

REPORT ON THE FIRST HALF OF 2009

- Operating result 4 % up year on year
- Recurrent net income improved by 5 %
- Earnings targets for the full 2009 fiscal year confirmed

At a glance

RWE Group—Key Figures		Jan–Jun 2009	Jan–Jun 2008	+ / – in %	Jan–Dec 2008
Electricity sales	billion kWh	143.4	161.9	–11.4	317.1
Gas sales	billion kWh	168.2	183.4	–8.3	327.8
External revenue	€ million	24,386	24,721	–1.4	48,950
Germany	€ million	15,797	15,414	2.5	30,694
Outside Germany	€ million	8,589	9,307	–7.7	18,256
EBITDA	€ million	5,047	4,863 ¹	3.8	8,773 ¹
Operating result	€ million	4,084	3,933	3.8	6,826
Income from continuing operations before tax	€ million	3,384	2,844	19.0	4,866
Net income	€ million	2,222	1,156	92.2	2,558
Recurrent net income	€ million	2,232	2,131	4.7	3,367
Earnings per share	€	4.17	2.12	96.7	4.75
Recurrent net income per share	€	4.19	3.90	7.4	6.25
Cash flows from operating activities	€ million	1,634	1,383	18.1	8,853
Capital expenditure	€ million	3,693	2,347	57.3	5,693
Property, plant and equipment	€ million	2,133	1,563	36.5	4,454
Financial assets	€ million	1,560	784	99.0	1,239
Free cash flow	€ million	–499	–180	–177.2	4,399
		Jun 30, 2009	Dec 31, 2008	+ / – in %	
Net debt of the RWE Group	€ million	19,699	18,659	5.6	
Workforce ²		66,812	65,908	1.4	

¹ Figure adjusted; see commentary on page 13.

² Converted to full-time positions.

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»The first six months have gone well.
We remain confident for the year as a whole.«

Dear Investor,

The economic situation in our European markets remains poor. Although the end of the recession is in sight and the financial markets have regained traction, there are no signs of dynamic recovery in the real economy. This will be reflected by the electricity and gas meters of our key industrial customers, among other things.

However, your company, RWE, can largely decouple itself from the macroeconomy's negative trend. We generate most of our earnings from relatively robust and crisis-resistant businesses. Two factors are especially important in this regard: First, we sold nearly all our electricity production for this year before the crisis. We realised prices that are far above current levels. This is not a stroke of luck, but the result of our prudent risk management. By generally selling forward large amounts of electricity up to three years prior to delivery, we secure a substantial part of our earnings early on. The second success factor supporting our robust earnings is our German grid and supply operations. Grid revenue is regulated and can therefore be predicted fairly reliably. Our supply activities benefit from relatively stable household consumption and the carefully drafted contracts we enter into with key accounts.

Therefore, the key financials in the first half of the year displayed positive development, as expected. We improved our operating result by 4 %. Recurrent net income, the figure to which your dividend is linked, rose by 5 %. This was largely due to strong earnings from the trading and gas midstream businesses of RWE Supply & Trading. However, these earnings may experience the significant fluctuation that is typical over the course of a year.

In contrast, RWE npower's earnings put in a weak performance due to the above-average price and cost pressure in the UK market. We had already announced this and have launched an additional, short-term cost-cutting programme in the company.

Our outlook for 2009 remains unchanged: We anticipate that the operating result and recurrent net income will be of the same order as last year. We therefore stand a good chance of being able to offer you another attractive dividend for this crisis-affected year.

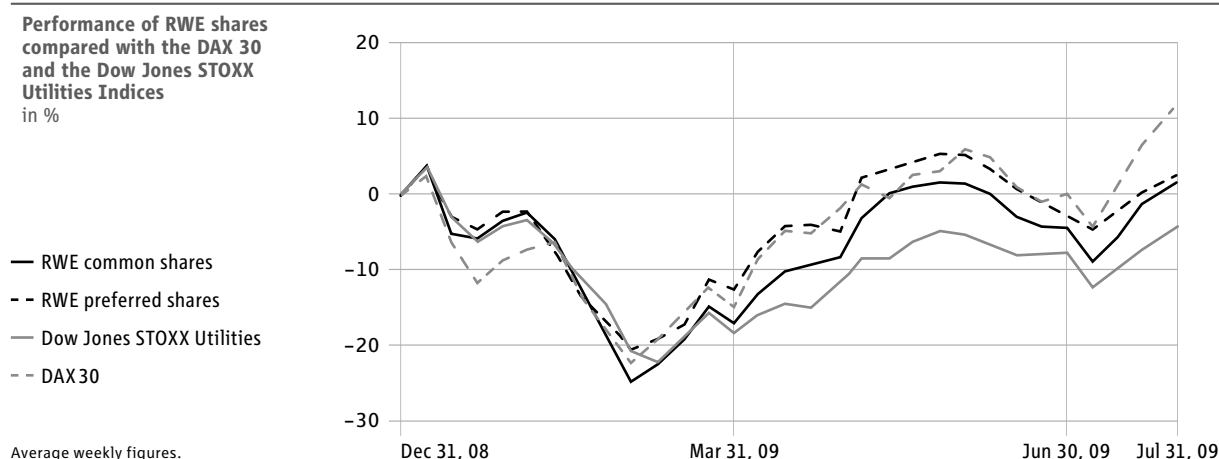
Sincerely yours,



Dr. Jürgen Großmann
CEO of RWE AG

Essen, August 2009

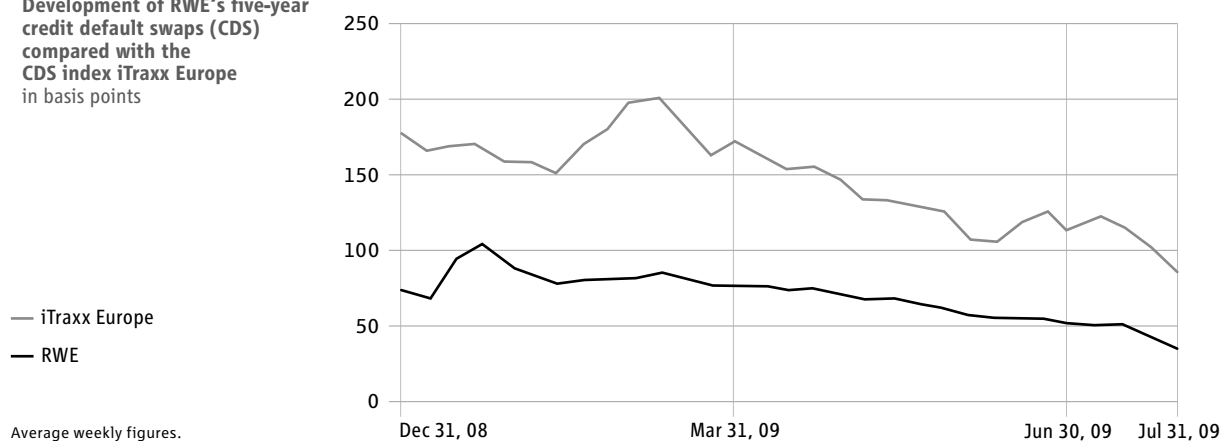
Stock markets recover significantly after weak start to the year – RWE performance exceeds sector average



Since March, the international stock markets have been recovering from the major losses in share prices witnessed at the beginning of the year. Germany's lead index, the DAX 30, closed June 30, 2009, at 4,809 points, matching the level on December 31, 2008, after having temporarily lost nearly a quarter of its value. RWE shares also made up some ground following a weak start to the year. Our common and preferred shares traded at €56.09 and €47.50 at the end of June. The total returns (return on the share price plus the dividend) for the first six months were –4 % and –3 %, respectively. RWE shares therefore traded slightly below the market, but managed to outperform the European sector index, Dow Jones STOXX Utilities (–8 %). The main driver of developments on stock markets was the world financial and economic crisis. Utility stocks suffered particularly from the recession-induced collapse in the market prices of raw materials and electricity. In the second quarter, however, the first signs of economic recovery led to a considerable improvement in stock market sentiment. Prices on commodity markets also picked up. After a brief period of weakness, the financial markets continued their upward trend in July. RWE common shares traded at €59.25 at the end of the month.

The situation on the bond markets also eased considerably in the last few months. This meant that credit spreads to be paid on top of the reference interest rates when issuing new bonds dropped substantially for companies like RWE. We took advantage of this development to issue more bonds in June (see page 11). The price for hedging RWE credit risk via five-year credit default swaps (CDSs), which briefly exceeded 100 basis points in January, fell below 35 basis points at the end of July, the lowest level since the end of 2007. The European CDS index, iTraxx Europe, which consists of the CDS prices of 125 major European companies, displayed a similar development. It more than halved compared with the all-time high of over 200 basis points witnessed in March.

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



Economic environment

Economic downturn slows

The severe recession maintained its grip on the world economy, but the economic decline lost momentum. Estimates have the economic output of OECD countries slipping a mere 0.2 % in the second quarter compared with the first quarter of 2009. Three months earlier, the drop amounted to 2.1 %. The downswing in the Eurozone also lost some of its pace. Real gross domestic product (GDP) in this region shrank by 1.4 % following a decrease of 2.5 % in the first quarter. The year-on-year comparison of first-half GDP in 2008 and 2009 in the Eurozone shows a drop of 5.4 %. Germany is especially hard hit by the recession because exports and corporate investment in property, plant and equipment play a very important role. In Germany, economic output was around 7 % down on the level recorded in the first six months of 2008. In the UK, the decrease in discretionary income continued unhindered in the second quarter, owing to the economic and real-estate crises. Consumer spending therefore remained on a steep decline. GDP fell an estimated 5.3 % compared with the first half of 2008. In Central Eastern Europe, countries most affected by the crisis were those which strongly depend on exports, such as the Czech Republic, or have a substantial amount of foreign-currency credit, like Hungary.

Weather slightly cooler year on year

Whereas the economic trend is primarily reflected in the level of demand for energy from industrial enterprises, household energy consumption strongly depends on weather conditions. Temperatures in our core markets, i.e. Germany, the UK and Central Eastern Europe, were much lower, in the winter months. In the second quarter, however, they were higher than in 2008. Overall, the weather was slightly cooler in the period being reviewed. In addition to energy consumption, weather conditions also influence the generation of electricity, above all from wind turbines. On a year-on-year basis, and compared to the long-term seasonal average, there was much less wind in Germany in the winter and more thereafter. In total, there was a marginal decline in the first six months.

Economic crisis reduces energy consumption in RWE's core markets

The recession left deep marks on energy consumption. However, the negative economic effect was somewhat offset by relatively stable demand for electricity among households and in the service sector as well as by weather-driven demand stimulus. According to initial estimates, electricity usage in Germany was 6 % lower than in the first half of 2008. It was also down in the UK (–6 %), Poland (–6 %), Hungary (–7 %) and Slovakia (–13 %). However, the decline in demand has relented since May. Gas consumption was also greatly influenced by the economic trend. In Germany, it decreased an estimated 11 % despite the generally cooler weather, dropping by 12 % in the UK and by as much as 15 % in Hungary. Demand for gas in the Czech Republic displayed slightly more stable development. First data analysis points to a decline of 6 %.

Oil price significantly below year-earlier level despite recovery

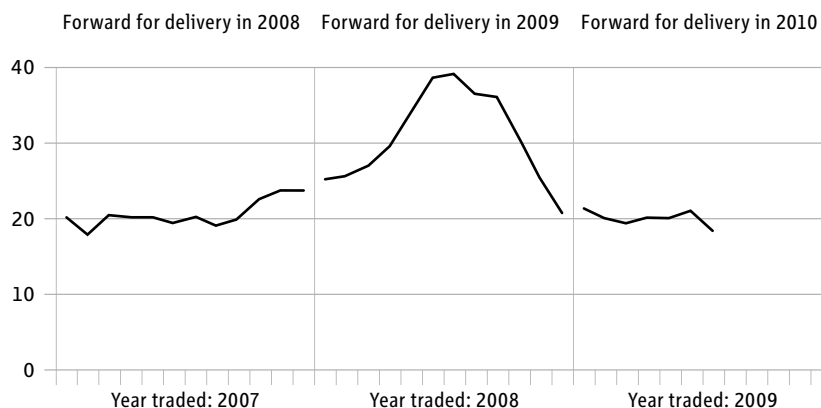
The freefall of prices on international crude oil markets, witnessed since the middle of 2008, came to a halt in the first quarter of 2009. Prices have risen since then. Production cut-backs decided by OPEC countries and the emerging hope for economic recovery were the main reasons. However, the price of oil is still much lower than the peak levels seen last year. In the first six months of 2009, a barrel of Brent crude sold for an average of US\$ 52. It traded at US\$ 109 in the first half of 2008 and even, temporarily, above US\$ 140 in July 2008.

Gas prices still affected by 2008 crude oil boom

European gas quotations mirror price developments in the oil market, albeit typically with a lag of several months. Therefore, imports of gas into Germany cost roughly as much as in the first half of 2008 despite the drop in oil prices. This development was reflected in end customer prices as well. Gas bills rose by about 15 % for homes and 11 % for industrial enterprises. Most of the price increases outside Germany were even bigger: The aforementioned customer groups each had to pay 25 % more in the Czech Republic, 31 % and 6 % more in the UK, and 25 % and 20 % more in Hungary. Forward trading developed as follows: In the period under review, contracts for delivery in the coming calendar year (2010 forward) traded for an average of €20 per MWh on the Dutch TTF wholesale market. This is €10 less than was paid for the 2009 forward in the first six months of 2008.

Development of one year TTF
wholesale forward gas prices
€/ MWh

Average monthly figures.
Source: RWE Supply & Trading.



Hard coal prices more than halved

Turnover on the international thermal coal market experienced a recession-induced drop of 6 % compared with the first half of 2008. The decline would have been more significant if imports into China had not increased. In the first six months of 2009, a metric ton in Rotterdam spot trading sold for an average of US\$ 68 (including freight and insurance). This is less than half the comparable figure for 2008 (US\$ 150).

Coal prices also reflect the price erosion in sea freight rates: Prices for the standard route from South Africa to Rotterdam were an average of US\$ 11 per metric ton, compared with US\$ 39 in the first half of 2008. German hard coal prices are determined by the German Federal Office of Economics and Export Control (BAFA). They track the price of imported hard coal with a lag of several months. No BAFA figures were available for the first six months of 2009 when this report went to print. Experts estimate the BAFA price at slightly more than €80 per metric ton of hard coal unit. €100 was the year-earlier figure.

CO₂ emission trading: certificate prices temporarily below 10-euro mark

European trade in CO₂ emission allowances is also being dominated by the recession. Production outages at energy-intensive plants brought a large number of additional emission allowances to the market. This is pushing down prices. In February, "EU allowances" (EUAs) for 2009 were temporarily quoted at less than €10 per metric ton of CO₂. They cost €13 at the end of June, which was also their average price in the first six months. By comparison, 2008 certificates cost an average of €24 in the same period last year. "Certified Emission Reductions" (CERs) became much cheaper as well. These are certificates obtained by achieving emission reductions in developing and newly industrialising countries within the scope of the "Clean Development Mechanism." European companies may cover domestic emissions up to a predetermined level by submitting CERs. The advantage is that the costs for these types of certificates are usually lower than the market prices of EUAs. In the first half of 2009, CERs traded at an average of €11 per metric ton of CO₂. The comparable figure for 2008 was €16.



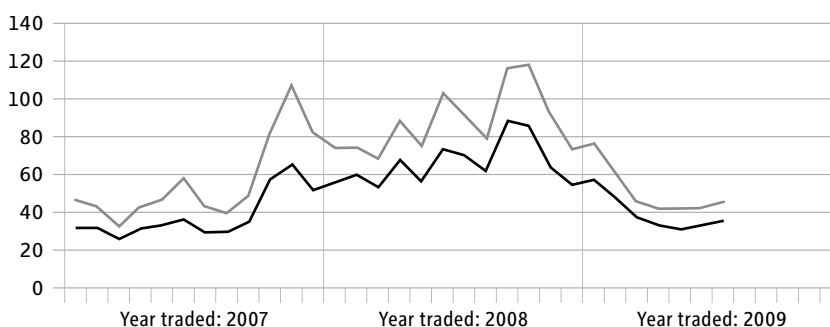
Declining prices on Europe's electricity markets

The considerable decrease in the price of fuel and emission allowances was mirrored on the European electricity wholesale markets. In spot trading on the Leipzig European Energy Exchange (EEX) in the first six months of 2009, base-load contracts traded at an average of €40 per megawatt hour (MWh), while peak-load electricity contracts sold for an average of €51 MWh. They were thus 35 % and 36 % cheaper compared with the same period in 2008. Prices in German electricity forward trading slipped as well. Contracts for the coming calendar year (2010 forwards) sold for an average of €51 per MWh for base-load power and €74 MWh for peak-load power. This represents a decline of 24 % and 22 % respectively over contracts in the same period last year. By the end of February, the 2010 base-load forward price had fallen to €43, its lowest level since the autumn of 2005, after which it recovered somewhat.

Development of wholesale electricity spot prices in Germany
€/ MWh

— Peak load
— Base load

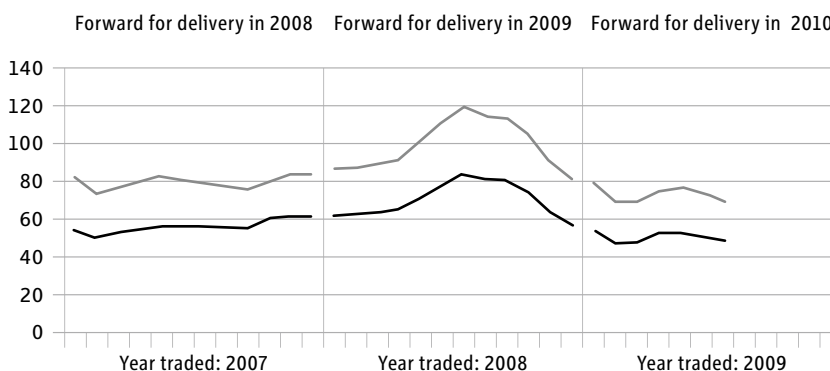
Average monthly figures.
Source: European Energy Exchange (EEX),
Leipzig, Germany.



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

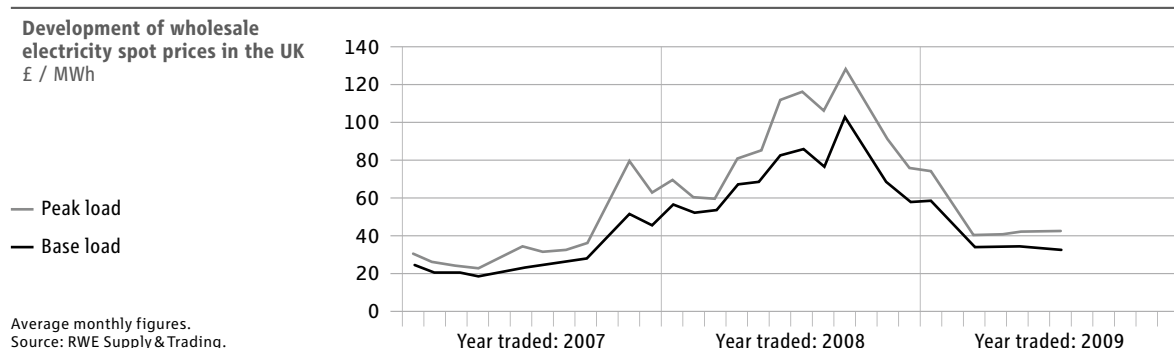
— Peak load
— Base load

Average monthly figures.
Source: RWE Supply & Trading.



We sell forward nearly all our in-house electricity generation output in order to limit short-term volume and price risks. Therefore, electricity prices witnessed in the period under review only had a minor impact on our income in the first half of 2009. The more decisive factor is the price at which we concluded contracts for delivery in 2009 in preceding years. In the 2007/2008 trading period, the 2009 base-load forward sold for an average of €63 per MWh in the German market. The comparable figure for the 2008 forward was €55. Therefore, forward sales for 2009 were 15 % more expensive than for 2008. The rise was due to the boom on commodity markets which persisted until the middle of last year.

The most recent decline in electricity wholesale prices was hardly felt in the German household and commercial customer supply business. Electricity tariffs for this customer group were an average of 5 % higher than in the first half of 2008. This is because most of the supply companies made early forward purchases to cover their need for electricity and therefore their procurement costs were still affected by the rise in wholesale prices in preceding years. In contrast, industrial enterprises tend to procure energy on a more short-term basis. As a result, prices in this customer segment have already decreased by about 2 %.

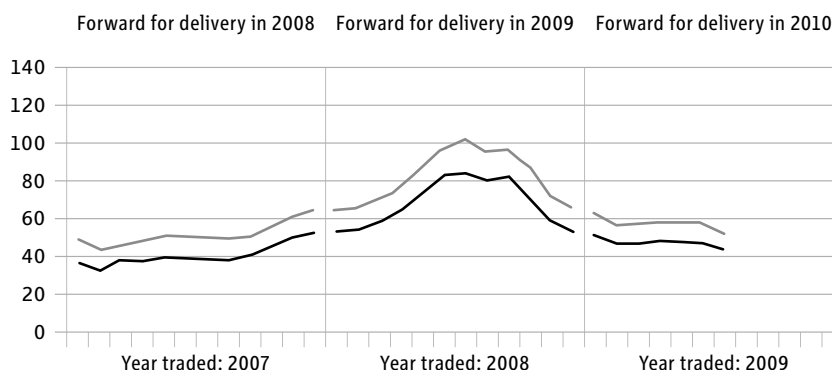


UK wholesale electricity prices were also down year on year. In the period under review, the average spot price of a MWh of electricity was £ 40 (€45) for base-load power and £ 49 (€55) for peak-load power. In both cases, this was 37 % less than in the same period in 2008. The price curve also trended downwards in the UK electricity forward market. Contracts for delivery in the 2010 calendar year were settled for an average of £ 48 (€53) per MWh of base-load power in the first half of 2009. This is 26 % less than the price of the 2009 forward in the same period last year. The price level for peak-load electricity dropped by 24 % to £ 58 (€66).

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

— Peak load
— Base load

Average monthly figures.
Source: RWE Supply & Trading.



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 therefore primarily determined by the prices at which electricity supply contracts for delivery in 2009 were concluded in preceding years. In the 2007/2008 trading period, the UK forward contract for 2009 sold for an average of £ 54 (€73) per MWh of base-load power. It was therefore 20 % up on the comparable figure for the 2008 contract, which was £ 45 (€66).

The decline in wholesale prices has also had a limited effect on the UK end customer business so far, although most energy companies have lowered their tariffs since the beginning of the year. Electricity prices still reflect the significant increases implemented last year. They were necessary because most supply companies had purchased electricity in advance. Therefore, end customer prices in the period being reviewed were up on the level observed in the first half of 2008, rising by 13 % for households and small commercial enterprises and by as much as 33 % in the industrial and corporate customer segment.

End-customer prices also advanced in most Central Eastern European electricity markets. Industrial enterprises in Poland and Slovakia paid 28 % and 14 % more, respectively. In Hungary, the price level for this customer group declined moderately. Private households in all the aforementioned markets saw their bills grow. The increase amounted to 14 % in Poland, 5 % in Hungary, and 3 % in Slovakia.

Major events

In the period under review

Shareholders and EU Commission give go-ahead for Essent takeover

RWE has made major progress with the acquisition of Essent. All of the leading Dutch energy utility's shareholders have approved our takeover bid. In the meantime, 100 % of Essent's outstanding share capital has been tendered to us. We received antitrust clearance from the European Commission on June 23. The go-ahead was on condition that Essent's 51 % stake in Stadtwerke Bremen be divested. This transaction had already been initiated in the run-up to the Commission's decision. Issues concerning Essent's 50 % interest in the nuclear power plant company EPZ remain to be clarified. However, we still expect to complete the takeover of the Dutch utility in the third quarter of 2009.

RWE no longer owns majority of American Water

RWE has reduced its stake in American Water to less than 50 %. After the initial public offering of the US water utility in April last year, a further 15.4 million shares were placed in the market through a consortium of banks in June 2009. Parallel to the sale of shares by RWE, American Water increased its capital by around US\$ 250 million by issuing new shares. With this combined transaction, RWE reduced its shareholding in American Water from 60.5 % to 46.6 %. We deconsolidated the company in June. American Water's net debt, which amounted to €4,240 million as of December 31, 2008, is no longer stated on our balance sheet. We received US\$ 266 million in proceeds from the sale of the shares before deducting bank fees.

Renewable energy: RWE expands wind energy and solar thermal activities

We are making good progress in implementing our growth strategy in the field of renewable energy. In May, RWE Innogy increased its stake in the Spanish wind farm operator Danta de Energías S. A. to 98.65 %. We previously held a stake of 49.33 % via an investment holding company in which we have a 90 % interest. Danta de Energías owns three wind farms in the province of Castile and León with a combined installed capacity of 130 MW. This brings our total Spanish wind farm capacity to 400 MW. Inroads were also made in offshore wind power generation: At the end of June, the Dutch Ministry of Transport, Public Works and Water Management gave us permission to build the 300-MW Tromp Binnen offshore wind farm 75 kilometres off the shore of the province of Noord-Holland. Construction is scheduled to begin in 2012/2013. We are also working in the field of solar thermal energy: In July, RWE Innogy acquired a stake in the Andasol 3 power plant project in the province of Granada in southern Spain. We currently own 12.8 % (pro-rata) of the project via an investment holding company. The parabolic trough power station is already under construction and is scheduled to be commissioned in 2011 with an installed capacity of 50 MW.

RWE issues new bonds

With two bond placements in June, we took further steps towards refinancing our acquisition of Essent. We started by placing a €1.5 billion Eurobond with a term of 2¼ years. This was followed by an issuance of two Sterling bonds with a total volume of £1.5 billion, of which £500 million have a term of 13 years and £1.0 billion have a term of 30 years. Since the Sterling bonds were placed at the end of the month, we did not receive the funds until after the balance sheet date (June 30, 2009). All of the issuances drew keen interest from investors and were several times oversubscribed. Including the €3 billion in bonds issued in February 2009, our placement volume in the first six months totals €6.3 billion. This is more than two-thirds of the expected transaction value for the Essent takeover.

After the period under review

Expansion of upstream gas position in UK North Sea

RWE Dea acquired stakes in two undeveloped gas fields off the British coast. At the end of July, our upstream subsidiary took a 70 % interest in the Breagh field, currently the largest undeveloped natural gas discovery in the southern UK North Sea. The seller is a group of companies headed by Canadian-based Sterling Resources. The price amounted to approximately €280 million. The Breagh gas field gives us access to resources of at least 13 billion cubic metres and the possibility to conduct further exploration in the surrounding fields. By comparison, RWE Dea's proven gas resources and reserves totalled 147 billion cubic metres at the end of 2008. Also in July, RWE Dea acquired a 50 % stake in several concession blocks of the Clipper South field from UK-based Fairfield Energy. This increases our gas resources by another 2 to 3 billion cubic metres. With the two acquisitions, RWE Dea takes the operating lead in the development of the fields. We are therefore establishing a long-term position as an operator of gas projects in the UK North Sea. We intend to commence production in Breagh and Clipper South at the end of 2012 and 2011, respectively.

RWE Dea sets stage for upstream activities in Caspian Sea

The Turkmenistan government has granted us the rights for the exploration and development of expected gas reserves in the south east of the Caspian Sea. A corresponding agreement was signed in mid-July in the presence of the Prime Minister of Turkmenistan, Gurbanguly Berdimuhamedow. The contracted area spans 940 square kilometres. We recently, in April, entered into an energy partnership with the Turkmenistan government which will involve looking into the possibility of gas deliveries from Turkmenistan to Europe. The gas could be transported via the planned Nabucco pipeline.

Governments agree on basic conditions for operation of Nabucco pipeline

On July 13, the transit countries of the planned Nabucco long-distance pipeline signed an agreement in Ankara, Turkey, on the framework conditions for its use. It provides both investors and gas suppliers with a stable legal and operational basis. One of the agreement's provisions stipulates that transmission capacity be split half way between the owner companies and other market participants, applying a uniform tariff structure. The Nabucco pipeline gives European customers access to new sources of gas in the Caspian region and the Middle East and promotes competition in the international gas market. It will start at the eastern border of Turkey and run through Bulgaria, Romania and Hungary to Baumgarten near Vienna, Austria. Besides RWE, shareholders of the Nabucco consortium are OMV (Austria), MOL (Hungary), Transgaz (Romania), Bulgarian Energy Holding (Bulgaria) and BOTAS (Turkey). Gas supplies are scheduled to start flowing through Nabucco in 2014. The planned system size on final completion is a maximum of 31 billion cubic metres per annum. The total investment is estimated at €7.9 billion.

RWE increases independence of its electricity transmission business

Effective July 1, we spun RWE Transportnetz Strom GmbH, which is responsible for operating our ultra-high-voltage grid, out of RWE Energy and assigned it directly to RWE AG. Its expansion into a fully functional company capable of fulfilling all operational tasks with its own staff is well underway. The company will be renamed "Amprion" from September 1, 2009. By taking this step, RWE has already largely met the requirements of the third EU single energy market package adopted in July. Our financial reporting has included RWE Transportnetz Strom under "Other, consolidation" at the Group level since January 1.

RWE establishes energy-efficiency company

July 1 also saw the launch of RWE Effizienz GmbH, in which we have pooled our energy-efficiency activities in the residential and electric vehicle sectors. Its product and consulting offerings target private customers, small and medium-sized enterprises, municipalities as well as tradesmen and architects. The company is headquartered in Dortmund, with an initial headcount of around 70 employees. It promotes, among other things, the use of modern electricity meters (smart meters) to improve monitoring of energy consumption as well as computer systems to control residential equipment and appliances (smart home). Its fields of activity include electric and natural gas-powered vehicles.

Notes on reporting

Changes in reporting

Our financial reporting for fiscal 2009 has adopted the following amendments. We adjusted prior-year figures accordingly to ensure comparability:

- RWE Innogy, which we established as of February 1, 2008, and in which we pooled our activities in the field of renewable energy, is presented as a separate division from 2009 onwards. The company was previously included in “Other, consolidation” at the Group level.
- As described earlier, we spun RWE Transportnetz Strom GmbH out of RWE Energy as of July 1 and assigned it directly to RWE AG. This reclassification has already been taken into account in the financial reporting for the first six months. We are stating the company under “Other, consolidation” at the Group level.
- RWE Key Account GmbH, which serves our large industrial customers, was transferred from RWE Energy to RWE Supply & Trading in June. This has been considered in the reporting structure retrospectively as of January 1. Industrial key accounts generally strongly orient their purchasing towards prices established on the wholesale market. Therefore, this reassignment will lead to advantages and synergies.

Another adjustment relates to the calculation of EBITDA (earnings before interest, taxes, depreciation and amortisation). This figure also includes operating income from investments from 2009 onwards. We have thus brought the calculation of EBITDA in line with that of the operating result. Income from investments is expected to increase in the next few years and therefore gain significance. This will be a consequence of RWE Innogy’s expansion programme, among other things. We use adjusted prior-year figures as a basis for our 2009 reporting.

American Water recognised as a “discontinued operation”

We have classified American Water (“Water Division”) as a “discontinued operation” again this financial year. As stated on page 10, we reduced our shareholding in the US water utility to under 50 % in June and deconsolidated it. From now on, our remaining shares will be accounted for at equity and stated as “assets held for sale.” We still intend to sell American Water entirely.

Business performance

Electricity production January – June	RWE Power ¹		RWE Innogy		RWE npower		RWE Group ²	
	2009	2008	2009	2008	2009	2008	2009	2008
Billion kWh								
In-house generation	73.8	92.6	2.2	2.0	12.9	18.8	90.4	115.0
Lignite	36.0	36.8	–	–	–	–	36.0	36.8
Nuclear	17.8	24.7	–	–	–	–	17.8	24.7
Hard coal	14.6	23.9	–	–	6.0	8.9	21.0	33.3
Gas	4.2	5.8	0.1	0.1	6.7	9.8	11.6	16.3
Renewable energies	0.3	0.3	2.1	1.9	–	–	2.9	2.7
Pumped storage, oil, other	0.9	1.1	–	–	0.2	0.1	1.1	1.2
Electricity purchased from third parties	–	–	–	0.1	13.3 ³	8.9 ³	61.3	55.6
Total	73.8	92.6	2.2	2.1	26.2	27.7	151.7	170.6

1 Including electricity procured from power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements.

In the first half of 2009, it amounted to 8.1 billion kWh, of which 7.0 billion kWh was generated from hard coal.

2 Including generation capacity and electricity purchases of RWE Energy's regional companies.

3 RWE npower largely purchases electricity via RWE Supply & Trading.

Electricity generation much lower

In the first half of 2009, the RWE Group produced 90.4 billion kilowatt hours (kWh) of electricity, 21 % less than in the same period in 2008. In-house generation and power purchases combined for 151.7 billion kWh. This was 11 % lower year on year.

RWE Power contributed 73.8 billion kWh to 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 20 % less electricity than in the first six months of 2008. This was partially due to the outage of the Biblis nuclear power station for maintenance purposes. Block B has been offline since the end of January 2009, and Block A since the end of February. In contrast, the power plant was available almost continuously in the same period last year. Excluding the Biblis effect, RWE Power's electricity generation was down 12 %, largely because we made less use of our hard coal and gas-fired power stations. This is because, due to the lower prices on the spot market, we met part of our supply obligations from RWE Supply & Trading's forward contracts through lower-priced purchases from third parties instead of via our own production.

RWE Innogy, the division specialising in renewable energy, generated 2.2 billion kWh in the period under review, which was 10 % more year on year. The rise is a result of the company's growth strategy. As of June 30, 2009, RWE Innogy had an installed capacity of 1.4 gigawatts (GW) at its disposal. This is 0.3 GW more than a year earlier. By 2012, 4.5 GW should be in operation or under construction.

Electricity production at RWE npower was down 31 % to 12.9 billion kWh. In the UK, market conditions for hard coal and gas-fired power plants deteriorated considerably: This was in part due to the decline in electricity demand caused by the economic situation, which affected mid-merit and peak-load power stations in particular. In addition, UK nuclear power plant usage increased after several outages in the first half of 2008. Nuclear production growth forced generation from other fuels (mainly gas and hard coal) to shrink.

RWE Energy generated 1.5 billion kWh of power (first half of 2008: 1.6 billion kWh). This output is largely allocable to our German regional companies. It mainly consists of gas, hard coal and hydro power generation.

Gas production down, oil production matches prior-year level

In the period under review, our upstream company RWE Dea produced 1,599 million cubic metres of gas and 1,262 thousand cubic metres of oil. In terms of oil equivalent, output totalled 2,810 thousand cubic metres (17.7 million barrels), which was 6 % less than the amount produced in the first six months of 2008 (18.7 million barrels). Gas output was down 11 %. A significant drop was recorded in the UK North Sea, in part due to technical problems. In addition, we experienced a natural decrease in that region, as reserves are being depleted. Crude oil output was essentially flat. There were natural declines in production, mainly in Germany and Denmark. However, these were contrasted by volume increases in Norway. In that country, fiscal 2007 and 2008 were negatively affected by an extraordinary factor: The concession partners redetermined production volumes from the "Snorre" oil field after reviewing the contracts. This reduced the share allocable to us. RWE Dea had to reimburse the excess output received through September 2008 with current production.

Electricity sales mirror reduction in power plant use

In the first six months of 2009, we supplied 143.4 billion kWh of electricity to outside customers, a decrease of 11 % year on year. This drop is largely allocable to RWE Supply & Trading and is due to the fact that trading of externally sourced electricity is not recognised in the sales volume (see commentary on page 16). Excluding the trading activities, electricity sales were stable. Demand from industrial customers was down due to a decline in production in reaction to the economic situation. However, we won new customers in the household and distributor segments.

RWE Power sold 6.7 billion kWh to external customers compared with 6.8 billion kWh in the same period last year. This is much less than the amount of electricity the division produced. We typically sell our German generation within the Group. It is then sold on the wholesale market by RWE Supply & Trading or to end customers and distributors by RWE Energy. Conversely, electricity produced outside Germany is marketed by RWE Power itself, including generation by our Hungarian subsidiary Mátra. External sales also include production by our German Gundremmingen and Emsland nuclear power stations which is allocable to the minority shareholder in these plants.

External electricity sales volume January – June Billion kWh	RWE Power		RWE Supply & Trading		RWE Energy		RWE npower		RWE Group ¹	
	2009	2008	2009	2008 ²	2009	2008 ²	2009	2008	2009	2008
Private and commercial customers	0.2	0.2	–	–	18.4	18.9	10.4	11.3	29.1	30.5
Industrial and corporate customers	–	–	14.8	15.6	18.1	18.7	14.8	15.2	47.7	49.7
Distributors	6.5	6.6	–	–	23.5	20.0	–	–	48.9	45.3
Electricity trading	–	–	17.7	36.4	–	–	–	–	17.7	36.4
Total	6.7	6.8	32.5	52.0	60.0	57.6	25.2	26.5	143.4	161.9

1. Including electricity sales generated by RWE Transportnetz Strom and RWE Innogy.

2. Figures partially adjusted; see commentary on page 13.

Electricity sales by RWE Supply & Trading decreased by 38 % to 32.5 billion kWh. This is largely because the company sourced the electricity it sold on the wholesale market to a far lesser extent from in-house generation, increasing its purchases from third parties. As explained earlier, electricity trading of purchases from third parties is not recognised in sales. The supply business with major industrial and corporate customers (RWE Key Account) experienced a decline in demand caused by the economic crisis. RWE Key Account saw sales fall by 0.8 billion kWh, or 5 %. The fact that the company generally concludes take-or-pay contracts with our customers had a stabilising effect.

RWE Energy's electricity sales rose by 4 % to 60.0 billion kWh. In the distributor segment, we won new customers and expanded volumes with existing customers. The weak economy had a counteracting effect, especially on sales to industrial and corporate customers. The economic crisis was one of the reasons why households and small commercial operations became more cost-aware in their use of energy. As of June 30, 2009, RWE Energy supplied electricity to 10.2 million private and commercial customers. Of these, 7.0 million were in Germany, 2.2 million in Hungary and 0.9 million in Poland. These figures exclusively refer to our fully consolidated companies. Our customer base in Germany increased by 60,000 during the first six months. Our discount company eprimo had signed up 577,000 electricity customers as of June 30. By the end of 2008, this figure was 422,000. Our "ProKlima" tariff, which guarantees German households a fixed price over three years, was very popular. It allows our customers to plan reliably, while remaining flexible given their annual termination right. Another feature of "ProKlima" is that all the electricity sold through it is generated nearly CO₂-free in hydroelectric and nuclear power plants. By the end of 2008, 130,000 customers had already opted for this product. Another 220,000 were added in the first half of 2009. In April, eprimo also started offering new customers a product with a price guarantee through the end of 2010. We already had 110,000 contracts for this product by the end of June.

RWE npower's electricity sales declined by 5 % to 25.2 billion kWh. The weak economy not only led to receding sales volumes in the industrial and corporate customer segment, but also to more cost-aware energy consumption by households and commercial operations. As of June 30, 2009, RWE npower supplied electricity to 4.2 million private and commercial customers. We won 22,000 private customers over the course of the first six months. We have a 15 % share of the UK household market.

External gas sales volume January – June	RWE Dea		RWE Supply & Trading		RWE Energy		RWE npower		RWE Group	
	2009	2008	2009	2008 ¹	2009	2008 ¹	2009	2008	2009	2008
Billion kWh										
Private and commercial customers	–	–	–	–	40.8	37.7	26.4	27.8	67.2	65.5
Industrial and corporate customers	1.5	1.6	9.7	9.9	35.0	41.2	3.7	5.1	49.9	57.8
Distributors	8.6	9.2	4.7	4.7	37.8	46.2	–	–	51.1	60.1
Total	10.1	10.8	14.4	14.6	113.6	125.1	30.1	32.9	168.2	183.4

1 Figures partially adjusted; see commentary on page 13.

Gas sales volume down 8 % on year-earlier level

External gas sales decreased by 8 % to 168.2 billion kWh. Many industrial customers ramped down production in response to the weak economy and therefore used less gas. In addition, we recorded customer losses from our German distributors.

RWE Dea delivered 10.1 billion kWh of gas to external customers in the period under review, falling below the year-earlier figure by 6 %. This was due to the decline in gas production.

RWE Supply & Trading's external gas sales volume totalled 14.4 billion kWh. This division focuses on procuring gas for RWE Group companies and therefore predominantly generates internal sales. It sells gas to external customers only to a limited extent. The company's external gas sales are divided into surplus purchase volumes and supplies to industrial customers by RWE Key Account. In the first six months, gas sales were only marginally down year on year, despite the economy's negative effect.

RWE Energy sold 113.6 billion kWh of gas, 9 % less than in the same period in 2008. In reaction to increasingly fierce competition in the German gas market, some of our customers switched suppliers or started diversifying their gas procurement. This primarily applies to the distributor segment. The recession also caused sales volumes to shrink. The drop was slightly mitigated by the Slovak sales company RWE Slovensko taking up operations. It supplied 1 billion kWh of gas to its corporate customers in the first half of 2009. Gas sales in the residential and commercial customer segment grew, in part due to the cool winter weather. Customer acquisitions by eprimo also contributed to this: By the middle of the year, the company had 28,000 gas customers,

twice as many as at the end of 2008. As of June 30, 3.6 million private and commercial customers purchased gas from RWE Energy. Our gas customer base in Germany totalled 1.0 million, including 14,000 added since the beginning of the year. We supply 2.3 million residential and commercial customers in the Czech Republic and roughly 250,000 in the Netherlands.

RWE npower's gas deliveries were down 9 % to 30.1 billion kWh. One of the reasons was the reduction in demand among industrial enterprises due to the economic situation. Gas consumption per customer was down in the household and small commercial operation segment. This was due to energy savings, partly in reaction to the economic crisis. By June 30, 2009, RWE npower was supplying 2.7 million private and commercial customers with gas, 83,000 more than at the end of 2008. We have a 12 % share of the UK household market. The number of customers to whom we supply both electricity and gas amounts to 2.4 million.

External revenue marginally down year on year

In the first half of 2009, the RWE Group generated €24.4 billion in external revenue. This was slightly less than in the same period last year, but slightly more when adjusted for currency effects. Sterling, our major foreign currency, lost in value compared with the euro. Averaged for the first six months, Sterling cost €1.12; in the same period last year, the equivalent was €1.28. The Czech crown also decreased in value. In contrast, the US dollar rose from €0.65 to €0.75. On balance, first-time consolidations and deconsolidations did not have a material impact on revenue or earnings.

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

External revenue posted by RWE Power amounted to €689 million (first half of 2008: €645 million). It primarily comprises electricity sales generated by non-German subsidiaries (predominantly Mátra in Hungary) and the marketing of lignite-based products (e.g. briquettes).

RWE Innogy grew external revenue by 4 % to €132 million. This was largely due to the acquisition of the Spanish wind farm operator Urvasco Energía in June 2008. €81 million, or more than half, of RWE Innogy's external revenue originated in Germany, primarily from electricity and heat generation by biomass and gas-fired thermal power stations. Production from German hydroelectric power plants only accounts for a small portion, since most of it is sold internally.

RWE Dea's external revenue was down by one-third to €627 million. The company sold its crude oil production at much lower dollar prices than in the same period in 2008. However, since US currency gained on the euro, this was not fully reflected in the external revenue trend. In the German gas business, we benefited from the lag in the adjustment to oil prices commonly experienced in the market. As a result, RWE Dea succeeded in selling its gas at higher prices than in the first half of 2008. This was contrasted with revenue losses resulting from the decline in gas production.

External revenue € million	Jan–Jun 2009	Jan–Jun 2008 ¹	+ / - in %	Jan–Dec 2008 ¹
RWE Power	689	645	6.8	1,435
RWE Innogy	132	127	3.9	269
RWE Dea	627	931	-32.7	1,765
RWE Supply & Trading	3,544	4,462	-20.6	8,663
RWE Energy	13,264	12,367	7.3	24,613
German regions	9,233	8,720	5.9	17,111
International regions	3,578	3,377	6.0	6,927
Supra-regional operations	206	130	58.5	298
Other, consolidation	247	140	76.4	277
RWE npower	4,239	4,291	-1.2	8,618
Other, consolidation	1,891	1,898	-0.4	3,587
RWE Group	24,386	24,721	-1.4	48,950
of which:				
Electricity revenue	15,209	15,810	-3.8	31,359
Direct electricity tax	481	491	-2.0	964
Gas revenue	7,227	6,537	10.6	13,768
Oil revenue	551	683	-19.3	1,164

1. Figures partially adjusted; see commentary on page 13.

RWE Supply & Trading's external revenue dropped by 21 % to €3,544 million. Most of it is achieved by selling the Group's in-house electricity generation on the wholesale market. The fact that RWE Supply & Trading increasingly met its supply obligations through purchases from third parties reduced revenue, because only the margins on these transactions are recognised in the reported figures.

RWE Energy recorded a gain in external revenue of 7 % to €13.3 billion. At €7,761 million, electricity revenue was also 7 % higher than in the first half of 2008. The improvement of the sales volume in Germany contributed to this, but price increases due to higher procurement costs were the main reason. Notably, our supply companies generally purchase electricity in advance, similar to our competitors. Therefore, 2009 procurement costs are still affected by the price peaks seen on the wholesale market in 2008. Against this backdrop, some of our German regional companies increased their standard electricity tariffs effective April 1, 2009, including RWE Westfalen-Weser-Ems and RWE Rhein-Ruhr, both of which implemented raises of 6.8 %. External revenue earned from RWE Energy's gas sales improved by 6 % to €4,940 million, despite declining volumes. In 2008, our German regional utilities increased tariffs in reaction to the rise in procurement costs. However, the positive effects were diminished by several price reductions this year. In so doing, we reacted to the recently decreasing gas procurement costs.

RWE npower generated €4,239 million in external revenue, which was slightly less year on year. Electricity revenue was down 2 % to €2,872 million, while gas revenue advanced 2 % to €1,156 million. Net of currency effects, figures for the two products posted significant growth, rising by 11 % and 17 %, respectively, resulting from price increases implemented a year earlier. RWE npower had lifted its electricity and gas tariffs for household customers by an average of 14 % and 26 % at the end of August 2008. However, this was followed by a competition-induced cut in electricity tariffs by 8 % as of March 31, 2009.

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

Internal revenue € million	Jan – Jun 2009	Jan – Jun 2008 ¹	+ / – in %	Jan – Dec 2008 ¹
RWE Power	4,834	5,081	–4.9	9,982
RWE Innogy	72	54	33.3	122
RWE Dea	167	89	87.6	211
RWE Supply & Trading	10,642	9,963	6.8	20,571
RWE Energy	2,734	2,608	4.8	5,357
RWE npower	5	22	–77.3	10

¹ Figures partially adjusted; see commentary on page 13.

Operating result 4 % up year on year

The RWE Group continued to improve its earnings in the first half of 2009. EBITDA advanced by 4 % to €5,047 million, and the operating result was also up 4 %, rising to €4,084 million. Net of currency effects, each of the increases amounted to 5 %. This was predominantly due to the high earnings contribution from RWE Supply & Trading, which, however, cannot be extrapolated for the full year. Our outlook for 2009 remains unchanged. We continue to expect that EBITDA and the operating result will be of the order achieved last year.

Reconciliation of income from operating activities to EBITDA € million	Jan–Jun 2009	Jan–Jun 2008	+ / – in %	Jan–Dec 2008
Income from operating activities	4,227	3,225	31.1	5,887
+ Income from investments	73	237	–69.2	454
– Non-operating result	–216	471	–	485
Operating result	4,084	3,933	3.8	6,826
+ Operating depreciation and amortisation	963	930	3.5	1,947
EBITDA	5,047	4,863¹	3.8	8,773¹

1 Figure adjusted; see commentary on page 13.

EBITDA € million	Jan–Jun 2009	Jan–Jun 2008 ¹	+ / – in %	Jan–Dec 2008 ¹
RWE Power	2,068	2,008	3.0	3,601
RWE Innogy	53	62	–14.5	103
RWE Dea	249	449	–44.5	748
RWE Supply & Trading	738	44	–	487
RWE Energy	1,796	1,787	0.5	3,093
German regions	1,164	1,094	6.4	1,963
International regions	322	468	–31.2	652
Supra-regional operations	308	278	10.8	517
Other, consolidation	2	–53	–	–39
RWE npower	230	416	–44.7	714
Other, consolidation	–87	97	–	27
RWE Group	5,047	4,863	3.8	8,773

1 Figures adjusted; see commentary on page 13.

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

RWE Power improved its operating result by 4 % to €1,838 million. This was mainly due to the realisation of higher prices for our German electricity generation. However, compared with the same period last year, the division's earnings were also marked by negative effects, in particular the outage of the Biblis nuclear power plant for maintenance purposes (–€522 million). Higher contractual hard coal prices resulted in an additional expense of €327 million. Staff costs also rose. In contrast, due to the reduction in electricity generation, the expense we incurred owing to the shortage of CO₂ emission allowances was €471 million, which was lower than in the first half of 2008 (€583 million).

Operating result € million	Jan–Jun 2009	Jan–Jun 2008 ¹	+ / – in %	Jan–Dec 2008 ¹
RWE Power	1,838	1,769	3.9	3,142
RWE Innogy	23	44	–47.7	55
RWE Dea	130	325	–60.0	494
RWE Supply & Trading	738	43	–	486
RWE Energy	1,405	1,408	–0.2	2,286
German regions	895	834	7.3	1,407
International regions	239	386	–38.1	478
Supra-regional operations	269	241	11.6	440
Other, consolidation	2	–53	–	–39
RWE npower	135	334	–59.6	534
Other, consolidation	–185	10	–	–171
RWE Group	4,084	3,933	3.8	6,826

1. Figures partially adjusted; see commentary on page 13.

The operating result recorded by RWE Innogy declined by €21 million to €23 million. Our extensive investment programme in the field of renewable energy produces high start-up costs and requires additional manpower. The first-time consolidation of Urvasco Energía had a positive effect.

RWE Dea closed the period under review with an operating result of €130 million. This is €195 million less year on year, mainly due to the drop in crude oil prices. However, the effect was partially mitigated by the fact that the company hedged part of its oil production in advance. Earnings also deteriorated in the gas business, although we realised higher prices. The decline in production volume was the reason.

RWE Supply & Trading generated an unusually high operating result of €738 million, which was €695 million up year on year. In energy trading, we benefited from the fact that major successful forward transactions concluded in earlier years have only now started to affect the income statement positively. 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 on realisation of the underlying transactions, i. e. at the time of delivery of the electricity. RWE Supply & Trading also recorded a strong gain in the gas midstream business. However, this was partially due to significant one-off effects, including the reversal of provisions accrued in preceding years to cover uncertainties in connection with purchase agreements. In addition, we received strong earnings contributions from the continuous optimisation of our international gas procurement portfolio.

RWE Energy posted an operating result of €1,405 million. This roughly corresponds to the adjusted year-earlier figure. Positive effects on earnings resulting from the successful continuation of our efficiency-enhancement programme (see page 27) were contrasted by declines in margins in our German and Hungarian electricity supply business as well as negative currency effects. The regulation of the German networks did not result in additional burdens in the period under review. RWE Energy's business units displayed the following earnings trends:

- German regions: RWE Energy's domestic regional companies closed the reporting period 7 % up year on year, in part due to cost reductions. Furthermore, the gas business improved its earnings situation. Margins had come under pressure in this business in the prior-year period, because increases in the cost of purchasing gas could only partially be passed through via end customer prices. Procurement costs have recently dropped again. As explained earlier, our German supply companies have already reacted to this by reducing their gas prices. Our margins in the electricity supply business deteriorated somewhat. The main factor was the rise in procurement costs, which was partially passed on to end customers with a delay.
- International regions: Our Continental European supply and grid operations were down 38 %. However, the year-earlier figure still benefited from the positive effects on earnings from measures to hedge price risks in the Dutch gas business. Our Hungarian electricity supply activities had to cope with a fall in sales volume due to the economic and competitive environment. We also felt the impact of the recession in our Czech gas operations. A weaker Czech crown, Hungarian forint and Polish zloty contributed further to the decrease in the operating result. Cost reductions achieved through reorganisation and streamlining measures in Hungary and the Czech Republic had a counteracting effect.
- Supra-regional activities: The operating result improved by 12 %, in part owing to higher revenue from the Czech gas transmission business and cost reductions. This was contrasted by negative currency effects. In addition, we incurred higher costs associated with measures taken to grow eprimo's market share.

RWE npower's operating result declined by 60 % to €135 million. Net of currency effects, the decrease amounted to 54 %. Our electricity generation activities closed the period markedly down on the first half of 2008, because power plant margins achievable in the UK market were lower than last year. Expenses incurred to purchase CO₂ emission allowances amounted to €32 million (first half of 2008: €92 million). Earnings also deteriorated in the UK end customer business. As explained earlier, due to competitive pressure, we lowered electricity tariffs at the end of March 2009. Furthermore, there was an increase in bad debt. Measures to promote energy savings in households led to additional expenses. UK energy companies are obliged to do so within the scope of government programmes.

The operating result stated under “Other, consolidation” deteriorated by €195 million to –€185 million. Due to the weak economy, we expect that we will have to make much higher contributions to the German pension assurance association “Pensions-Sicherungs-Verein,” for which we built a provision. Pensions-Sicherungs-Verein is a self-help association of German companies which secures company pension plans in the event of insolvency. Additional consulting costs were incurred in the period under review, in part due to the planned acquisition of Essent.

Reconciliation to net income: positive one-off effects

The reconciliation from the operating result to net income is characterised by the positive impact of the fair valuation of commodity derivatives. In addition, the absence of burdens associated with the IPO of American Water had an effect on the year-on-year comparison. This is contrasted by higher interest expenses and an impairment loss recognised for our investment in the US company Excelerate.

Non-operating result € million	Jan–Jun 2009	Jan–Jun 2008	+ / – € million	Jan–Dec 2008
Capital gains	7	45	–38	89
Impairment losses	–	–	–	–
Restructuring, other	209	–516	725	–574
Non-operating result	216	–471	687	–485

The non-operating result amounted to €216 million, which was €687 million more than in the first half of 2008. In detail, it developed as follows:

- We did not realise any notable capital gains in the first half of 2009. Therefore, we remained below the low figure achieved a year earlier (€45 million), which still included proceeds from the transfer of an 8 % stake in rhenag Rheinische Energie AG to RheinEnergie AG.
- The result stated under “Restructuring, other” improved by €725 million to €209 million. This was mainly due to effects arising from the accounting treatment of derivative transactions, which are concluded to hedge the prices of forward contracts (underlying transactions). Pursuant to IFRS, these derivatives are accounted for at fair value at the corresponding balance sheet date, whereas the underlying transactions (which show the exact opposite movement) are only recognised with an effect on profit or loss later on, when they are realised. This results in short-term effects on earnings, which neutralise over time. Forward sales of RWE Supply & Trading’s stored gas purchases is one of the areas to which this applies. We have been recognising the change in the fair value of these derivatives in the non-operating result since the interim financial statements for the first half of 2008. As of June 30, 2009, we had realised a total of €514 million in income as compared with a loss of €430 million at the end of the year-earlier period. The impairment loss

of €187 million we recognised for our at-equity investment in Excelebrate countered the derivative effect described earlier. From a current perspective, the US company, which specialises in liquefied natural gas (LNG) transports, will continue to lag our income expectations in the short term, because the conditions in the LNG market are difficult. The “Restructuring, other” item also includes the amortisation of RWE npower’s customer base. It amounted to €126 million, and was lower than the figure for the first half of 2008 (€143 million) due to currency effects. Changes made to nuclear and mining provisions resulted in €101 million in income (first half of 2008: €95 million).

Financial result € million	Jan–Jun 2009	Jan–Jun 2008	+ / – € million	Jan–Dec 2008
Interest income	327	420	–93	807
Interest expense	–580	–452	–128	–965
Net interest	–253	–32	–221	–158
Interest accretion to non-current provisions	–446	–375	–71	–738
Other financial result	–217	–211	–6	–579
Financial result	–916	–618	–298	–1,475

The financial result decreased by €298 million to –€916 million. In detail, it developed as follows:

- Interest income declined by €221 million to –€253 million. Our debt level rose due to our growth investments and the refinancing of the Essent acquisition, causing the interest expense to increase commensurately. Burdens grew also as a result of fees paid for the bridge loan granted to us by banks for the interim financing of the Essent acquisition.
- The interest accretion to non-current provisions rose by €71 million to €446 million. This was due to a decline in our pension fund assets resulting from the financial crisis, which led to a decrease in expected fund income. When the interest accretion is calculated, this income is deducted.
- The “other financial result” totalled –€217 million (first half of 2008: –€211 million). Burdens primarily stemmed from write-downs of securities or realised losses from their sale.

Our continuing operations generated income before tax amounting to €3,384 million. This represents an increase of 19 % compared with the first half of 2008. The effective tax rate was marginally down, amounting to 30 %. However, we expect that the rate for the full year will be slightly higher. Income from continuing operations after tax totalled €2,362 million, improving by 21 %.

The RWE Group's discontinued operations (American Water) made an earnings contribution of €3 million. In the same period last year, we had recorded a loss of €628 million resulting from the IPO of American Water in April 2008. When we placed 39.5 % of the shares in the company, the issue price was lower than the carrying amount, requiring us to recognise an impairment loss on the remaining shareholding.

In the first half of 2009, the minority interest amounted to €143 million, which was lower than in the same period in 2008 (€170 million). This was mainly because of the earnings drop experienced by our Hungarian supply companies in which third parties hold minority interests.

Reconciliation to net income		Jan – Jun 2009	Jan – Jun 2008	+ / – in %	Jan – Dec 2008
Operating result	€ million	4,084	3,933	3.8	6,826
Non-operating result	€ million	216	–471	145.9	–485
Financial result	€ million	–916	–618	–48.2	–1,475
Income from continuing operations before tax	€ million	3,384	2,844	19.0	4,866
Taxes on income	€ million	–1,022	–890	–14.8	–1,423
Income from continuing operations	€ million	2,362	1,954	20.9	3,443
Income from discontinued operations	€ million	3	–628	100.5	–567
Income	€ million	2,365	1,326	78.4	2,876
Minority interest	€ million	143	170	–15.9	318
Net income	€ million	2,222	1,156	92.2	2,558
Recurrent net income	€ million	2,232	2,131	4.7	3,367
Earnings per share	€	4.17	2.12	96.7	4.75
Recurrent net income per share	€	4.19	3.90	7.4	6.25
Effective tax rate	%	30	31	–	29

Overall, this resulted in a significant increase in the RWE Group's net income, which almost doubled to €2,222 million. Our earnings per share rose from €2.12 to €4.17. The number of RWE shares outstanding decreased due to the share buyback conducted from February to May 2008. In the first half of 2009, they averaged 532.7 million as compared with 546.3 million in the same period last year.

The decisive figure for our dividend policy is recurrent net income, which does not contain the non-operating result. Major non-recurrent effects in the financial result, income taxes and income from discontinued operations are also excluded from this figure. In the first half of 2009, recurrent net income totalled €2,232 million, 5 % more than in the same period last year. We expect the figure for 2009 as a whole to be of the same order as last year's.

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

Efficiency-enhancement programme: accumulated earnings improvement of €450 million by the end of 2009

Our efficiency-enhancement programme is on schedule. It envisages measures to reduce costs and increase income, aiming to gradually lift annual earnings by a total of €1.2 billion by the end of 2012. The reference year is 2006. One of the goals we are pursuing with the project is enhanced performance of our German electricity and gas grid business, which should 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 intend to increase revenue by improving the technical availability of our power plants. We achieved an accumulated earnings contribution of €200 million in the 2007/2008 period through the efficiency-enhancement programme and intend to raise this figure to €450 million by the end of 2009.

Capital expenditure up 57 % year on year

The RWE Group spent €3,693 million in capital, 57 % more than in the same period of 2008. Capital expenditure on property, plant and equipment rose by 36 % to €2,133 million. All of the divisions recorded increases. More than one third of capital spent on property, plant and equipment was attributable to RWE Power. The most important projects in this division are a 2,100-MW dual-block lignite-fired power station in Neurath, a 1,530-MW dual-block hard coal-fired power plant in Hamm, a 1,560-MW hard coal twin unit facility in Eemshaven, Netherlands, and an 875-MW combined-cycle gas turbine power station in Lingen. These generation units are under construction. RWE Innogy is making good progress in expanding its renewable generation base. Centre stage is taken by wind power projects, including the construction of the 90-MW Rhyl Flats offshore wind farm off the coast of Wales, which we intend to complete this year. A large portion of capital spent by RWE Dea is earmarked for the development of existing discoveries in preparation of production. In the first half of 2009, this related to gas fields in Norway and Egypt. RWE Energy's primary focus is on measures to maintain and improve grid infrastructure. Capital expenditure on property, plant and equipment showed the most dynamic development at RWE npower. In May 2009, the company commenced construction of a 2,000-MW gas-fired power station at the Pembroke site. Another gas power plant, with an installed capacity of 1,650 MW, is presently being built at Staythorpe.

Capital expenditure on property, plant and equipment ¹ € million	Jan–Jun 2009	Jan–Jun 2008 ²	+ / – € million	Jan–Dec 2008 ²
RWE Power	809	708	101	1,455
RWE Innogy	194	92	102	290
RWE Dea	311	276	35	606
RWE Supply & Trading	1	–	1	–
RWE Energy	328	218	110	1,150
RWE npower	351	147	204	610
Other, consolidation	139	122	17	343
Total	2,133	1,563	570	4,454

1 Including intangible assets.

2 Figures partially adjusted; see commentary on page 13.

Capital expenditure on financial assets € million	Jan–Jun 2009	Jan–Jun 2008 ¹	+ / – € million	Jan–Dec 2008 ¹
RWE Power	41	1	40	1
RWE Innogy	142	468	– 326	812
RWE Dea	–	–	–	–
RWE Supply & Trading	57	292	– 235	321
RWE Energy	1,237	21	1,216	104
RWE npower	78	–	78	1
Other, consolidation	5	2	3	–
Total	1,560	784	776	1,239

1 Figures partially adjusted; see commentary on page 13.

We more than doubled our capital expenditure on financial assets to €1,560 million. It is largely allocable to RWE Energy. The single-largest transaction was the acquisition of the 20 % stake in the regional company RWE Westfalen-Weser-Ems (€800 million) from municipal shareholders. Further funds (€188 million) were used to acquire the remaining shares in a joint venture, which owns a 19.8 % stake in the new Luxemburg-based energy utility ENOVOS (see page 12 of the report on the first quarter of 2009). Moreover, RWE Energy acquired the German energy service provider FAVORIT from ExxonMobil (€143 million) effective June 30, 2009. The company will be consolidated from the third quarter onwards.

Cash flow statement € million	Jan – Jun 2009	Jan – Jun 2008	+ / – in %	Jan – Dec 2008
Cash flows from operating activities	1,634	1,383	18.1	8,853
Impact of the change in working capital	–1,009	–1,918	47.4	1,687
Cash flows from investing activities	–5,244	2,313	–326.7	–3,584
Cash flows from financing activities	5,202	–4,831	207.7	–5,907
Effects of changes in foreign currency exchange rates and other changes in value on cash and cash equivalents	5	5	–	–35
Total net changes in cash and cash equivalents	1,597	–1,130	241.3	–673
Cash flows from operating activities	1,634	1,383	18.1	8,853
Minus capital expenditure on property, plant and equipment and intangible assets	–2,133	–1,563	–36.5	–4,454
Free cash flow	–499	–180	–177.2	4,399

Cash flow statement – key figures

In the first half of 2009, we generated €1,634 million in cash flows from operating activities, which were €251 million, or 18 %, up year on year. This was predominantly due to a one-off effect in working capital, which results from the fact that we fixed the price of parts of our electricity generation early on via futures on the Leipzig EEX Energy Exchange. By concluding these types of hedges, we aim to limit the short-term influence of volatile commodity prices on our earnings. As of the balance sheet date, quotations on the electricity market were below the sales prices established for the futures. We received compensatory payments known as “variation margins” for the differences, which totalled €0.4 billion. In contrast, we had to make €1.7 billion in compensatory payments in the first half of 2008, because the price level in the electricity market was much higher. However, the cash flow was also characterised by mutually opposing effects. Cash outflows for the procurement of CO₂ emission allowances were much higher in 2009. This was a result of the stricter framework conditions of the European Emission Trading System: Since 2008, we have had to purchase a much larger volume of certificates on the market. Most of the emission certificates we bought for the whole of last year were not paid for until the beginning of 2009. This reduced liquidity by €1.0 billion compared with the first half of 2008.

Cash flows from investing activities amounted to €5,244 million, the sum by which our expenses for capital expenditures (including cash investments) exceeded proceeds from asset disposals and divestments. Cash flows from financing activities amounted to €5,202 million. They mainly stemmed from the Eurobond placements in February and June 2009, while dividend payments had a counteracting effect. Cash and cash equivalents have risen by €1,597 million since the beginning of the year.

Cash flows from operating activities, minus capital expenditure on property, plant and equipment, result in free cash flow. The latter amounted to –€499 million, down €319 million on the figure for the comparable period in 2008. The considerable increase in capital expenditure on property, plant and equipment was the reason for this.

Net debt € million	Jun 30, 2009	Dec 31, 2008	+ / – in %
Cash and cash equivalents	2,846	1,249	127.9
Marketable securities	9,801	8,052	21.7
Other financial assets	2,711	4,832	– 43.9
Financial assets of continuing operations	15,358	14,133	8.7
Bonds, notes payable, bank debt, commercial paper	17,814	11,839	50.5
Other financial liabilities	1,498	1,644	– 8.9
Financial liabilities of continuing operations	19,312	13,483	43.2
Net financial debt of continuing operations	3,954	– 650	708.3
Provisions for pensions and similar obligations	3,414	2,738	24.7
Capitalised surplus of plan assets over benefit obligations	10	–	–
Provisions for nuclear waste management	9,483	9,465	0.2
Mining provisions	2,858	2,866	– 0.3
Net debt of continuing operations	19,699	14,419	36.6
Net debt of discontinued operations	–	4,240	–
Net debt of the RWE Group	19,699	18,659	5.6

Net debt slightly higher despite deconsolidation of American Water

Our net debt as of June 30, 2009, totalled €19.7 billion, up €1.0 billion since December 31, 2008. This was caused by our higher capital expenditure (€3.7 billion) and dividend payments (€2.6 billion). A counteracting effect was felt from cash flows from operating activities (€1.6 billion) and above all the deconsolidation of American Water's net debt, which amounted to €4.2 billion at the end of 2008. As explained earlier, our stake in the US water utility was reduced to a minority interest in June 2009.

RWE Group's balance sheet structure	Jun 30, 2009		Dec 31, 2008	
	€ million	in %	€ million	in %
Assets				
Non-current assets	43,640	51.8	41,763	44.7
Intangible assets	11,848	14.1	11,202	12.0
Property, plant and equipment	23,293	27.7	21,762	23.3
Current assets	40,555	48.2	51,667	55.3
Receivables and other assets ¹	24,663	29.3	31,433	33.6
Marketable securities	9,571	11.4	7,735	8.3
Assets held for sale	1,067	1.3	8,710	9.3
Total	84,195	100.0	93,430	100.0
Equity and liabilities				
Equity	12,238	14.5	13,140	14.1
Non-current liabilities	41,981	49.9	36,793	39.4
Provisions	21,505	25.5	21,072	22.6
Financial liabilities	15,978	19.0	11,154	11.9
Current liabilities	29,976	35.6	43,497	46.5
Other liabilities ¹	21,553	25.6	28,769	30.8
Liabilities held for sale	–	–	6,714	7.2
Total	84,195	100.0	93,430	100.0

1 Including trade accounts receivable and/or payable.

Balance sheet structure

As of June 30, 2009, our balance sheet total amounted to €84.2 billion, down €9.2 billion from the level at the end of 2008. The decline is largely due to the deconsolidation of American Water, which had an effect of €7.6 billion. Furthermore, our financial accounts receivable from variation margins and collateral decreased by €2.0 billion, our derivative positions were down by €2.3 billion, and our trade accounts receivable dropped by €2.1 billion. The Eurobond placements in February and June cushioned the decline in the balance sheet total. Funds received from them were mainly used to purchase securities that can be sold at short notice. In the period under review, the RWE Group's equity ratio climbed from 14.1 % to 14.5 %. Our non-current assets were covered by equity and non-current liabilities at a rate of 124 % – proof of RWE's solid financial and capital structure.

Employee headcount increases slightly

As of June 30, 2009, the RWE Group employed 66,812 people (converted to full-time positions), 40 % of whom worked outside Germany. The workforce expanded by 904 employees, or 1.4 %, compared with December 31, 2008. Acquisitions added 553 staff members. The single-largest effect came from RWE npower's acquisition of the Superior Plumbing Installation Group, which specialises in electricity, gas and water installations (+495). Operating changes resulted in a net addition of 351 positions. This reflected the rise in capital expenditure, among other things.

Workforce ¹	Jun 30, 2009	Dec 31, 2008 ²	+ / – in %
RWE Power	17,729	17,505	1.3
RWE Innogy	878	712	23.3
RWE Dea	1,211	1,144	5.9
RWE Supply & Trading	981	883	11.1
RWE Energy	28,405	28,314	0.3
RWE npower	12,947	12,747	1.6
Other	4,661	4,603	1.3
RWE Group	66,812	65,908	1.4

1 Converted to full-time positions.

2 Figures partially adjusted; see commentary on page 13.

Research and development: focus on improving efficiency and lowering emissions of power plants

In the first half of 2009, research and development (R&D) costs amounted to €43 million, compared with €38 million in the prior-year period. Furthermore, we capitalised €39 million in development costs (previous year: €14 million). Enhancing efficiency and reducing the emissions of our fossil fuel-fired power plants are the centrepiece of our R&D measures. Detailed information is provided on page 96 et seqq. of RWE's 2008 annual report and on the internet at "www.rwe.com/RandD".

Outlook for 2009

Contraction of global economic output

Current forecasts indicate that world economic output may shrink by more than 3 % this year. The situation in the Eurozone will remain difficult for the duration of the year. According to the most recent estimates, real gross domestic product (GDP) in this part of the world will decline by approximately 5 %. For Germany, a drop of up to 6 % cannot be ruled out. As in the Eurozone, corporate investment in property, plant and equipment is set to decrease by a double-digit percentage in Germany. Foreign trade, traditionally the engine of Germany's economy, is affected to a similar degree. According to estimates, exports will fall more than 16 % behind last year's level. In the third quarter, the German economy is likely to expand quarter on quarter for the first time since the beginning of 2008. The end to the recession is in sight, but it may take years for global economic output to return to levels seen before the crisis. In the UK, 2009 GDP is expected to drop by approximately 5 %. The country is especially hard hit by the financial crisis and continues to face the weakness of the real estate sector. Therefore, a further decline in GDP in the third quarter is not improbable. Central Eastern Europe's economic environments differ from one another. Czech GDP is expected to fall by more than 3 %, owing to the country's strong dependency on foreign trade. In Hungary, economic output may shrink by as much as 6 %, since the country's dependence on exports is compounded by weak consumer spending. A substantial decrease is also forecasted for Slovakia. In contrast, predictions for Poland only envisage a slight decline of about 1 %.

Commodity prices much lower

Average prices on international commodity markets are very likely to be much lower in 2009 than in 2008. At the end of July, a barrel of Brent crude cost US\$ 70. Despite the most recent recovery in price, it continues to be much cheaper than last year's average (US\$ 97). Gas prices are also still far below the 2008 level. On July 31, a metric ton of hard coal sold for US\$ 69 in Rotterdam spot trading, compared with last year's average of US\$ 148. On the same day, emission allowances for 2009 were quoted at €14 per metric ton of CO₂ (average for 2008: €22).

Owing to early forward sales, earnings from power generation remain stable

The significant decrease in commodity prices will cause RWE Dea's gas and oil production revenue to drop. However, earnings from our 2009 electricity generation will not be affected significantly. RWE Power has sold forward nearly all its German production for 2009. More than 90 % have already been sold for 2010, more than 50 % for 2011, and more than 25 % for 2012. The realised wholesale prices were much higher than those currently observed. In principle, when concluding these forward contracts, we purchase the required fuel or hedge its price when the contract is signed. This also applies to CO₂ certificates. As a result, costs incurred to purchase gas, hard coal and emission allowances have largely been influenced by the high level of forward prices in the past, as has our electricity revenue. We have no fuel price risk exposure from lignite since we produce this fuel in our own opencast mines. Uranium required to run our nuclear power stations has been secured via long-term purchase agreements. In the nuclear power generation sector, fuel procurement costs typically account for a small portion of total generation costs.

We expect the price of commodities, and therefore of electricity, to return far above the current level over the medium term. Market signals also indicate this. For instance, the crude oil forward price curve is currently on a steep upward trend. In other words, the more distant the delivery period, the higher the price level. This also applies to electricity. As of the end of July, base-load deliveries for 2010 were quoted at €49 per MWh. The same contract for the following years traded at €55 (2011), €58 (2012), and €64 (2013).

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

1. Figure adjusted; see commentary on page 13.

Revenue in the order of last year's level

We expect the RWE Group's external revenue in 2009 to be of the order of last year's level. Based on our projections, we will grow revenue from our German electricity supply activities. Drivers will be the price adjustments implemented in reaction to higher procurement costs. However, they are contrasted by drops in revenue from German gas sales, since purchasing costs in this business have fallen and we pass this advantage through to our customers directly. RWE Supply & Trading is expected to sell less in-house electricity production on the wholesale market than in 2008. This will have a revenue-reducing effect.

Stable earnings trend expected despite Biblis outage

The world financial and economic crises will affect our business operations to a relatively small extent this year. The RWE Group's earnings are expected to maintain their high level. However, we expect to see significant additional burdens in our electricity generation business compared with 2008. The main reasons are the long outages of the two units at Biblis. This is contrasted by the positive effects of higher realised electricity wholesale prices. In our upstream business, we expect significantly depressed earnings resulting from lower oil and gas prices. We will probably be able to stabilise our earnings in the regulated German grid business through further cost reductions. As explained on page 27, we expect our efficiency-enhancement programme to make an increasing contribution to earnings.

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

Operating result by division:

RWE Power's operating result is expected to be higher than last year. The company has already sold forward almost all its German 2009 generation. Since most of the forward sales were made in 2007 and 2008, we are still benefiting from higher wholesale electricity prices seen until the middle of last year. However, from our present point of view, the outage of the Biblis power station is estimated to have an adverse effect in the order of €0.8 billion. This is more than originally planned, as Block B is not expected to go back online until mid-September, which would translate into an outage of nearly eight months. As far as Biblis A is concerned, we expect to be able to ramp up the unit again at the end of September, following an interruption of seven months. In addition, we anticipate to see negative price effects in the order of €0.4 billion. Staff costs are likely to grow as well. Costs arising from the shortage of CO₂ certificates are anticipated to be slightly below the 2008 level (€1.1 billion). We expect that RWE Power will have to buy some 35 % of the CO₂ certificates it needs in Germany in 2009, or obtain them via Kyoto "Clean Development Mechanism" and "Joint Implementation" projects.

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

RWE Dea expects its operating result to deteriorate considerably, above all due to the significant decline in crude oil and gas prices. We are working intensively on the development of proven reserves and the exploration of new fields in view of our mid-term goal of doubling gas and oil production. Therefore, exploration costs are expected to remain high.

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

Our forecast for RWE Energy envisages the division closing the year with an operating result matching last year's level, adjusted for the effects of the reclassification of RWE Transportnetz Strom and RWE Key Account. Incentive-based regulation in effect since January 2009 places high demands on the efficiency of our German electricity and gas grid activities. To limit the impact this will have on earnings, RWE Energy plans to implement extensive cost reductions. In addition, we intend to improve earnings in our electricity and gas supply businesses. We will continue to pursue our value-oriented sales policy to this end, while striving to limit customer losses. We also want to win customers, both within and outside our traditional supply regions, by developing and marketing innovative products.

RWE npower's operating result is expected to be significantly down year on year. If Sterling remains weak, currency effects will hamper earnings. We expect to see a decline in margins in the generation business. This also applies to the short-term position management of our power plants, which made an unusually high income contribution in 2008. Costs arising from the shortage of CO₂ certificates are anticipated to be lower than last year. RWE npower will probably have to purchase approximately 20% of the CO₂ certificates it requires on the market. The market environment for our electricity and gas supply businesses remains very difficult. Fierce competition harbours substantial risks. As mentioned earlier, RWE npower cut electricity prices in the private customer segment by 8% as of March 31, 2009. This will lead to a considerable drop in earnings. In addition, government programmes that oblige UK utilities to promote energy savings for homes and provide assistance to low-income customers will probably result in further burdens. The additional expense compared with 2008 could total up to €100 million. RWE npower is working on extensive cost-cutting measures which should have a positive affect of about €120 million on 2009 earnings.

Dividend payout ratio between 50% and 60%

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

Capital expenditure on property, plant and equipment markedly up year on year

We are stepping up capital expenditure on property, plant and equipment significantly in 2009. This applies especially to RWE Power. As illustrated earlier, the company is building four large-scale power stations which are scheduled to go online in the upcoming years: the Lingen gas power plant in 2010, the Neurath lignite twin unit in 2011 and the hard-coal twin units in Hamm (2011/2012) and in Eemshaven (2013). However, construction works have run into some delays, in part due to problems faced by suppliers. RWE Innogy will also markedly increase its capital spending, focussing on the construction of wind farms. RWE Dea is investing more in gas production, above all in the UK, Norway and Egypt. The lion's share of RWE Energy's capex budget is directed to the grid business. RWE npower's main investment project is the construction of two gas-fired power stations: The Staythorpe facility is scheduled to begin commercial operation in 2010, followed by Pembroke in 2012. In total, the RWE Group's capital expenditure on property, plant and equipment will reach an order of magnitude of €6.5 billion in 2009. This would represent an increase of almost 50 % compared with 2008.

Net debt up year on year

Even setting aside the planned acquisition of Essent, we expect our net debt to increase in the current financial year. The drivers will be the strong rise in capital expenditure and the record dividend payment in April. This will be contrasted by a continued high level of cash flows provided by operating activities and the deconsolidation of American Water. Including Essent, the ratio of net debt to EBITDA ("leverage factor") is likely to be in the middle of our target corridor of 2.8 to 3.4 at the end of 2009. We used the Dutch energy utility's expected full-year EBITDA as a basis for this forecast.

Our good reputation as bond issuer means we always have access to short- and long-term financing sources. Only €0.2 billion in bonds will mature in 2009.

RWE creates new jobs

We anticipate that our workforce will expand this financial year. This will be achieved in part due to intensified investment programmes.

Research and development: 2009 budget of about €100 million

We intend to step up our research and development activities along the entire value chain. A budget of about €100 million has been earmarked for this in 2009. A milestone this year is the commissioning of a CO₂ washing pilot plant at our Coal Innovation Centre at the power plant site in Niederaussem, Germany. We will separate carbon dioxide from flue gas on a test basis under real-life conditions in this pilot plant, which will provide us with valuable experience that we can draw on when dealing with large-scale installations later on.

Development of opportunities and risks

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

Organisation of risk management in the RWE Group

Responsibility for the RWE Group's risk management system sits with the Executive Board of RWE AG. It establishes the rules and minimum standards that ensure groupwide risk management. The corporate "Group Risk Management" department reports directly to the Chief Financial Officer and exercises control and co-ordination functions. Its tasks include developing groupwide specifications for methods and processes, regular reporting, and monitoring all risks. Our Group companies ensure that the groupwide risk management guidelines are implemented uniformly, under the technical supervision of the corporate department. We have included further details on the organisation and processes of our risk management system and the committees entrusted with this task on page 101 et seqq. of our 2008 annual report.

Overall assessment of the risk and opportunity situation by executive management

In addition to the political framework of the energy industry, the prevailing economic environment poses a challenge to us. Both these circumstances harbour substantial earnings risks. As illustrated earlier, the recession left deep marks on energy consumption. The generation business is exposed to earnings risks since the economic crisis may persist for an extended period of time and commodity prices might remain low for years to come. We sold forward most of our electricity generation for 2009 and 2010 before the downturn. A large number of our supply agreements with industrial enterprises, corporate customers and distributors are take-or-pay contracts. So far, customer payment defaults are moderate. We will continue to monitor our contractual partners' business performance and creditworthiness closely. At present, there are no identifiable risks that could jeopardise the continued operation of RWE AG or the RWE Group.

Major risk and opportunity categories

The following illustrates the risks and opportunities which may have a substantial impact on the RWE Group's asset, financial, earnings and liquidity positions. Please turn to the annual report for more detailed information.

- **Risks and opportunities arising from the volatility of commodity prices:** The development of prices in commodity markets is of central importance to our earnings situation, especially in the field of electricity generation. For example, decreasing electricity prices or rising fuel costs may lead to a decline in generation margin contributions. However, opportunities arise from counteracting price trends. Commodity risks faced by generation and supply companies are managed by following hedging rules established by RWE AG. In the generation business, we limit risks by selling most of our electricity in advance via forward contracts and hedging the price of fuels and emission certificates needed for this output. In this context, RWE Supply & Trading plays a central role. The company is the RWE Group's interface to the world's wholesale markets for energy and energy commodities, while serving as an internal transaction partner for hedging commodity risks. The trading activities are not exclusively oriented towards limiting risks. RWE Supply & Trading undertakes proprietary trading in adherence with limits, in order to make use of changes in prices on energy markets.

The RWE Group's integrated trading and risk management system for energy trading is firmly aligned with industry best practice. The commodity price risks in our generation and supply companies are constantly monitored and reported to the responsible bodies, including the Risk Committee of RWE AG. Furthermore, the Executive Board of RWE AG is kept informed of our consolidated risk positions in the field of commodities by way of quarterly reports. The upper risk limits in the energy trading business are set and constantly monitored by the Executive Board of RWE AG. Among other things, we calculate the Value at Risk (VaR) to quantify price risks. The central risk controlling parameter is the Global VaR, which limits trading activities of RWE Supply & Trading and may not exceed €40 million. The VaR figures within the RWE Group are based on a confidence interval of 95 % and a holding period of one day. This means that, with a probability of 95 %, the maximum daily loss does not exceed the Global VaR. In the first half of 2009, RWE Supply & Trading's Global VaR averaged €14.2 million, and the daily maximum was €21.1 million. However, our risk analysis is not only based on the amount of VaR. We also factor in extreme scenarios ("stress tests"), determine the influence they can have on liquidity and earnings, and take suitable measures if necessary.

- **Financial risks:** Fluctuations in foreign exchange rates, interest rates and share prices can also have a significant effect on our earnings. Due to our international activities, currency risk management is very important. Group companies are obliged to hedge all currency risks via RWE AG. The parent company determines the net financial position for each currency and hedges it with external market partners if necessary. In the period under review, the average VaR for RWE AG's foreign currency position was less than €1 million.

Interest rate management is also ascribed significant importance. Our interest rate risks primarily stem from our interest-bearing investments and financial debt. Negative changes in value caused by unexpected interest rate movements are hedged with non-derivative and derivative financial instruments. In the period under review, the average VaR for the interest rate risk associated with our financial debt and related hedges was €175.7 million. The average VaR for interest-bearing investments including hedges was €30.3 million and for share investments it was €26.5 million.

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

- **Creditworthiness of business partners:** Our business relations with financial institutions, trading partners, customers and suppliers expose us to credit risks. Our risk management system is designed to keep our exposure to these risks manageable. In this context, we take into account the fact that the current financial crisis might lead to an increase in our counterparty default risk. We manage credit risks by setting limits and by adjusting them on a timely basis, especially in the event of changes in creditworthiness. If necessary, we request cash collateral or bank guarantees. We also take out credit insurance policies insofar as economically feasible. In the financial and energy trading activities, we conclude credit transactions largely with banks and trading partners of good creditworthiness. We determine their credit standing using an internal assessment method, which has been supplemented with an early warning indicator in light of the financial market crisis. As a rule, trading transactions are concluded on the basis of framework agreements, e.g., those published by the European Federation of Energy Traders (EFET). We measure credit risks in our energy trading and financial activities on a daily basis.
- **Liquidity risk:** Liquidity risks arise if liquidity reserves are no longer sufficient to meet financial obligations in a timely manner. At RWE, such obligations result above all from the refinancing of financial liabilities. Furthermore, we must put up cash collateral if contracts valued at current market prices result in a loss. Despite the current financial market crisis, we classify our liquidity risk as low. The basis for this is our solid financing. We have strong cash flows from operating activities, substantial cash and cash equivalents, unused credit lines, and further financial flexibility through our Commercial Paper Programme and our Debt Issuance Programme (see page 86 of the 2008 annual report). Our careful planning ensures that we are liquid at all times.

- **Regulation:** The RWE Group's exposure to the constant change in the political, legal and social environment in which it does business can be expected to have a substantial impact on earnings. Lignite and hard coal power plants account for a significant portion of our electricity generation portfolio. This represents a substantial risk due to the EU-wide CO₂ emission trading system. Risks can arise from increases in the cost of procuring CO₂ certificates. Generators in Germany and the UK will hardly be allocated any free certificates in the third emission trading period (2013 to 2020). We intend to continue reducing our emissions significantly and to make our power generation portfolio more flexible primarily through our new build programme. Furthermore, we limit CO₂ risks through climate-protection projects in developing and newly industrialising countries within the scope of the Kyoto "Clean Development Mechanism" and "Joint Implementation."

Our German electricity and gas grid companies are exposed to earnings risks largely in connection with the incentive-based regulation in effect since January 2009. Some details which are of significant financial importance to RWE still remain to be clarified. We will partially offset the effects of regulation on our earnings by taking measures to cut costs and enhance efficiency in the grid business. Our grid and supply activities are exposed to regulatory risks outside Germany as well.

Risks can also arise from the stricter monitoring for anti-competitive pricing practices, which came into force at the end of 2007. Therefore, our pricing in the supply business might be subject to review by the authorities.

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

Raw materials production and power generation activities might be curtailed by risks arising from approval processes for our opencast mines and nuclear power plants. Furthermore, there is a risk of financial loss when capital is spent on power plant new builds before all of the approvals for construction and operation have been received from the 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 plant replacements, the number of our ongoing approval processes is especially high at present.

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

In May and December of 2006, the EU Commission conducted follow-up inquiries at several energy companies throughout Europe. This affected RWE AG and other RWE Group companies in Germany. The EU Commission then filed requests with companies including RWE for information on individual energy market issues. Furthermore, the German Federal Cartel Office has been conducting investigations throughout the electricity and gas sectors since spring 2009. Risks may arise from these investigations.

Conciliation proceedings in connection with the legal restructuring of companies are currently pending. They were initiated by outside shareholders in order to examine the appropriateness of the conversion ratios and the amount of cash paid in compensation. In our opinion, associated risks are low, as the conversion ratios and cash compensation were calculated by independent experts. If a different, legally enforceable, decision is reached, the compensation will be carried out by making an additional cash payment to the affected shareholders, including those who are not directly involved in the conciliation proceedings.

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

Responsibility Statement

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

Essen, August 11, 2009

The Executive Board

Großmann

Birnbaum

Fitting

Jobs

Pohlig

Schmitz

Consolidated Financial Statements (condensed)

Income Statement¹

€ million	Apr–Jun 2009	Apr–Jun 2008	Jan–Jun 2009	Jan–Jun 2008
Revenue (including natural gas tax / electricity tax)	9,870	11,326	24,386	24,721
Natural gas tax / electricity tax	–307	–313	–772	–784
Revenue	9,563	11,013	23,614	23,937
Changes in finished goods and work in progress / other own work capitalised	68	31	116	106
Cost of materials	–5,819	–8,068	–14,999	–16,588
Staff costs	–1,172	–1,078	–2,242	–2,090
Depreciation, amortisation, and impairment losses	–564	–552	–1,094	–1,079
Other operating result	–734	–539	–1,168	–1,061
Income from operating activities of continuing operations	1,342	807	4,227	3,225
Income from investments accounted for using the equity method	–129	86	–72	167
Other income from investments	39	55	145	70
Financial income	299	459	804	907
Finance costs	–705	–776	–1,720	–1,525
Income from continuing operations before tax	846	631	3,384	2,844
Taxes on income	–319	–205	–1,022	–890
Income from continuing operations	527	426	2,362	1,954
Income from discontinued operations	–22	6	3	–628
Income	505	432	2,365	1,326
Minority interest	–28	–85	–143	–170
Net income / income attributable to RWE AG shareholders	477	347	2,222	1,156
Basic and diluted earnings per common and preferred share in €	0.89	0.67	4.17	2.12
of which: from continuing operations in €	(0.93)	(0.72)	(4.21)	(3.31)
of which: from discontinued operations in €	(–0.04)	(–0.05)	(–0.04)	(–1.19)

1. Prior-year figures adjusted.

Statement of Recognised Income and Expenses¹

€ million	Apr–Jun 2009	Apr–Jun 2008	Jan–Jun 2009	Jan–Jun 2008
Income	505	432	2,365	1,326
Currency translation adjustment	210	323	39	543
Fair valuation of financial instruments available for sale	203	– 85	184	–217
Fair valuation of financial instruments used for hedging purposes	–331	–793	32	–579
Actuarial gains and losses of defined benefit pension plans and similar obligations	–154	–282	–471	72
Other comprehensive income	–72	–837	–216	–181
Total comprehensive income	433	–405	2,149	1,145
of which: attributable to RWE AG shareholders	(498)	(–535)	(2,141)	(866)
of which: attributable to minority interests	(–65)	(130)	(8)	(279)

1. Figures stated after taxes.

Balance Sheet

Assets € million	Jun 30, 2009	Dec 31, 2008
Non-current assets		
Intangible assets	11,848	11,202
Property, plant and equipment	23,293	21,762
Investment property	180	180
Investments accounted for using the equity method	3,269	3,268
Other non-current financial assets	784	681
Accounts receivable and other assets	2,687	3,061
Deferred taxes	1,579	1,609
	43,640	41,763
Current assets		
Inventories	2,408	2,540
Trade accounts receivable	8,309	10,415
Accounts receivable and other assets	16,354	21,018
Marketable securities	9,571	7,735
Cash and cash equivalents	2,846	1,249
Assets held for sale	1,067	8,710
	40,555	51,667
	84,195	93,430
Equity and Liabilities € million	Jun 30, 2009	Dec 31, 2008
Equity		
RWE Group interest	11,538	11,587
Minority interest	700	1,553
	12,238	13,140
Non-current liabilities		
Provisions	21,505	21,072
Financial liabilities	15,978	11,154
Other liabilities	2,728	2,984
Deferred taxes	1,770	1,583
	41,981	36,793
Current liabilities		
Provisions	5,089	5,685
Financial liabilities	3,334	2,329
Trade accounts payable	6,962	11,031
Other liabilities	14,591	17,738
Liabilities held for sale		6,714
	29,976	43,497
	84,195	93,430

Cash Flow Statement

€ million	Jan – Jun 2009	Jan – Jun 2008
Income	2,365	1,326
Depreciation, amortisation, impairment losses, write backs	1,301	1,090
Changes in provisions	-1,039	-289
Deferred taxes / non-cash income and expenses / income from disposal of non-current assets and marketable securities	16	1,174
Changes in working capital	-1,009	-1,918
Cash flows from operating activities of continuing operations	1,634	1,383
Cash flows from operating activities of discontinued operations	11	110
Cash flows from operating activities	1,645	1,493
Capital expenditure on non-current assets	-3,678	-2,305
Proceeds from disposal of assets / divestitures	313	988
Changes in marketable securities and cash investments	-1,879	3,630
Cash flows from investing activities of continuing operations¹	-5,244	2,313
Cash flows from investing activities of discontinued operations	-78	-273
Cash flows from investing activities	-5,322	2,040
Cash flows from financing activities of continuing operations	5,202	-4,831
Cash flows from financing activities of discontinued operations	65	163
Cash flows from financing activities	5,267	-4,668
Net cash change in cash and cash equivalents	1,590	-1,135
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	5	5
Net cash change in cash and cash equivalents from discontinued operations	2	
Net change in cash and cash equivalents	1,597	-1,130
Cash and cash equivalents at beginning of the reporting period	1,249	1,922
Cash and cash equivalents at end of the reporting period	2,846	792

1 In the first half of 2009 after funding the contractual trust arrangement (€40 million).

Statement of Changes in Equity

	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
€ million							
Balance at Jan 1, 2008	2,728	11,077		120	13,925	734	14,659
Share buybacks			-2,500		-2,500		-2,500
Dividends paid		-1,689			-1,689	-178	-1,867
Income		1,156			1,156	170	1,326
Other comprehensive income		8		-298	-290	109	-181
Total comprehensive income		1,164		-298	866	279	1,145
Other changes						637	637
Balance at Jun 30, 2008	2,728	10,552	-2,500	-178	10,602	1,472	12,074
Balance at Jan 1, 2009	2,598	11,200	-2,500	289	11,587	1,553	13,140
Sale of own shares		-52	228		176		176
Dividends paid		-2,401			-2,401	-123	-2,524
Income		2,222			2,222	143	2,365
Other comprehensive income		-452		371	-81	-135	-216
Total comprehensive income		1,770		371	2,141	8	2,149
Other changes		35			35	-738	-703
Balance at Jun 30, 2009	2,598	10,552	-2,272	660	11,538	700	12,238

Notes

Accounting policies

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

The consolidated interim report as of June 30, 2009, which was approved for publication on August 11, 2009, was prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable in the EU.

In line with IAS 34, the scope of reporting for the presentation of the consolidated financial statements of RWE AG for the period ended June 30, 2009, was condensed compared with the scope applied to the consolidated financial statements for the full year. With the exception of the

changes and new rules described below, this consolidated interim report was prepared using the accounting policies applied in the consolidated financial statements for fiscal 2008. For further information, please see the consolidated financial statements for the period ended December 31, 2008, which provide the basis for this interim report.

The interest rate applied to provisions for nuclear waste management and provisions for mining damage is 5.00 % (December 31, 2008: 5.00 %). Provisions for pensions and similar obligations are discounted at an interest rate of 5.75 % in Germany and 6.20 % abroad (December 31, 2008: 6.00 % and 6.50 %, respectively).

Changes in accounting policies

The International Accounting Standards Board (IASB) has approved a number of changes to the existing International Financial Reporting Standards (IFRSs) and adopted several new IFRSs, which became effective for the RWE Group from fiscal 2009 onwards:

Collection of amendments to various IFRSs (2008) "Improvements to IFRSs": The IASB released a collection of amendments as part of its "Annual Improvement Process." It includes a number of minor IFRS changes, seeking to specify the rules and eliminate inconsistencies. Most of the amendments have already become effective for fiscal years starting on or after January 1, 2009. They did not have a material impact on the RWE Group's consolidated financial statements.

IFRS 1 (2008) und 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. They did not have an 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 first-time application of this amendment did not have any material impact on the RWE Group's consolidated financial statements.

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. In particular, the application of IAS 1 (2007) will result in changes in the presentation of the RWE Group's consolidated financial statements for the period ending December 31, 2009, and in extended disclosure in the notes.

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. These borrowing costs must now be capitalised as part of the asset's cost.

IAS 32 (2008) and IAS 1 (2008) "Puttable Financial Instruments and Obligations Arising on Liquidation" includes amended rules for differentiating between liabilities and equity. Certain financial instruments that were previously classified as liabilities must be recognised as equity in the future. The amended rules do not have a material impact on the RWE Group's consolidated financial statements.

IFRIC 13 "Customer Loyalty Programmes" addresses the accounting of revenue in connection with loyalty award credit programmes offered by manufacturers or service providers directly, or via third-parties. The first-time application did not have a material impact on the RWE Group's consolidated financial statements.

New accounting policies

The IASB has adopted further standards and interpretations which are not yet mandatory in the European Union. 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 (2009) "Improvements to IFRSs": The IASB issued another collection of amendments as part of its "Annual Improvement Process." It includes a number of minor IFRS changes aiming to specify the rules and eliminate inconsistencies. Most of the amendments become effective for fiscal years starting on or after January 1, 2010. Their impact on the RWE Group's consolidated financial statements is currently being reviewed.

IFRS 1 (2008) "First-time Adoption of International Financial Reporting Standards" is a new version of IFRS 1, which has been restructured without changing its content. This revision becomes effective for the first time for fiscal years starting on or after July 1, 2009. It will not have an impact on the RWE Group's consolidated financial statements.

IFRS 1 Amendments (2009) "Additional Exemptions for First-time Adopters" introduces further simplifications for first-time IFRS users switching to IFRS. The revision published on July 23, 2009, becomes effective for the first time for fiscal years starting on or after January 1, 2010. It will not have an impact on the RWE Group's consolidated financial statements.

IFRS 2 Amendments (2009) “Group Cash-settled Share-based Payment Transactions” specifies in particular how an individual subsidiary in a group must account for certain share-based payment arrangements in its own financial statements. Furthermore, the revised standard contains rules previously included in IFRIC 8 “Scope of IFRS 2” and IFRIC 11 “Group and Treasury Share Transactions Pursuant to IFRS 2.” Therefore, IFRIC 8 and IFRIC 11 were withdrawn by the IASB. This revision becomes effective for the first time for fiscal years starting on or after January 1, 2010. It will not have an impact on the RWE Group’s consolidated financial statements.

IFRS 3 (2008) “Business Combinations” contains amended regulations on the accounting for business combinations. In particular, these changes involve the scope of application of IFRS 3 and the treatment of successive share purchases. Furthermore, IFRS 3 (2008) offers companies an option: Non-controlling interests are to be measured at fair value or at the proportionate share of net assets. Depending on which option a company exercises, any goodwill is recognised 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. Its impact on the RWE Group’s consolidated financial statements is currently being reviewed.

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

The revision to IAS 27 becomes effective for the first time for fiscal years starting on or after July 1, 2009. The consequences for the RWE Group’s consolidated financial statements are currently being reviewed.

IAS 39 Amendments (2008) “Eligible Hedged Items” provides clarification on issues in relation to hedge accounting. The amendments relate to the prerequisites for designating inflation risks as the hedged item. They also provide clarification on hedging one-sided risks. These amendments become effective for the first time for fiscal years starting on or after July 1, 2009. They are not expected to have a material impact on the RWE Group’s consolidated financial statements.

IFRIC 12 “Service Concession Arrangements” governs the accounting for arrangements in which a private company concludes a contract with a public agency for the supply of public services. The private company uses infrastructure which remains under public control. It is responsible for the construction, operation and maintenance of the infrastructure. IFRIC 12 becomes mandatory in the European Union for the first time for fiscal years starting on or after March 29, 2009. Its application is not expected to have a material impact on the RWE Group’s consolidated financial statements.

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 in the European Union for the first time for fiscal years starting on or after December 31, 2009. It is not expected to have a material impact on the RWE Group’s consolidated financial statements.

IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” clarifies uncertainties relating to the currency hedges of foreign operations. Above all, the Interpretation determines the risk 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 in the European Union for the first time for fiscal years starting on or after June 30, 2009. IFRIC 16 is not expected to have a material impact on the RWE Group’s consolidated financial statements.

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

IFRIC 18 “Transfer of Assets from Customers” regulates the accounting treatment of assets which are transferred by a customer to a company for the purpose of connection to a network or to provide permanent access to a supply of goods or services. IFRIC 18 must be applied for the first time to the accounting of assets which are transferred on or after July 1, 2009. The consequences of this new rule for the RWE Group’s consolidated financial statements are currently being reviewed.

The following IFRSs, which have already become effective, are not being applied by the RWE Group as they are still pending EU approval:

IFRS 7 Amendments (2009) “Improving Disclosures about Financial Instruments” stipulates extended disclosure in the notes concerning financial instruments. In particular, in the future, a so-called “fair value hierarchy” must be presented, showing whether fair values of financial instruments are determined based on published market prices or unobservable internal company data. Furthermore, disclosure requirements for liquidity risks arising from financial instruments have been extended. The IASB has already mandated the application of these amendments for fiscal years starting on or after January 1, 2009. Their first-time application is expected to require additional disclosure in the notes to the RWE Group’s consolidated financial statements.

IAS 39 and IFRS 7 Amendments (2008) “Reclassification of Financial Assets – Effective Date and Transition” present transitional regulations and clarification on the effective date of the option introduced in 2008, according to which certain non-derivative financial assets which were previously designated at fair value can be accounted for at amortised cost. The IASB has already mandated the application of these amendments for fiscal years starting on or after July 1, 2008. Their first-time application is not expected to have a material impact on the RWE Group’s consolidated financial statements.

IFRIC 9 and IAS 39 Amendments “Embedded Derivatives” clarify the rules according to which, when reclassifying a financial instrument previously measured at fair value with an effect on profit or loss to the category “measured at amortised cost,” one must determine whether derivatives embedded therein must be separated. The IASB has already mandated the application of these amendments for fiscal years ending on or after June 30, 2009. Their first-time application is not expected to have an 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 half of 2009 primarily relate to the RWE Energy, RWE npower and RWE Innogy Divisions, in which a total of 24 companies were consolidated for the first time and from which five fully consolidated companies were removed from the scope of consolidation.

The scope of consolidation is as follows:

	Jun 30, 2009	Dec 31, 2008
Fully consolidated companies	333	318
Investments accounted for using the equity method	94	94

Acquisitions. On May 7, 2009, the RWE Innogy Division paid €48 million in cash to increase the stake held in Danta de Energías, S.A., Spain, by 49.32 percentage points to 98.65%.

This resulted in recognition of the following assets and liabilities.

Balance sheet items of Danta de Energías, S. A.	IFRS carrying amounts prior to first-time consolidation	IFRS carrying amounts (fair value) upon first-time consolidation
€ million		
Non-current assets	107	218
Current assets	21	21
Non-current liabilities	92	125
Current liabilities	16	16
Net assets	20	98
Minority interest		-6
Previous value of shareholding		-15
Revaluation of previous shareholding		-34
		43
Acquisition cost of shareholding increase		48
Goodwill		5

The goodwill of €5 million stems mainly from anticipated future economic benefits.

Since first-time consolidation, the acquired company has contributed €2.6 million to Group revenue and €0.1 million to Group income.

Discontinued operations

Since the initiation of the sale of American Water Works Company Inc., Wilmington/Delaware, USA, this company has been stated as a discontinued operation. Following the sale of the first share tranche last year, 15.4 million additional shares were sold at a price of US\$ 17.25 per share in the first half of 2009, including the exercise of an over-allotment option ("greenshoe"). Concurrently to RWE's share sale, American Water increased its capital by some US\$ 250 million in 2009 through the issuance of new shares.

In sum, the remaining stake in American Water was reduced to approximately 46.6 %. Due to the loss of the voting right majority and the continued intention to sell American Water, the presentation of the company's assets and liabilities has been replaced with the associated company's statement as an "asset held for sale" in accordance with IFRS 5. Earnings components are still shown in "income from discontinued operations."

In accordance with IFRS 5, assets held for sale are recognised at the lower of the carrying amount and the fair value less costs to sell.

Recognition at fair value less costs to sell is essentially based on the market price of American Water. The following resulting measurement adjustments are included in the fair value adjustment. Changes in the market price can have a significant impact on the Group's result in the future.

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

Key figures for American Water € million	Jan – Jun 2009	Jan – Jun 2008
Revenue	866	708
Expenses / income	-638	-555
Ordinary income from discontinued operations before tax	228	153
Taxes on income	-88	-61
Income	140	92
Income attributable to RWE	98	
Proceeds from disposal	-27	
Fair value adjustments	-68	-720
Income from discontinued operations	3	-628

As of December 31, 2008, €8,432 million in non-current assets, €278 million in current assets, €5,824 million in non-current liabilities, and €890 million in current liabilities were attributable to American Water. Income from the investment in American Water in the first half of 2009 amounted to €14 million.

Revenue

Revenue generated by energy trading operations is stated as net figures, i.e. reflecting only realised gross margins.

Research and development costs

In the first six months of 2009, research and development costs totalled €43 million (first half of 2008: €38 million).

Intangible assets

Intangible assets include €668 million (December 31, 2008: €668 million) in goodwill from put options of

minority interests that are recognised in accordance with IAS 32.

Equity

Pursuant to the resolution passed by the Annual General Meeting on April 17, 2008, the Executive Board of RWE AG 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 (authorised capital). In certain cases, the subscription rights of shareholders can be waived, with the approval of the Supervisory Board.

Pursuant to the resolution passed by the Annual General Meeting on April 22, 2009, the company was authorised

to purchase shares of any class in RWE totalling up to 10 % of the company's share capital until October 21, 2010. Share buybacks may also be conducted by exercising put or call options.

Pursuant to the resolution passed by the Annual General Meeting on April 22, 2009, the Executive Board was authorised to recall own shares without requiring an additional resolution by the Annual General Meeting or – under certain conditions and exclusion of shareholder subscription rights – to sell them to third parties.

Pursuant to a resolution passed by the Annual General Meeting on April 22, 2009, the Executive Board was further authorised to issue option or convertible bonds until April 21, 2014. The total nominal value of the bonds is limited to €6,000 million. Shareholder subscription rights may be excluded under certain conditions. The Annual General Meeting decided to establish €144 million in conditional capital divided into 56 million common shares in the name of the bearer, in order to redeem the bonds.

RWE AG purchased about 2.9 million common shares of RWE AG with a value of €177 million between February 2 and February 16, 2009. These shares were transferred to former VEW shareholders in line with the settlement agreed on December 22, 2008, in the conciliation proceedings occasioned by the merger between RWE and VEW. In the same period, RWE AG sold some 2.9 million own common shares held by the company with a value of €176 million.

As of June 30, 2009, the acquisition costs of RWE AG's own shares in the amount of €2,272 million (28,846,473 common shares) were deducted from the equity's carrying amount. They account for €73,846,970.88 of the company's share capital (5.13 % of subscribed capital).

Furthermore, in the first half of 2009, RWE Group companies bought 2,845 common shares on the capital market at an average cost of €56.11 per share for issuance to employees of RWE AG and its subsidiaries. The proportionate share capital totals €7,283.20 (0.005 % of subscribed capital). Employees were issued a total of 15 common shares at an average price of €57.27 per share within the scope of capital formation schemes and 2,830 common shares at an average price of €35.65 per share on the occasion of service anniversaries. Proceeds from the share issuances amounted to €101,748.55. The purchase price rebates offered to employees were recognised 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, 2008.

In the first quarter of 2009, another tranche was issued within the framework of the Long-Term Incentive Plan for executive staff ("Beat").

Dividend distribution

RWE AG's April 22, 2009, Annual General Meeting decided to pay a proposed dividend of €4.50 per common and pre-

ferred share for fiscal 2008. The dividend payment totalled €2,401 million.

Financial liabilities

Eurobonds to a total value of €4,500 million with terms between 2.25 and 12.5 years were issued in the first half

of 2009. The nominal interest rate is between 2.5 % and 6.5 %.

Other liabilities

Other liabilities include €1,294 million (December 31, 2008: €1,294 million) in current redemption liabilities

from put options of minority interests that are recognised in accordance with IAS 32.

Earnings per share

		Jan – Jun 2009	Jan – Jun 2008
Net income	€ million	2,222	1,156
Number of shares outstanding (weighted average)	thousands	532,709	546,287
Basic and diluted earnings per common and preferred share	€	4.17	2.12

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

Related party disclosures

The RWE Group classifies associated companies as related parties. In the first half of 2009, transactions concluded with material related parties generated €573 million in income (first half of 2008: €313 million) and €77 million in expenses (first half of 2008: €63 million). As of June 30, 2009, accounts receivable amounted to €657 million (December 31, 2008: €684 million), and accounts payable totalled €9 million (December 31, 2008: €13 million). All business transactions are concluded at arm's length conditions and on principle do not differ from those concluded with other companies.

Companies of the Georgsmarienhütte Group have also been classified as related companies as the CEO of RWE AG, Dr. Jürgen Großmann, is a partner in Georgsmarienhütte Holding GmbH. In the first six months of 2009, RWE Group

companies provided services and deliveries to companies of the Georgsmarienhütte Group amounting to €3.2 million (first half of 2008: €3.5 million). Services and deliveries provided by Georgsmarienhütte Group companies to RWE Group companies in the first half of 2009 totalled €1.0 million (first half of 2008: €1.4 million). As of June 30, 2009, the Georgsmarienhütte Group had €0.5 million in accounts receivable (December 31, 2008: €0 million) from and €0.6 million in accounts payable (December 31, 2008: €0.4 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 and condensed statement of recognised income and expense, condensed cash flow statement, condensed statement of changes in equity and selected explanatory notes – and the interim group management report of RWE Aktiengesellschaft, Essen, for the period from January 1 to June 30, 2009 which are part of the half-year financial report pursuant to § 37w 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, August 12, 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Manfred Wiegand
Wirtschaftsprüfer
(German Public Auditor)

Markus Dittmann
Wirtschaftsprüfer
(German Public Auditor)

Supervisory Board

Dr. Manfred Schneider

Chairman since May 1, 2009

Dr. Thomas R. Fischer

Chairman until April 30, 2009

Frank Bsirske

Deputy Chairman

Dr. Paul Achleitner

Werner Bischoff

Carl-Ludwig von Boehm-Bezing

Heinz Büchel

Dieter Faust

Andreas Henrich

Heinz-Eberhard Holl

Dr. Gerhard Langemeyer

Dagmar Mühlenfeld

Dr. Wolfgang Reiniger

Günter Reppien

Karl-Heinz Römer

Dagmar Schmeer

Dr.-Ing. Ekkehard D. Schulz

Uwe Tigges

Prof. Karel Van Miert

deceased on June 22, 2009

Manfred Weber

Dr. Dieter Zetsche

– since July 16, 2009 –

Executive Board

Dr. Jürgen Großmann

Chairman

Dr. Leonhard Birnbaum

Alwin Fitting

Dr. Ulrich Jobs

Dr. Rolf Pohlig

Dr. Rolf Martin Schmitz

– since May 1, 2009 –

As of August 11, 2009

Financial Calendar 2009 / 2010

November 12, 2009 Interim report for the first three quarters of 2009

February 25, 2010 Annual report for fiscal 2009

April 22, 2010 Annual General Meeting

April 23, 2010 Ex-dividend date

May 12, 2010 Interim report for the first quarter of 2010

August 12, 2010 Interim report for the first half of 2010

November 11, 2010 Interim report for the first three quarters of 2010

The interim report for the first half of 2009 was published on August 13, 2009.

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

The Annual General Meeting and all events concerning the publication of the financial reports are broadcasted live on the internet and recorded. We will keep the recordings on our website for at least twelve months.

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