in the vicinity of Cologne, Germany (see commentary on page 11). This future facility will combine lignite gasification with carbon capture and generating electricity using combined-cycle gas turbines located downstream of these processes. 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. It is currently being subjected to thorough functional tests so that it can be commissioned before year-end. With this technology, lignite-based power production can gain four percentage points in terms of 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 at a test unit within the Scholven hard coal power station in Gelsenkirchen, Germany, to test power plant components and materials, 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 oil and gas 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 reliably, 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 enables households to monitor their consumption at all times. It gives customers better control over their electricity consumption and offers them an incentive to save energy.

Electric mobility is another promising field in which we have started doing R&D work. In September, RWE and Daimler launched a joint initiative to develop and test an extensive mobility concept for an electric car that can be used on a daily basis in the metropolis of Berlin. This involves both new electrically powered cars as well as electricity service stations. In this context, RWE is concentrating on building customer-friendly infrastructure including approximately 500 charging stations. Furthermore, we are working on a billing system which will be based on intelligent communications between the vehicle and the power service station. By enlarging the electric mobility footprint, we are seeking to provide improved protection for the environment and to reduce dependency on crude oil and gas as well.

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

Slowing economic growth in core RWE markets

As set out on page 4, the general economic picture has worsened dramatically as of late. Declines in the price of energy fuel and other major commodities are among the few stabilizing factors. The impact of the crisis on financial markets on the real economy is already becoming evident. Therefore, nearly all economic research institutes have lowered their growth expectations for the year underway. However, these prognoses reflect the economy's relatively dynamic development in the first half of the year. In Germany, our main market, the real gross domestic product (GDP) is expected to grow by 1.8 % (2007: 2.5 %). The prognosis for the UK economy is slightly less favourable. GDP growth for 2008 in the UK is anticipated to amount to 1.0 % (2007: 3.1 %). The financial crisis and shrinking global demand are also being increasingly felt in the economies of Central Eastern Europe. Hungary is in fact on the verge of a currency crisis. But there is still no recession in sight for the region as a whole, where the growth rate for 2008 is expected to range between 4 and 5 %.

Raw material prices far above 2007 average despite recent declining trend

The situation on electricity and raw material markets will be dominated by the financial crisis and the weakening global economy for the foreseeable future, although demand is unlikely to lose a lot of momentum over the long term. Oil prices dropped considerably again in October. By the end of the month, a barrel of Brent cost a mere US$ 61 (€ 48). Nevertheless, the price of Brent is likely to clearly exceed the average for 2007 (US$ 72 per barrel) for the year as a whole. As gas supply agreements are commonly linked to price developments on the oil market and price formulae contain a lag, natural gas prices will be markedly higher year on year as well. Hard coal prices have more than halved since their July record. At the end of the October, a metric ton of hard coal traded at US$ 99 (€ 78) on the Rotterdam spot market (including freight and insurance to Rotterdam). Despite this, the average price witnessed in 2007 (US$ 89) will be surpassed substantially. The same applies to German BAFA prices (2007 annual average: € 68 per metric ton of hard coal equivalent).

CO_2 emissions trading: significant shortage of certificates

As explained earlier, a substantial shortage of certificates can be expected as compared to the first CO_2 emissions trading period (2005 to 2007). However, the financial crisis and fears of recession had a price-dampening effect in this area as well. As of October 31, emissions certificates for 2008 were quoted at € 18 per metric ton of CO_2. At the same time, emissions certificates from "Clean Development Mechanism" projects traded at € 15.

Prices on European electricity markets remain high

Electricity prices on European exchanges reflected the recent drop in energy fuel prices, albeit to a disproportionately small extent. German base-load contracts for delivery in 2009 traded at € 68 per MWh at the end of October 2008. In the UK, the price level is higher. At the end of October, the forward for 2009 base-load deliveries traded at £ 61 per MWh (€ 78 per MWh). The RWE Group has sold forward almost all its 2008 electricity production. We have also sold a large part of our electricity generation for subsequent years (already more than 80 % for 2009 and more than 50 % for 2010 in Germany). We expect electricity prices to remain high in the future as well. Although the factors fundamentally influencing the electricity market are presently overshadowed by the financial crisis and anticipated recession, they will remain essentially unchanged. Many European countries are likely to continue experiencing increasingly tight generation capacity. Even in the event of a recession, demand for electricity will not be affected substantially.

Revenue expected to be higher year on year

External revenue earned by the RWE Group in 2008 is anticipated to surpass last year's level. We expect growth in excess of 10 %. This and the following forecasts are based on an assumed exchange rate of £ 0.80 / €. The growth 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. Originally, we had anticipated a rise of more than 10 %. We now expect that net income will decline slightly due to the one-off charge resulting from the initial public offering of American Water. This expectation is, however, subject to the development of American Water's share price. There will be no effect on 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. The basis for this is the organic success of our German power generation activities and of our upstream business. But our 2008 earnings will be dampened by about €1.6 billion due to stricter CO_2 emissions trading conditions as well as cuts in our German grid fees mandated by the regulator. Recurrent net income, which is adjusted for one-off effects, is expected to increase by more than 10 %. We anticipate that the earnings contribution from the efficiency-enhancement programme will amount to approximately €100 million 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 %. The marked rise in electricity prices on the German wholesale market in past years will be in our favour. In addition, we will benefit from the return to service of the Biblis nuclear power plant. However, this will be contrasted by massive additional burdens stemming from CO_2 emissions costs. As explained earlier, the German allocation plan for the second trading period (2008 to 2012) envisions a much reduced allocation of free emissions allowances. RWE Power will probably have to purchase about 40 % of the CO_2

certificates it needs on the market in Germany during this period, or obtain them via Kyoto “Clean Development Mechanism” and “Joint Implementation” projects insofar as possible. Further adverse effects on earnings will come from higher hard coal and gas prices. Moreover, our staff and other costs are higher.

From our present point of view, we expect RWE Dea to improve its operating result by more than 10 %. This prognosis is based on the fact that oil and gas prices are much higher averaged over the full year. However, the marked rise in exploration and production costs is a burden on earnings.

RWE Supply & Trading is unlikely to match the unusually strong operating result recorded in 2007. This is primarily due to the effects in the trading business explained on page 22. However, we expect our gas midstream activities to post a markedly improved operating result. Here, we will benefit from the first-time inclusion of RWE Transgas’ gas purchasing activities, among other things.

Our forecast for RWE Energy envisions a single-digit percent increase in its operating result. The basis for this are earnings improvements in the electricity sales business, not least due to the successful acquisition of key accounts. Following the very mild weather in 2007, we anticipate that the weather in 2008 will have a positive impact on gas sales, which, however, will be overshadowed by customer losses. Tariff cuts made by the German Federal Network Agency that apply to our German grids are a major burden. To limit the impact on our earnings, RWE Energy has begun implementing extensive cost reductions, focussing on Germany. We will continue to pursue our value-oriented policy in the electricity and gas sales business.

RWE npower is not anticipated 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 will improve slightly. The basis for this are improved plant availability and our short-term position management. However, we will have to cope with higher costs from emissions. RWE npower will probably have to purchase over 30 % of the CO_2 certificates it requires on the market. The market environment of our electricity and gas sales businesses will remain difficult, above all due to the persistently fierce competition and the rise in procurement costs. As mentioned on page 19, we have had to lift tariffs for household customers twice since the beginning of the year. Mounting gas transmission costs are putting further pressure on margins. Government programmes that oblige UK utilities to promote energy savings for homes and provide assistance to low-income customers will result in additional burdens.

Capital expenditure stepped up

The RWE Group's capital expenditure on property, plant and equipment will be far above the level achieved in 2007. At present, we anticipate capex to be in the order of €5 billion (without American Water). We expect RWE Power to post the greatest rise. Construction of the twin-unit hard coal power plant in Hamm, Germany, has been started this year. 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. Our upstream subsidiary, RWE Dea, is investing much more in gas production—above all in North Africa. RWE Energy has increased its capex budget substantially as well. It will spend some 80 % 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.

Net debt on par with 2007

Despite the share buyback, dividend payments and the marked rise in capital expenditure, net debt is expected to be roughly on par with last year's level by December 31, 2008. The basis for this is our assumption that we will have placed the majority of the shares in American Water on the stock exchange by year-end, which would allow us to deconsolidate the US water utility's liabilities. American Water has been independently financed since the end of 2007. All of the intragroup loans have been repaid.

Employee headcount: significant rise expected

This financial year, we anticipate that our workforce will expand across all divisions. Our current planning envisions the payroll growing by more than 3,000 employees, in part due to the rise in investing activity.

Research and development: budget enlarged

We intend to spend more than before on research and development (R & D). Costs in this area in 2008 are likely to be marginally higher than in 2007 (€74 million), but we will increase spending considerably in subsequent years. We will continue to focus on projects to improve efficiency and reduce emissions from electricity generation. More than half of our R & D budget has been earmarked for this. A milestone we will pass is the start of the test run of our demonstration lignite pre-drying plant in Niederaussem, Germany, scheduled for the end of the year. 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. Furthermore, we want to make a contribution to securing and refining 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. We are also active in the field of power grids. Steps we take in this area are directed to intelligent grid usage and innovative energy measurement.

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 as well as 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 from 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 rising margins between electricity prices and prices for fossil fuels. Additional risks and opportunities result 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. 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 Executive Board of RWE AG 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 limits trading activities conducted by RWE Supply & Trading and may amount to no more than €40 million. The VaR figures within the RWE Group are generally based on a confidence interval of 95 % and a holding period of one day. RWE Supply & Trading's Global VaR thus provides a cap for the maximum daily loss, which is not exceeded with a probability of 95 %. In the first three quarters of 2008, RWE Supply & Trading's Global VaR averaged €13 million, and the daily maximum was €17 million. The Global VaR did not exceed €16 million in the first half of October, although that month was characterized by high volatility.

- **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, as was the maximum VaR. The same applies to October, despite the high volatility.

  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. The VaR for interest-rate risks associated with our financial debt and related hedges averaged €125 million in the period under review and €127 million in October. The VaR from interest-bearing investments including hedges amounted to €54 million and €51 million, respectively. The VaR for our share-price risks was €16 million and €46 million, respectively.

  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.

- **Liquidity:** Liquidity risk defines the potential for failure to meet financial obligations on time due to insufficient cash and cash equivalents. At RWE, these obligations consist of the repayment of financial liabilities that come due. In addition, we are obliged to put up cash collateral for our counterparties within the scope of our trading activities, in order to hedge negative market values. Despite the current financial crisis, we consider our liquidity risk exposure to be low. Our robust financing provides the basis for this. We have strong cash flows from operating activities and substantial cash and cash equivalents (also see commentary on page 29 et seq.).

- **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 establishing and adapting limits in a timely manner. If necessary, we request cash collaterals or bank guarantees. We also mitigate credit risk through credit insurance policies. Credit limits are issued in compliance with an internal credit risk guideline. Our customers' creditworthiness is determined using an internal rating method that has been supplemented by an early warning indicator in light of the current crisis on financial markets. Credit risks are monitored daily for both energy trading and finance transactions. In our supply business, we are exposed to credit risks due to the possibility that customers may fail to meet their financial and purchase commitments. These credit risks are limited by internal caps on the basis of regular creditworthiness checks. Bank guarantees, cash collateral and credit insurance policies are used to further reduce our credit risks.

- **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. RWE anticipates that CO_2 costs will be much higher than in the current trading period, which will last until 2012. We intend to continue reducing 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 still exist in our German electricity and gas grid business as a result of regulatory intervention. We have already received all of the notifications for 2008 from the German Federal Network Agency. Risks arise primarily due to the incentive-based regulation that will take effect from 2009. This places high demands on German grid operators, which must achieve ambitious efficiency goals in a short period of time. In addition, major details remain to be clarified. For instance, how the grid operators' energy procurement costs can be taken into account in a timely manner is yet to be determined. Another open issue is a reasonable return on debt. 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.

In Germany, risks can also arise from the stricter monitoring of anti-competitive pricing practices, which entered into force at the end of 2007. Based on the new legal situation, in March 2008, the German Federal Cartel Office began to review the end customer prices of numerous gas utilities, including four RWE subsidiaries. The results of these reviews have since been furnished. But they are still preliminary. We are assessing the economic impact they may have. Depending on the remaining course of the proceedings, we may be faced with burdens.

- **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.

  In the end customer business, we are affected by lawsuits in Germany and by investigations conducted by the regulator in the UK dealing with the effectiveness of price mechanisms in Germany and the admissibility of specific sales-related measures in the UK. This may result in burdens for us.

  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.

In early May 2007, the EU Commission initiated an abuse procedure against RWE. 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. At the end of May, we reached an agreement with the EU Commission on a solution to the antitrust abuse proceedings against RWE Transportnetz Gas GmbH, which have been ongoing since April 2007. We will commit to selling our German gas transmission grid to a third party which is independent from RWE. In exchange, the EU would stop the proceedings. The envisioned settlement is not an admission of guilt. We remain convinced that we have complied with the statutory regulations in the gas business, but we want to avoid protracted litigation. We are currently working on the details of our proposed settlement. The next step will involve the EU Commission soliciting the opinions of major market participants regarding the solution. Subsequently, it is expected to declare the commitment binding and stop the proceedings. The gas transmission grid for sale has a length of approximately 4,100 kilometres. In 2008, we expect to generate about €170 million in total annual revenue from it.

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	Jul – Sep 2008	Jul – Sep 2007	Jan – Sep 2008	Jan – Sep 2007
Revenue (including natural gas tax / electricity tax)	**9,733**	**8,431**	**34,454**	**30,272**
Natural gas tax / electricity tax	–268	–279	–1,052	–1,039
Revenue	**9,465**	**8,152**	**33,402**	**29,233**
Changes in finished goods and work in progress / other own work capitalized	61	44	167	95
Cost of materials	–5,865	–5,079	–22,453	–18,071
Staff costs	–1,025	–1,025	–3,115	–2,985
Depreciation, amortization, and impairment losses	–544	–528	–1,623	–1,549
Other operating result	–379	–489	–1,440	–1,733
Income from operating activities of continuing operations	**1,713**	**1,075**	**4,938**	**4,990**
Income from investments accounted for using the equity method	71	96	238	295
Other income from investments	36	51	106	135
Financial income	832	890	2,457	2,527
Finance costs	–1,233	–1,248	–3,476	–3,365
Income from continuing operations before tax	**1,419**	**864**	**4,263**	**4,582**
Taxes on income	–316	–733	–1,206	–1,751
Income from continuing operations	**1,103**	**131**	**3,057**	**2,831**
Income from discontinued operations	30	86	–598	141
Income	**1,133**	**217**	**2,459**	**2,972**
Minority interest	–78	–15	–248	–138
Net income / income attributable to RWE AG shareholders	**1,055**	**202**	**2,211**	**2,834**
Basic and diluted earnings per common and preferred share in €	**1.97**	**0.36**	**4.09**	**5.04**
of which: from continuing operations in €	(1.99)	(0.21)	(5.30)	(4.79)
of which: from discontinued operations in €	(–0.02)	(0.15)	(–1.21)	(0.25)

1 Prior-year figures adjusted.

Balance Sheet[1]

Assets € million	09/30/08	12/31/07
Non-current assets		
Intangible assets	11,928	11,882
Property, plant and equipment	21,370	20,038
Investment property	152	153
Investments accounted for using the equity method	3,005	2,421
Other non-current financial assets	786	1,011
Accounts receivable and other assets	3,272	3,353
Deferred taxes	1,823	2,502
	42,336	**41,360**
Current assets		
Inventories	2,841	2,352
Trade accounts receivable	8,324	8,816
Accounts receivable and other assets	19,400	9,493
Marketable securities	6,628	10,858
Cash and cash equivalents	2,549	1,922
Assets held for sale	8,249	8,619
	47,991	**42,060**
	90,327	**83,420**

Equity and Liabilities € million	09/30/08	12/31/07
Equity		
RWE Group interest	11,903	13,925
Minority interest	1,619	734
	13,522	**14,659**
Non-current liabilities		
Provisions	21,344	21,281
Financial liabilities	9,708	10,046
Other liabilities	3,648	3,584
Deferred taxes	1,729	1,885
	36,429	**36,796**
Current liabilities		
Provisions	4,898	5,713
Financial liabilities	2,835	3,239
Trade accounts payable	7,551	8,054
Other liabilities	18,924	9,062
Liabilities held for sale	6,168	5,897
	40,376	**31,965**
	90,327	**83,420**

1 Prior-year figures adjusted.

Cash Flow Statement[1]

€ million	Jan – Sep 2008	Jan – Sep 2007
Income	2,459	2,972
Depreciation, amortization, impairment losses, write-backs	1,612	1,746
Changes in provisions	–123	–236
Deferred taxes / non-cash income and expenses / income from disposal of non-current assets and marketable securities	1,577	111
Changes in working capital	–1,176	208
Cash flows from operating activities of continuing operations	**4,349**	**4,801**
Cash flows from operating activities of discontinued operations	288	
Cash flows from operating activities	**4,637**	**4,801**
Capital expenditure on non-current assets	–3,339	–2,492
Proceeds from disposal of assets / divestitures	1,091	864
Changes in marketable securities and cash investments	3,909	–1,018
Cash flows from investing activities of continuing operations	**1,661**	**–2,646**
Cash flows from investing activities of discontinued operations	–487	
Cash flows from investing activities	**1,174**	**–2,646**
Cash flows from financing activities of continuing operations	**–5,387**	**–2,524**
Cash flows from financing activities of discontinued operations	195	
Cash flows from financing activities	**–5,192**	**–2,524**
Net cash change in cash and cash equivalents	619	–369
Effect of changes in foreign exchange rates and other changes in value on cash and cash equivalents	4	–11
Net cash change in cash and cash equivalents from discontinued operations	4	
Net change in cash and cash equivalents	**627**	**–380**
Cash and cash equivalents at beginning of reporting period	1,922	2,794
Cash and cash equivalents at end of reporting period	**2,549**	**2,414**

1 Prior-year figures adjusted.

Statement of Recognized Income and Expenses[1]

€ million	Jul – Sep 2008	Jul – Sep 2007	Jan – Sep 2008	Jan – Sep 2007
Income	**1,133**	**217**	**2,459**	**2,972**
Currency translation adjustment	–50	173	493	–27
Fair valuation of financial instruments available for sale	–54	–150	–271	–335
Fair valuation of financial instruments used for hedging purposes	293	209	–286	497
Actuarial gains and losses of defined benefit pension plans and similar obligations	131	64	203	344
Other comprehensive income	**320**	**296**	**139**	**479**
Total comprehensive income	**1,453**	**513**	**2,598**	**3,451**
of which: total comprehensive income attributable to RWE AG shareholders	(1,301)	(495)	(2,167)	(3,329)
of which: total comprehensive income attributable to minority interests	(152)	(18)	(431)	(122)

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		–1,968			–1,968	–139	–2,107
Income		2,834			2,834	138	2,972
Other comprehensive income		351		144	495	–16	479
Total comprehensive income		3,185		144	3,329	122	3,451
Other changes						40	40
Balance at 09/30/07	**2,728**	**11,349**		**298**	**14,375**	**669**	**15,044**
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			–2,500		–2,500		–2,500
Dividends paid		–1,689			–1,689	–186	–1,875
Income		2,211			2,211	248	2,459
Other comprehensive income		120		–164	–44	183	139
Total comprehensive income		2,331		–164	2,167	431	2,598
Other changes						640	640
Balance at 09/30/08	**2,728**	**11,719**	**–2,500**	**–44**	**11,903**	**1,619**	**13,522**

1 Prior-year figures adjusted.

Accounting policies

The interim report for the period ended September 30, 2008, which received clearance for publication on November 7, 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 September 30, 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 and provisions for mining damage 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 6.50 % in Germany and 7.30 % abroad (December 31, 2007: 5.50 % 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 as profit or loss over the anticipated average remaining working lives of the qualified employees, to the extent that they exceeded 10 % of the greater of the benefit obligation or the fair value of the plan assets. According to the new method under IAS 19.93A, 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 three quarters of 2007 decreased by €10 million, and income taxes increased by €3 million.

"Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)" allows entities under specific conditions to measure certain non-derivative financial assets, which were previously accounted for at fair value, at amortized cost. Published on October 13, 2008, the amendments further mandate more extensive disclosure on the reclassification of financial assets in the notes to consolidated financial statements. The amendments became applicable for the first time effective July 1, 2008. This did not have an impact on the RWE Group's consolidated financial statements.

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.

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

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

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. The amendments of IFRS 2 become effective for the first time for fiscal years starting on or after January 1, 2009. The impact of the first-time application of these amendments on the RWE Group's consolidated financial statements is currently being reviewed.

IFRS 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 particularly 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 with the non-controlling interests of a group and the treatment in the event of loss of control over a subsidiary. Transactions which result in the parent company changing its ownership interest in a subsidiary without a loss of control 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 or losses 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.

IAS 39 Amendments (2008) "Eligible Hedged Items" provides clarification on issues in relation to hedge accounting. The amendments supplement the principles for designating inflation risks as an underlying transaction and for designating hedging instruments used to hedge a one-sided risk. These amendments become effective for the first time for fiscal years starting on or after July 1, 2009. The impact of the first-time application of the amended rules on the RWE Group's consolidated financial statements is currently being assessed.

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

IFRIC 15 "Agreements for the Construction of Real Estate" addresses the accounting treatment of real estate sales in cases where a contract is entered into with the purchaser prior to the completion of the construction work. This interpretation primarily determines the conditions under which IAS 11 and IAS 18 are applicable and the point in time at which the corresponding revenue is realized. This interpretation becomes effective for the first time for fiscal years starting on or after January 1, 2009. The impact of the first-time application of IFRIC 15 on the RWE Group's consolidated financial statements is currently being assessed.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" clarifies uncertainties relating to the currency hedges of foreign operations. Above all, the interpretation determines the risks that can be hedged, the group companies that are allowed to hold the hedging instrument, and the accounting treatment applicable in the event that the foreign entity is divested. This Interpretation becomes effective for the first time for fiscal years starting on or after October 1, 2008. The impact of the first-time application of IFRIC 16 on the RWE Group's consolidated financial statements is currently being assessed.

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 fulfil these tasks, 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 three quarters of 2008 primarily relate to the RWE Energy and RWE Innogy Division, in which 34 companies were consolidated for the first time. This also involved the acquisition of Iberian Renovables Corporación, S. A. (formerly "Urvasco Energía"), Spain.

The scope of consolidation is as follows:

	09/30/08	12/31/07
Fully consolidated companies	318	290
Investments accounted for using the equity method	93	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.

On April 23, 2008, RWE sold 58 million shares in American Water on the New York Stock Exchange at a price of US$ 21.50 per share. Furthermore, approximately five million additional shares were sold to the underwriters at the aforementioned issuance price as a result of their exercise of an over-allotment option ("greenshoe"). The share of American Water remaining after the sale as of September 30, 2008, was about 60 %. Therefore, RWE still holds the majority of the voting rights. The carrying amount of American Water's assets and liabilities allocable to the shares sold is stated as part of the minority interest.

In accordance with IFRS 5, discontinued operations are recognized at the lower of the carrying amount and the fair value, less costs to sell. The issuance price of the share placement was already taken into account when measuring American Water as of March 31, 2008.

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

Key figures for American Water € million	09/30/08	12/31/07
Non-current assets	7,905	8,290
Current assets	344	329
Non-current liabilities	5,362	5,210
Current liabilities	806	687

€ million	Jan – Sep 2008[1]	Jan – Sep 2007
Revenue	1,161	1,226
Expenses / income	–854	–1,029
Ordinary income from discontinued operations before tax	307	197
Taxes on income	–122	–56
Net income	185	141
Fair value adjustments	–783	
Income from discontinued operations	–598	141

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

€ million	Jan – Sep 2008	Jan – Sep 2007
Cash flows from operating activities	288	353
Cash flows from investing activities	–487	–406
Cash flows from financing activities	195	137

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 three quarters of 2008, research and development costs totalled €58 million (first three quarters of 2007: €44 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 17, 2008, the Executive Board was authorized to purchase shares of any class in RWE totalling up to 10% of the company's share capital until October 16, 2009. Share buybacks may also be conducted by exercising put or call options.

On September 30, 2008, RWE Group companies held 31,734,473 no-par-value common shares in RWE AG amounting to €2,500 million, which were deducted from the carrying amount of equity. They account for €81,240,250.88 of the company's share capital (5.64% of subscribed capital).

Furthermore, in the first three quarters of 2008, RWE Group companies bought 8,343 common shares on the capital market at an average cost of €75.16 per share for issuance to employees of RWE AG and its subsidiaries. They account for €21,358.08 of the company's share capital (0.02‰ of subscribed capital). Employees were issued a total of 1,483 common shares at an average price of €57.27 per share within the scope of capital formation schemes and 6,860 common shares at an average price of €52.25 per share on the occasion of service anniversaries. Proceeds from the share issuance amounted to €443,366.41. 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 €801 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 three quarters 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 – Sep 2008	Jan – Sep 2007
Net income	€ million	2,211	2,834
Number of shares outstanding (weighted average)	thousands	541,081	562,405
Basic and diluted earnings per common and preferred share	in €	**4.09**	**5.04**

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 existed as of September 30, 2008.

Related party disclosures

The RWE Group classifies associated companies as related parties. In the first three quarters of 2008, transactions concluded with material related parties generated €492 million in income (first three quarters of 2007: €342 million) and €81 million in expenses (first three quarters of 2007: €66 million). As of September 30, 2008, accounts receivable amounted to €648 million (December 31, 2007: €814 million), and accounts payable totalled €15 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 three quarters of 2008, RWE Group companies provided services and deliveries to companies of the Georgsmarienhütte Group amounting to €5.3 million. Services and deliveries provided by Georgsmarienhütte Group companies to RWE Group companies in the first three quarters of 2008 totalled €1.6 million. As of September 30, 2008, the Georgsmarienhütte Group had €0.1 million in accounts receivable (December 31, 2007: €0 million) and €0.6 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 September 30, 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, November 10, 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Manfred Wiegand
Wirtschaftsprüfer
(German Public Auditor)

Markus Dittmann
Wirtschaftsprüfer
(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

As of September 30, 2008.

Financial Calendar 2009[1]

02/26/2009	Annual report for fiscal 2008 – Press conference – 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 – Press conference – 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.

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RWE AG, ESSEN, GERMANY
CONSOLIDATED INCOME STATEMENT OF THE RWE GROUP [1]
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

Exchange rates			1.4303	1.4179 [2]
	Euros in millions (except for per share data) Nine months ended September 30		**U.S. dollars in millions (except for per share data) Nine months ended September 30**	
	2008	**2007**	**2008**	**2007**
Revenue (including natural gas tax / electricity tax)	**34,454**	**30,272**	**49,280**	**42,922**
Natural gas tax / electricity tax	-1,052	-1,039	-1,505	-1,473
Revenue	**33,402**	**29,233**	**47,775**	**41,449**
Changes in finished goods and work in progress / other own work capitalized	167	95	239	135
Cost of materials	-22,453	-18,071	-32,115	-25,623
Staff costs	-3,115	-2,985	-4,455	-4,233
Depreciation, amortization, and impairment losses	-1,623	-1,549	-2,321	-2,196
Other operating result	-1,440	-1,733	-2,060	-2,457
Income from operating activities of continuing operations	**4,938**	**4,990**	**7,063**	**7,075**
Income from investments accounted for using the equity method	238	295	340	419
Other income from investments	106	135	152	191
Financial income	2,457	2,527	3,514	3,583
Finance costs	-3,476	-3,365	-4,972	-4,771
Income from continuing operations before tax	**4,263**	**4,582**	**6,097**	**6,497**
Taxes on income	-1,206	-1,751	-1,725	-2,483
Income from continuing operations	**3,057**	**2,831**	**4,372**	**4,014**
Income from discontinued operations	-598	141	-855	200
Income	**2,459**	**2,972**	**3,517**	**4,214**
Minority interest	-248	-138	-355	-196
Net income / income attributable to RWE AG shareholders	**2,211**	**2,834**	**3,162**	**4,018**
	Euros	**Euros**	**U.S. dollars**	**U.S. dollars**
Basic and diluted earnings per common and preferred share	**4.09**	**5.04**	**5.85**	**7.15**
of which: from continuing operations	5.30	4.79	(7.58)	6.79
of which: from discontinued operations	-1.21	0.25	-(1.73)	0.36

(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 SEPTEMBER 30, 2008

Exchange rates			1.4303	1.4721 [2]

ASSETS	**Euros in millions**		**U.S. dollars in millions**	
	September 30 2008	**December 31 2007**	**September 30 2008**	**December 31 2007**
Non-current assets				
Intangible assets	11,928	11,882	17,061	17,492
Property, plant and equipment	21,370	20,038	30,566	29,498
Investment property	152	153	217	225
Investments accounted for using the equity method	3,005	2,421	4,298	3,564
Other non-current financial assets	786	1,011	1,124	1,488
Accounts receivable and other assets	3,272	3,353	4,680	4,936
Deferred taxes	1,823	2,502	2,607	3,683
	42,336	**41,360**	**60,553**	**60,886**
Current assets				
Inventories	2,841	2,352	4,063	3,462
Trade accounts receivable	8,324	8,816	11,906	12,978
Accounts receivable and other assets	19,400	9,493	27,748	13,975
Marketable securities	6,628	10,858	9,480	15,984
Cash and cash equivalents	2,549	1,922	3,646	2,829
Assets held for sale	8,249	8,619	11,799	12,689
	47,991	**42,060**	**68,642**	**61,917**
	90,327	**83,420**	**129,195**	**122,803**

EQUITY AND LIABILITIES	**Euros in millions**		**U.S. dollars in millions**	
	September 30 2008	**December 31 2007**	**September 30 2008**	**December 31 2007**
Equity				
RWE Group interest	11,903	13,925	17,025	20,499
Minority interest	1,619	734	2,316	1,081
	13,522	**14,659**	**19,341**	**21,580**
Non-current liabilities				
Provisions	21,344	21,281	30,528	31,328
Financial liabilities	9,708	10,046	13,885	14,789
Other liabilities	3,648	3,584	5,218	5,276
Deferred taxes	1,729	1,885	2,473	2,774
	36,429	**36,796**	**52,104**	**54,167**
Current liabilities				
Provisions	4,898	5,713	7,006	8,410
Financial liabilities	2,835	3,239	4,055	4,768
Trade accounts payable	7,551	8,054	10,800	11,856
Other liabilities	18,924	9,062	27,067	13,340
Liabilities held for sale	6,168	5,897	8,822	8,682
	40,376	**31,965**	**57,750**	**47,056**
	90,327	**83,420**	**129,195**	**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 NINE MONTHS ENDED SEPTEMBER 30, 2008

	Euros in millions Nine months ended Sep-30		U.S. dollars in millions Nine months ended Sep-30	
Exchange rates			1.4303	1.4179 [2]
	2008	**2007**	**2008**	**2007**
Income	2,459	2,972	3,517	4,214
Depreciation, amortization, impairment losses, write-backs	1,612	1,746	2,306	2,476
Changes in provisions	-123	-236	-176	-335
Deferred taxes / non-cash income and expenses / income from disposal of non-current assets and marketable securities	1,577	111	2,255	157
Changes in working capital	-1,176	208	-1,682	295
Cash flows from operating activities of continuing operations	**4,349**	**4,801**	**6,220**	**6,807**
Cash flows from operating activities of discontinued operations	288		412	
Cash flows from operating activities	**4,637**	**4,801**	**6,632**	**6,807**
Capital expenditure on non-current assets	-3,339	-2,492	-4,776	-3,533
Proceeds from disposal of assets/ divestitures	1,091	864	1,561	1,225
Changes in marketable securities and cash investments	3,909	-1,018	5,591	-1,444
Cash flows from investing activities of continuing operations	**1,661**	**-2,646**	**2,376**	**-3,752**
Cash flows from investing activities of discontinued operations	-487		-697	
Cash flows from investing activities	**1,174**	**-2,646**	**1,679**	**-3,752**
Cash flows from financing activities of continuing operations	**-5,387**	**-2,524**	**-7,705**	**-3,578**
Cash flows from financing activities of discontinued operations	195		279	
Cash flows from financing activities	**-5,192**	**-2,524**	**-7,426**	**-3,578**
Net cash change in cash and cash equivalents	619	-369	885	-523
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	4	-11	6	-16
Net cash change in cash and cash equivalents from discontinued operations	4		6	
Net change in cash and cash equivalents	**627**	**-380**	**897**	**-539**
Cash and cash equivalents at beginning of reporting period	1,922	2,794	2,749	3,962
Cash and cash equivalents at end of reporting period	**2,549**	**2,414**	**3,646**	**3,423**

(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.