

REPORT ON THE FIRST HALF OF 2008

- Organic earnings trend remains positive
- Strong performance in trading business overshadowed by IFRS effects
- Operating result down 8 % year on year
- Full-year financial targets confirmed

At a glance

RWE Group—Key Figures		Jan–Jun 2008	Jan–Jun 2007 ¹	+ /– in %	Jan–Dec 2007 ¹
Electricity sales	billion kWh	161.9	156.7	3.3	306.4
Gas sales	billion kWh	183.4	176.6	3.9	335.0
External revenue	€ million	24,721	21,841	13.2	42,507
Germany	€ million	15,414	13,922	10.7	24,840
Outside Germany	€ million	9,307	7,919	17.5	17,667
EBITDA	€ million	4,628	4,884	-5.2	7,915
Operating result	€ million	3,933	4,276	-8.0	6,533
Income from continuing operations before tax	€ million	2,844	3,718	-23.5	5,246
Net income	€ million	1,156	2,632	-56.1	2,667
Recurrent net income	€ million	2,131	2,229	-4.4	2,985
Earnings per share	€	2.12	4.68	-54.7	4.74
Recurrent net income per share	€	3.90	3.96	-1.5	5.31
Cash flows from operating activities ²	€ million	1,383	2,551	-45.8	6,085
Capital expenditure ²	€ million	2,347	1,543	52.1	4,227
Property, plant and equipment	€ million	1,563	1,484	5.3	4,065
Financial assets	€ million	784	59	-	162
Free cash flow ²	€ million	-180	1,067	-116.9	2,020
		06/30/08	12/31/07	+ /– in %	
Net debt of the RWE Group ³	€ million	20,324	16,514	23.1	
Workforce ⁴		65,151	63,439	2.7	

1 Figures partially adjusted; see commentary on page 13.

2 Discontinued operations are still included in figures for 2007, but not in those for 2008.

3 Besides net financial debt, this includes provisions for pensions and similar obligations, provisions for nuclear waste management, and provisions for mining damage. The capitalized surplus of plan assets over benefit obligations is subtracted.

4 Converted to full-time positions.

Contents

Letter from the CEO	1	Consolidated Financial Statements (condensed)	43
RWE on the Capital Market	2	Income Statement	43
Review of Operations	4	Balance Sheet	44
Economic environment	4	Cash Flow Statement	45
Major events	10	Statement of Recognized Income	
Notes on reporting	13	and Expenses	45
Business performance	14	Notes	46
Outlook for 2008	33	Review Report	55
Development of opportunities and risks	37	Boards	56
Responsibility Statement	42	Financial Calendar 2008 / 2009	

»We want to increase our operating result by €1.2 billion by cutting costs and enhancing efficiency until 2012. We are thus doubling our former target.«

Dear Shareholders,

The prerequisites for a successful fiscal 2008 are still good, although these interim financial statements do not reflect this yet. Our operating result declined by 8% in the first six months, but this is largely due to one-off effects in energy trading. In organic terms, we were successful in this business. But in contrast to 2007, we will see most of this success reflected in IFRS figures in the second half of the year. In 2008, however, our trading activities are unlikely to match the unusually strong performance achieved last year.

Our goal is and remains to achieve an operating result that is at least on par with the €6.5 billion reported in 2007—despite the significant deterioration of framework conditions underlying the emissions trading scheme and further cuts in our grid fees. The basis for this is the organic success of our German power generation business: Wholesale prices realized for 2008 electricity generation sold forward in the last few years are higher than those for our 2007 output. We bought fuel and CO₂ certificates in good time. As a result, we have hardly been affected by the most recent peaks in the price of hard coal and gas this financial year. These factors will have a positive impact on RWE Power's financial statements. We also expect to see earnings improvements at RWE Dea and RWE Energy. Operating results recorded by these divisions for the full year are forecasted to put in a better performance than they did in the first half.

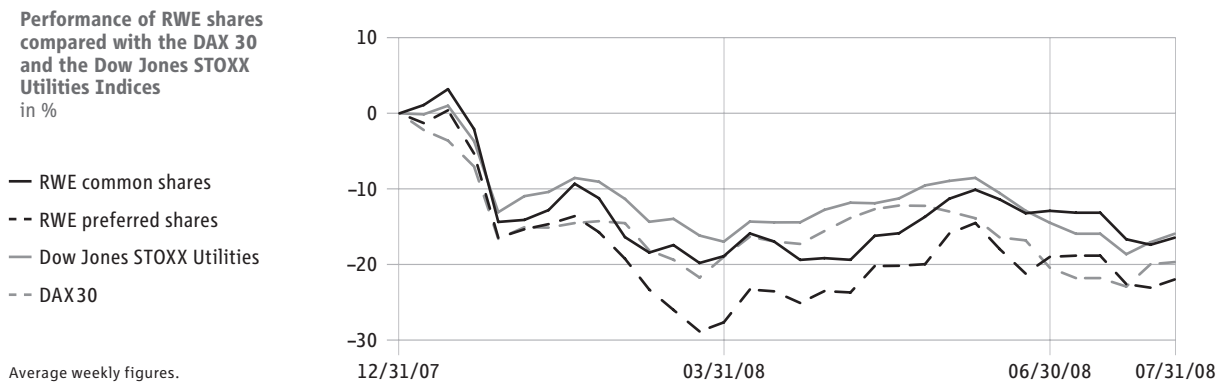
We intend to achieve or extend our cost leadership across all divisions. Therefore, we will significantly expand the ongoing cost-cutting and efficiency-enhancement programme. In the last few months, we thoroughly explored areas which had the most rewarding potential to this end. Implementation is the task at hand now. By 2012, we intend to tap €1.2 billion in additional earnings potential compared with 2006. This is twice the volume planned previously. Please measure my fellow board members and me by the success we achieve by implementing these measures!

Sincerely yours,
Essen, August 2008



Dr. Jürgen Großmann
CEO of RWE AG

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

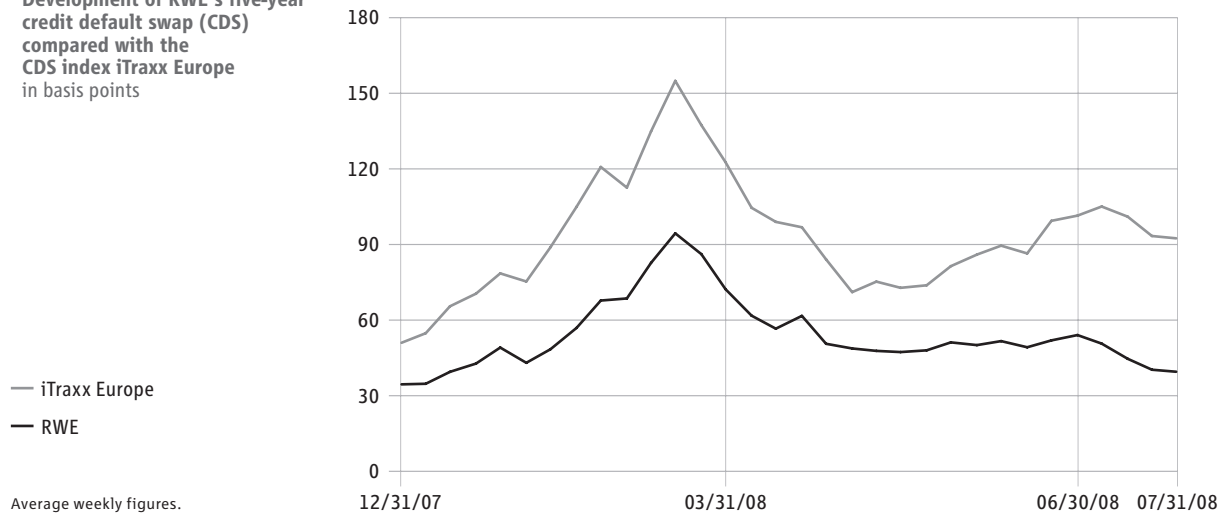


Sentiment on international financial markets has become much worse since the beginning of 2008. This was primarily driven by the US subprime crisis, which has since extended throughout the entire financial sector. Large write-downs, rumours of insolvency and the need for rescue measures to save individual lenders dented investor confidence. Furthermore, the massive rise in the cost of raw materials fuelled fear of an impending recession. Cuts in the prime rate implemented by the US Federal Reserve in the first quarter only provided temporary relief. In light of rising inflation, the US Federal Reserve and the central bank in the Eurozone are increasingly expected to pursue a more restrictive monetary policy in order to stabilize prices. The unfavourable economic environment was reflected in substantial falls in share prices on the stock market. By the end of June, the DAX 30 was at 6,418 points. It thus lost 20% of its value in the first half of the year. The index consisting of the Eurozone's blue chips, the Dow Jones Euro STOXX 50, slipped by 22%. The stock markets failed to calm even after the period under review. Mounting fear of stagflation and the collapse of the major US mortgage lender IndyMac triggered further share price declines in July. The DAX 30 fell to a new low for the year of 6,082 points in the middle of the month, but has recovered since then.

RWE shares got off to a good start before being pulled into the downward spiral caused by the stock exchanges' weakness. RWE common shares rose above the 100-euro mark (€100.64) for the first time on January 7. Subsequently, they fell considerably as the financial crisis came to a head, but made up some ground in the second quarter. Their closing quotation as of June 30 was €80.23. The corresponding total return (including the dividend) for the first six months was -13%. RWE common shares thus outperformed the DAX. They slightly bested the European sector index, the Dow Jones STOXX Utilities (-14%). RWE's preferred shares displayed somewhat weaker development: They closed the end of June at €60.09, which represents a total return of -19%. Fluctuations in the economic cycle generally affect utility shares only to a limited extent. The recent strong increase in the level of electricity prices on German and UK wholesale markets buoyed our share prices. In July, RWE stocks were marked by the general weakness of stock markets and slight reductions in electricity prices. RWE common shares closed the month trading at €76.96.

The international financial crisis spawned by the US real-estate sector clearly left its mark on bond markets as well. Following a turbulent first quarter, however, the situation cooled somewhat. Corporate bond risk premiums developed accordingly. Prices paid to hedge RWE's credit risk via five-year credit default swaps (CDSs) achieved a record level of over 90 basis points in the middle of March, but fell sharply thereafter. At the end of July, they hovered around the 40-point mark. Europe's CDS index, the iTraxx Europe, which is made up of the CDS prices of 125 major European companies, displayed a similar trend, albeit at a higher level. In March, the iTraxx Europe exceeded 150 basis points for some time, before falling to half this figure in April. Subsequently, the index has shown a slight upward trend.

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



Economic environment

Credit crunch and rise in commodity prices slow economic growth

The crisis on the financial markets and the rise in commodity prices limited the growth of the global economy. Nearly all major western industrialized nations experienced a marked economic cool-down. Growth achieved by the gross domestic product (GDP) in real terms in the Eurozone this year slowed from 2.1% in the first quarter to an estimated 1.7% in the second quarter. One of the contributing factors was the appreciation of the euro compared to the US dollar, which is increasingly proving to be a hurdle for exports. Germany's economic momentum slowed as well: After a surprisingly strong first quarter with growth of 2.6%, GDP only advanced by an estimated 2.0% in the second quarter. As before, investment and—despite the increase of the euro's value—exports are the drivers of the economy, whereas consumer reticence displayed by households has a marked dampening effect. Growth slowed in the UK as well. Following a 2.5% climb in the first three months, estimates for the second quarter are at a mere 1.6%. The subprime crisis has begun to affect private consumption with a negative impact on almost all sectors of the economy. By contrast, most of the EU countries in Central Eastern Europe continue to have strong growth rates, which are supported by robust domestic demand. Hungary is an exception, where measures taken to restructure the state budget have been hampering the development of the country's domestic demand for a considerable amount of time.

Weather a little cooler year on year

While economic momentum is primarily reflected in industrial enterprises' demand for energy, household power consumption is largely dependent on the weather. The dependency of demand for energy for heating purposes on temperatures comes to play here, which is expressed in seasonal fluctuations in revenue and earnings, among other things. Accordingly, we generate about two thirds of our gas sales volume in the winter and autumn months (first and fourth quarters). But weather conditions also play a role when comparing financial years. In our core markets, i. e., Germany, the UK and Central Eastern Europe, the weather was marginally cooler in the first quarter and at times much cooler in the second quarter than it was during the same periods in 2007, when it was very mild. The difference in temperature was especially significant in West Germany and Southeastern Europe. Besides energy consumption, electricity production is also influenced by weather conditions—above all generation from wind power plants. In Germany, compared to the long-term seasonal average, there was 21% more wind in the first quarter and 26% less in the second quarter. The combined amount of wind for the first six months was thus slightly below average.

Rising energy consumption in RWE's core markets

Strong industrial demand and the increased need for heating energy compared with the same period last year were chiefly responsible for the fact that more energy was consumed in our core markets. Most of all, demand for gas rose. In Germany, it was up an estimated 9% on the level recorded in the corresponding period in 2007, in the UK 5% and as much as 11% in the Czech Republic. Growth in electricity consumption is estimated at 1.5% in Germany and at 2% in the UK, Slovakia and Poland. In contrast, power usage in Hungary stagnated.

Oil market: Brent prices temporarily exceed 140-dollar mark

Prices on world crude oil markets hit new record highs in 2008. In June, a barrel of North Sea Brent intermittently traded at over US\$ 140. Averaged for the first half of the year, it sold at US\$ 109. This is 72 % more than in the same period in 2007. Since the US dollar lost ground to the euro, Brent's euro prices did not rise quite as much (+50 %). The substantial increase in the price of crude oil can be traced back to mounting demand in newly industrializing countries such as India and China. Another factor is limited production capacity. In addition, supply risks arise from geopolitical tension caused—among other things—by Iran's nuclear programme. Unrest in Nigeria brought a significant share of the country's oil production to a halt. Higher cash investments in raw materials also contributed to the price hike.

Crude oil boom affects gas prices

European gas prices track developments on the oil market, typically with a lag of several months. Germany's gas imports were about 20 % more expensive compared with the first half of 2007. Changes in import prices are passed through to end customers with a delay as well. Therefore, gas bills paid by industrial customers were only an average of roughly 6 % higher than the level witnessed in the corresponding period in 2007. Household bills were up 1 % to 2 %. In the Czech Republic, our second-largest gas market, end customer prices were adjusted more quickly. Tariffs were approximately 25 % higher for key accounts and industrial customers and about 15 % for households. Prices on the UK gas spot market more than doubled. A contributing factor besides the oil price was the considerable rise in demand. According to preliminary surveys, UK industrial and commercial customers had to pay about 40 % more than in the corresponding period last year. Price adjustments in this segment are implemented much more rapidly than in the sales business with households, where gas was around 3 % more expensive. Gas prices on the Hungarian market were up 7 % for industrial enterprises and 4 % for households.

Hard coal twice as expensive as in prior-year period

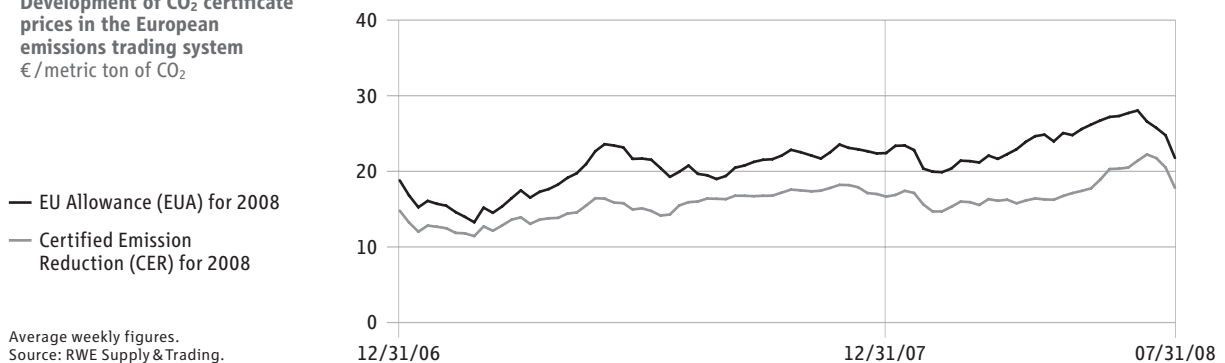
In the first half of the year, hard coal market prices posted record levels time and again. In Rotterdam spot trading, a metric ton occasionally traded above US\$ 200 (including freight and insurance). The average price for the first six months was US\$ 150. This is more than twice as much as in the same period in 2007 (US\$ 72). Demand in the Asian region remained high, while supply on the international hard coal market declined overall. Declines in exports from South Africa, China, Poland and Vietnam were only partially compensated for by increased deliveries by other producing countries. Furthermore, sea freight rates continued to increase. Despite the fleet's progressive expansion, transport capacity did not rise as much as demand. Between January and June 2008, the standard route from South Africa to Rotterdam cost an average of US\$ 39 per metric ton, as compared to US\$ 26 in the same period last year. Prices which are relevant for German hard coal are determined by the German Federal Office of Economics and Export Control (BAFA). They track developments on the international market with a lag of several months. The BAFA price for the first quarter was €94 per metric ton of hard coal unit. There are no official figures for the second quarter as of yet. Experts anticipate a price in the order of €100. In sum, BAFA prices in the first half of the year were thus considerably higher than in the corresponding period of 2007 (€63).

CO₂ emissions trading: certificate prices much higher year on year

The second period of the European CO₂ emissions allowance trading scheme began on January 1, 2008, and will last until the end of 2012. Framework conditions are much less favourable for power producers, compared with the first trading period from 2005 to 2007. In the past, the number of certificates allocated by the state clearly exceeded overall actual emissions originating from the plants participating in the EU emissions trading scheme. This will no longer be the case from 2008 onwards, since the national allocation plans for the second trading period envision reductions in state allocations, some of which will be substantial. Therefore, many utilities will have to purchase a great number of certificates. Alternatively, they can curb their CO₂ emissions by making less use of high-emission power plants.

The anticipated scarcity of available emissions allowances compared to the first trading period is reflected in their market price. Whereas certificates for 2007 traded at just a few euro cents per metric ton of CO₂ at the end of December, certificates for 2008 sold for an average of €24 in the first six months of this year. The significant difference in price is only possible because market participants were not allowed to carry over surplus emissions allowances from the first to the second trading period. An increasing number of Certified Emission Reductions (CERs) are currently being generated. These are certificates obtained from emissions reductions achieved in developing and newly industrializing countries within the scope of the Clean Development Mechanism. European companies may cover domestic emissions up to a pre-determined level by submitting CERs. The advantage is that the costs for these types of certificates are generally lower than the market prices of state-allocated emissions allowances. Averaged for the first half, 2008 CERs were quoted at €17 per metric ton of CO₂.

Development of CO₂ certificate prices in the European emissions trading system
€/metric ton of CO₂



Continued rise in prices on European electricity markets

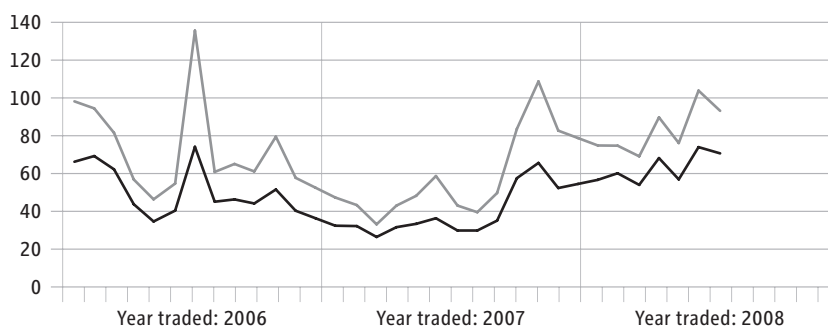
Increasing fuel and emissions allowance prices were reflected on Europe's wholesale electricity markets. In spot trading on the European Energy Exchange (EEX) in Leipzig, Germany, base-load contracts traded at an average of €61 per megawatt hour (MWh) in the first half of 2008, compared with €31 in the same period in 2007. Peak-load contracts rose in price from €45 to €81. Among other things, the quotations reflected the significant difference in the cost of emissions allowances for 2008 versus 2007. Prices in German electricity forward trading rose as well, albeit not quite as significantly as on the spot market. Contracts for the coming calendar year ("2009 forwards") sold for an average of €67 per MWh in the first half of 2008 for base-load power and of €94 per MWh for peak-load power. In comparison, 2008 forwards cost €54 and €79 on average, respectively, in the same period last year. Quotations on the forward market were characterized above all by the development of hard coal and gas prices. This is evidenced by the massive price hike over the course of the first six months. On July 1, 2008, 2009 base-load forwards, which sold for €62 per MWh at the beginning of the year, hit a record high of €90, before slipping somewhat.

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

Development of wholesale electricity spot prices in Germany
€/MWh

— Peak load
— Base load

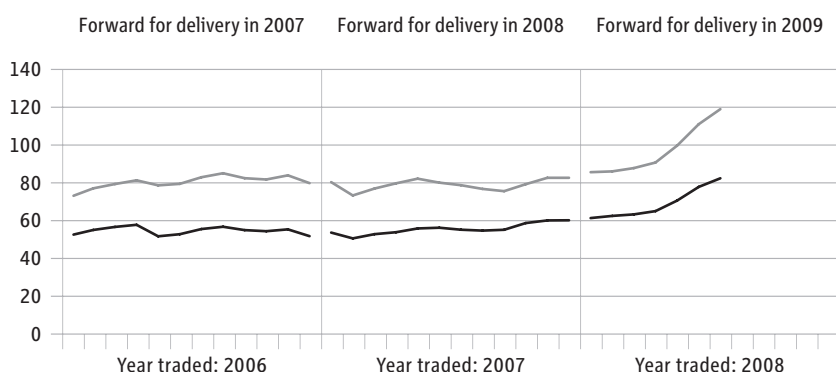
Average monthly figures.
Source: European Energy Exchange (EEX), Leipzig, Germany.



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

— Peak load
— Base load

Average monthly figures.
Source: RWE Supply & Trading.

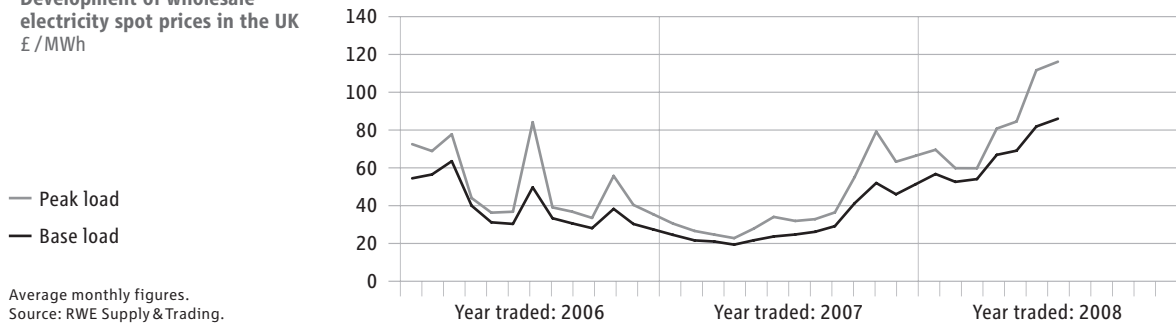


The trend in electricity prices for end customers and distributors in Germany reflects the rising prices on the wholesale market. Utilities had to lift tariffs across all customer segments due to the increase in electricity purchasing costs. In the first six months of 2008, prices paid by households and small commercial operations were up an average of 5% over the corresponding period in 2007. Industrial enterprises had to pay around 12% more. For deliveries to this customer group, the share of electricity procurement costs in the total price is especially high.

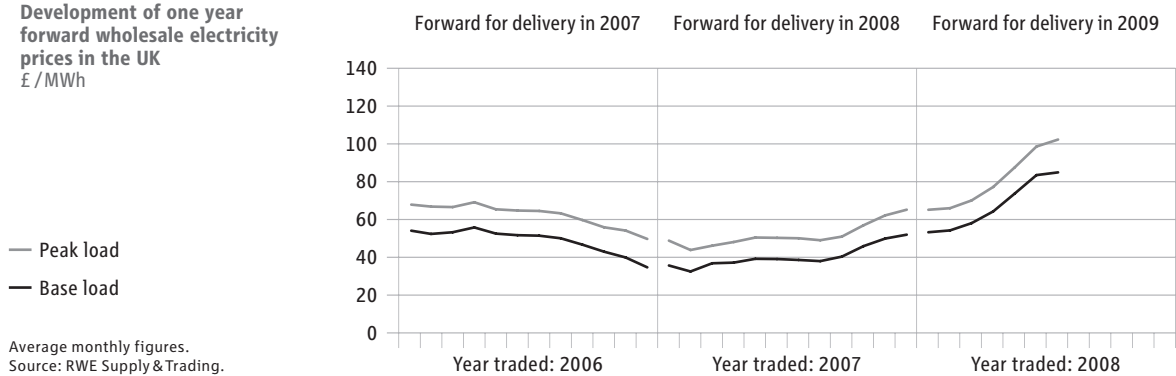
UK wholesale electricity prices rose considerably as well. In the first six months of 2008, a megawatt hour of base-load power sold for an average of £64 (€83) on the spot market, as compared to £22 (€32) in the same period in 2007. Peak-load power increased in price from £28 (€41) to £78 (€100). UK prices were thus substantially higher than levels witnessed in Germany. In the UK, gas-fired power plants, which typically have high variable costs, account for a larger share of generation capacity than in Germany, and thus have a stronger influence on the formation of electricity prices. Prices on the UK electricity forward market climbed as well. In the first half of 2008, supply contracts for the 2009 calendar year traded at an average of £64 (€83) per MWh of base-load power. This is 72% more than the cost of 2008 forwards in the same period last year. Peak-load forward prices advanced by 59% to £77 (€99).

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

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



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



Electricity tariffs in the UK end customer segment rose to a much lesser extent than in spot trading, since most of the energy companies had purchased electricity for 2008 early on. As a result, end customer tariffs were still affected by the development of forward prices in preceding years. Electricity purchases by industrial and commercial customers were an average of 6% to 7% more expensive than in the first half of 2007. The price increase in the household and small commercial enterprise segment was at a similar level.

The price of electricity advanced on our markets in Central Eastern Europe as well. In Poland and Slovakia, private households had to pay an estimated 3% to 5% more, while the cost of private electricity purchases in Hungary rose by 20%. Prices charged to industrial customers were up some 15% in Poland, 9% in Slovakia and 20% in Hungary year on year.

Major events

In the period under review

IPO of American Water: underwriters float additional shares as part of the “greenshoe” option

The underwriters of the American Water initial public offering (IPO) partially exercised the greenshoe option within the scope of the IPO. A greenshoe involves the issuer or the selling shareholder granting an over-allotment or purchase option, giving the underwriters the right to purchase additional shares at the issue price on completion of the IPO. On April 22, 2008, RWE had already sold 58 million shares in American Water to the underwriters to have them floated on the New York Stock Exchange. This corresponds to 36.25 % of the share capital. The partial exercise of the greenshoe option increased the size of the offering to 63.17 million shares, or 39.5 %. RWE has thus received US\$1.3 billion in net proceeds from the IPO so far. Proceeds per share were US\$21.50, minus the underwriting discount of US\$0.645 per share.

RWE makes a commitment to sell its German gas transmission grid

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

RWE plans new 800-MW hard coal-fired power plant in Poland

In June, we took the first steps towards building a hard coal-fired power station in Poland. We agreed with Kompania Weglowa, the EU's largest coal mining company, to establish a joint venture in which RWE will own a 75 % interest. Among other things, Kompania Weglowa would provide the location and supply the power plant with hard coal. The facility is to have an installed capacity of 800 MW and an efficiency of 46 %. It is expected to be located in Wola in Upper Silesia. We anticipate an investment of €1.5 billion. However, project planning is still at an early stage. Once the venture's economic feasibility has been proven, we intend to begin construction in 2011. This would allow for the power plant to be commissioned in 2015. It would emit much less CO₂ compared with older plants and increase the security of supply over the long term. With 38 million inhabitants, Poland is the largest market in Central Eastern Europe. It is estimated that the country's need for energy will grow by an annual 3 % to 5 %. However, the country's generation fleet is made up of relatively old power plants, which have an average efficiency of 35 %.

Energy from renewables: RWE enters the Italian market and expands its position in Spain

RWE Innogy, our subsidiary which specializes in renewables-based energy, is making progress implementing its growth strategy. At the end of May, the company joined forces with Fri-El Green Power, a company that builds and operates renewable generation capacity, to found a joint venture for the shared development of wind and biomass projects in Italy. RWE Innogy and Fri-El Green Power will each own a 50% stake in the joint venture, which will bear the name "Fri-El S.p.A." The joint venture will continue to develop wind power and biomass projects that have already been planned until they are ready for construction and then transfer them to independent companies in which RWE Innogy will hold a majority interest. It already has a large portfolio of projects in the field of wind energy, 985 MW of which are allocable to RWE Innogy.

We also scored a success with a major step towards growing our business in Spain. RWE Innogy acquired a 100% share in wind power plant operator Urvasco Energía via its subsidiary Agrupació Energías Renovables (AERSA). Urvasco owns six onshore wind farms with a combined installed capacity of about 150 MW. This brings our total wind power capacity in Spain up to some 320 MW. The newly acquired plants are situated at attractive locations in the regions of Aragon, Castilla-La Mancha and Andalucía. Spain's wind energy market ranks among the most attractive in Europe. Geographic advantages such as high wind speeds and a clear commitment by the Spanish government to support energy from renewables have led to a huge expansion of installed capacity in Spain in recent years.

Share buyback completed successfully

On May 16, we successfully completed the share buyback programme we initiated at the end of February 2008. We purchased a total of 31.7 million RWE common shares on the stock exchange with a value of €2.5 billion within the scope of the programme. This corresponds to a share of 5.6% of the company's capital stock and 6.1% of RWE AG's voting rights. We paid an average of €78.73 per share. On April 17, 2008, the Annual General Meeting granted us another authorization to conduct a share buyback, which expires on October 16, 2009.

After the period under review

Improved conditions for incentive-based regulation in the German grid business

At the beginning of July, the German Federal Network Agency published the details of incentive-based regulation in Germany from 2009 onwards. The nominal return on equity for new investments is to be 9.29%, which is higher than originally planned. This figure applies to both electricity and gas grids. The current return on equity is 7.91% for electricity and 9.21% for gas. The German Federal Network Agency will also establish new target returns for older grids (completed before 2006) starting in 2009. Grid fees for these facilities will be calculated differently. From 2009 onwards, the return on equity for old plants is to be 7.56% in real terms. The current rates are 6.50% for electricity and 7.80% for gas. Further rules issued by the German Federal Network Agency relate to investments in the expansion and restructuring of the grids. The problem encountered here is that these investments are only factored into the calculation of grid fees with a lag, which can be as much as several years. The Federal Network Agency intends to remedy the situation. RWE welcomes the regulatory authority's resolutions, which are entrepreneurially acceptable for making necessary investments in electricity and gas grids. However, some major details remain to be clarified. For instance, it is yet to be determined how the grid operators' energy procurement costs can be considered in a timely fashion. Another task at hand is to ensure an adequate return on debt.

Notes on reporting

Adjustment of reporting to reflect the Group's new structure

Our financial reporting for the current financial year reflects the new Group structure. As of April 1, 2008, we combined RWE Trading and RWE Gas Midstream to form RWE Supply & Trading GmbH. Gas purchasing activities for RWE Group companies are thus pooled with the energy trading business for electricity, gas, coal, oil and CO₂. The new RWE Supply & Trading is now presented as a separate division. Under the old reporting structure, RWE Trading was part of the "Power Generation" Business Unit within the RWE Power Division, and RWE Gas Midstream was included in "Other, consolidation" as part of the RWE Energy Division. We also report RWE Dea, a business unit of RWE Power thus far, as an independent division. The reason for this is that the RWE Group's upstream business will display above-average growth. To enable comparability with last year despite these reclassifications, we are stating 2007 figures in line with the new structure as well.

New company for renewables-based energy

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

American Water recognized as a "discontinued operation"

As described on page 10, we have already floated 39.5% of the shares in American Water on the New York Stock Exchange this year. In line with our intention to fully divest American Water, we have classified American Water as a "discontinued operation." Therefore, figures for the US water utility, which we refer to as the "Water Division," are no longer included in revenue, EBITDA, the operating result, the non-operating result, the financial result, or taxes on income. We adjusted the comparable figures for the first half of 2007 in accordance with IFRS. As far as capital expenditure and the cash flow statement are concerned, American Water is only included in the figures for 2007.

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

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

Business performance

Electricity production January – June	RWE Power ¹		RWE npower		RWE Group ²	
	2008	2007	2008	2007	2008	2007
Billion kWh						
In-house generation	92.6	86.8	18.8	16.1	115.0	104.4
Lignite	36.8	38.0	–	–	36.8	38.0
Nuclear	24.7	15.9	–	–	24.7	15.9
Hard coal	23.9	25.9	8.9	7.4	33.3	33.5
Gas	5.8	4.3	9.8	8.3	16.3	13.2
Renewable energies	0.3	1.5	–	0.4	2.7	2.6
Pumped storage, oil, other	1.1	1.2	0.1	–	1.2	1.2
Electricity purchased from third parties	–	–	8.9 ³	13.0 ³	55.6	61.2
Total	92.6	86.8	27.7	29.1	170.6	165.6

¹ Including electricity from power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. In the first half of 2008, they break down into 15.7 billion kWh (hard coal), 0.3 billion kWh (renewables) and 0.8 billion kWh (pumped storage, oil, other).

² Including generation and electricity purchases of RWE Energy's regional companies; for 2008, also including renewables-based electricity generation transferred to RWE Innogy.

³ Electricity purchased by RWE npower largely via RWE Supply & Trading.

Electricity generation up 10 %

In the first six months of 2008, the RWE Group produced 115.0 billion kWh of electricity—10 % more than in the same period in 2007. In-house generation and power purchases combined for 170.6 billion kWh. This was 3 % higher year on year.

RWE Power contributed 92.6 billion kWh, or 81 %, of the RWE Group's total in-house electricity production. This includes electricity generated from power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. RWE Power generated 7 % more electricity than in the first half of 2007. This was primarily due to the improved availability of the Biblis nuclear power plant. In the same period in 2007, both of the units were offline so that the faulty installation of screw anchors could be repaired. Block A went back online in February 2008, and Block B in November 2007. Our gas-fired power stations contributed to the rise in power production as well. Their generation output was increased because conditions on the market were more favourable than in the same period last year. We experienced a counteracting development at our hard coal-fired power stations: Their margins and output have fallen. We also generated less electricity from lignite. This was due to a slight reduction in the level of power plant availability.

Power production at RWE npower was up 17 % to 18.8 billion kWh. This is primarily due to improved market conditions for our UK gas and hard coal power plants. However, two of the three hard coal units at our Aberthaw location were only available to a limited extent due to delays in the installation of a flue gas desulphurization unit.

RWE Innogy, our specialist for renewables-based electricity generation, generated 2.0 billion kWh in the period under review. This production predominantly stems from capacity which the company took over from RWE Power, RWE npower and RWE Energy.

RWE Energy generated 1.6 billion kWh of electricity. The majority of this is allocable to the German regional companies.

Gas production up, oil production down

In the period under review, RWE Dea produced 1,791 million m³ of gas and 1,245 thousand m³ of oil. In terms of oil equivalent, output totalled 2,979 thousand m³, which equals 18.7 million barrels. Our total production was thus roughly on par with the year-earlier level. Gas output was up 13%. The main reason for the gain was that we had started production in several UK North Sea gas fields during the course of last year. Output was higher in Egypt as well, because a concession agreement was modified to our benefit. Furthermore, we commissioned an additional production well there. We stepped up production in Germany owing to an increase in demand. By contrast, crude oil output was down 13%. This was largely because we shed our license in Dubai in April 2007. Production from our oil fields in Germany and Norway is declining as reserves are being exhausted, and this could not be offset by higher production rates in Egypt and Denmark.

Electricity sales slightly above year-earlier level

In the first six months of 2008, we sold 161.9 billion kWh of electricity to external customers—3% more than in the same period last year. Electricity sales are typically somewhat lower than the amount of power generated and purchased. This is due to grid losses as well as our in-house consumption by lignite production and pumped-storage power plants.

External electricity sales volume January–June	RWE Power		RWE Supply & Trading		RWE Energy		RWE npower		RWE Group	
	2008	2007	2008	2007	2008	2007	2008	2007	2008 ¹	2007
Billion kWh										
Private and commercial customers	0.2	0.2	–	–	18.9	19.2	11.3	11.2	30.5	30.7
Industrial and corporate customers	–	–	–	–	34.3	32.0	15.2	16.4	49.7	48.4
Distributors	6.6	7.0	–	–	38.1	36.4	–	–	45.3	43.4
Electricity trading	–	–	36.4	34.2	–	–	–	–	36.4	34.2
Total	6.8	7.2	36.4	34.2	91.3	87.6	26.5	27.6	161.9	156.7

¹ Including electricity sales generated by RWE Innogy.

At 6.8 billion kWh, RWE Power's external electricity sales were low since most of our German generation is sold on the market by RWE Supply & Trading and RWE Energy. Electricity produced outside Germany is marketed by RWE Power itself, including generation by our Hungarian subsidiary Mátra. External sales also include production by our German Gundremmingen and Emsland nuclear power stations, which is allocable to the minority shareholder in these plants. The decline in sales experienced by RWE Power primarily stems from the fact that some generation activities were transferred to RWE Innogy.

RWE Supply & Trading sold 36.4 billion kWh of electricity. This output stems from the sale of in-house production on the wholesale market. These figures do not include pure trading transactions with electricity purchased from third parties. The 6% sales improvement results from the fact that RWE generated more electricity.

RWE Energy's electricity deliveries advanced by 4% to 91.3 billion kWh, in part because we acquired new industrial and corporate customers. In addition, the cyclically-induced expansion of industrial production led to a rise in consumption. There was also a rise in sales of electricity fed into RWE Energy's grid and passed on to customers in compliance with the German law for the promotion of renewables-based energy (Renewable Energy Act). In contrast, sales to private and commercial customers decreased, above all as a result of fiercer competition in the German sales business. As of June 30, 2008, RWE Energy supplied electricity to 6.9 million homes and small commercial enterprises in Germany—some 200,000 fewer than at the end of 2007. These figures exclusively refer to our fully consolidated companies. However, customer losses in this segment declined substantially over the course of the period being reviewed. Customers gained and lost nearly offset each other in the second quarter. Our "loyalty electricity offering" for German private customers, which includes a fixed tariff over three years, was very well received. Furthermore, RWE Energy is investing an additional €50 million per year, in order to improve service and customer retention.

RWE npower's electricity sales totalled 26.5 billion kWh and were thus slightly below the level achieved in the first half of 2007. The decline is allocable to business with industrial and corporate customers and is partially a result of customer losses. We recorded a marginal increase in sales to households and small commercial operations due to the rise in demand for electricity for heating purposes. As of June 30, 2008, we served 4.2 million electricity customers in this segment, where our customer base has decreased by 150,000 since the end of 2007.

External gas sales volume January–June	RWE Dea		RWE Supply & Trading		RWE Energy		RWE npower		RWE Group ¹	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Billion kWh										
Private and commercial customers	–	–	–	–	37.7	33.5	27.8	25.1	65.5	58.6
Industrial and corporate customers	1.6	1.6	–	–	51.1	52.6	5.1	5.1	57.8	59.3
Distributors	9.2	8.9	4.7	–	46.2	49.4	–	–	60.1	58.7
Total	10.8	10.5	4.7	–	135.0	135.5	32.9	30.2	183.4	176.6

¹ Including minor gas sales by RWE Power.

Gas sales volume slightly up year on year

External gas sales improved by 4%, rising to 183.4 billion kWh. As explained earlier, temperatures in our sales areas were lower overall than in the same period last year, which was unusually warm. Demand for gas for heating purposes from our household customers increased accordingly.

RWE Dea delivered 10.8 billion kWh of gas to outside customers—slightly more than a year earlier. Including internal sales, gas sales rose by 17% to 18.3 billion kWh. This is due to the company's increased production, especially in the UK.

We pooled the RWE Group companies' gas procurement activities in the newly established RWE Supply & Trading. The division's gas sales are primarily intragroup sales. RWE Supply & Trading sells gas to outside customers only to a limited extent. In the first six months of 2008, external gas sales totalled 4.7 billion kWh. These sales are predominantly surplus quantities from long-term gas purchasing agreements. The division did not have reportable external sales in the year-earlier period. The rise is in part due to the fact that we began stating RWE Transgas' midstream activities under RWE Supply & Trading effective January 1, 2008. They were previously assigned to the RWE Energy Division. Besides all gas procured for the Czech market, they encompass the international marketing of gas purchases not required in the Czech Republic.

Gas sales by RWE Energy amounted to 135.0 billion kWh and were thus marginally lower than in the same period last year. We felt the consequences of increasingly fierce competition on the German gas market as well. Some of our industrial and corporate customers switched suppliers or stopped purchasing all the gas they require from us. We also suffered drops in sales in the distributor segment due to fiercer competition. The number of private households and commercial operations we serve only declined slightly. At the end of June, our gas customer base in this segment in Germany was some 1.0 million; during the course of the period under review, we lost nearly 30,000 customers. However, this was contrasted by customer acquisitions in the Netherlands. The weather, which was cooler overall, had a positive effect on the sales trend, almost compensating for the competition-induced sales declines.

RWE npower grew its gas deliveries by 9% to 32.9 billion kWh. This substantial gain exclusively stems from business with private and commercial customers and is largely due to the increased demand for gas for heating purposes. However, we had to deal with marginal customer losses in this segment. At the end of June, RWE npower provided gas to 2.6 million homes and small commercial enterprises—roughly 60,000 fewer than as of December 31, 2007.

External revenue ¹ € million	Jan–Jun 2008	Jan–Jun 2007	+ / – in %	Jan–Dec 2007
RWE Power	645	617	4.5	1,329
RWE Dea	931	713	30.6	1,496
RWE Supply & Trading	3,345	1,894	76.6	3,793
RWE Energy	15,328	13,860	10.6	26,877
German regions	8,720	8,231	5.9	16,015
International regions	3,377	2,852	18.4	5,589
Supraregional operations	3,091	2,657	16.3	5,012
Other, consolidation	140	120	16.7	261
RWE npower	4,291	4,704	–8.8	8,920
Other, consolidation	181	53	241.5	92
RWE Group	24,721	21,841	13.2	42,507
of which:				
Electricity revenue	15,810	14,197	11.4	27,917
Direct electricity tax	491	484	1.4	961
Gas revenue	6,537	5,813	12.5	10,768
Oil revenue	683	546	25.1	1,023

¹ Figures based on the Group's new structure and excluding the water utility American Water, which is stated as a "discontinued operation." The previous year's figures have been adjusted accordingly. Prior-year figures were not adjusted for a few small reclassifications. See commentary on page 13.

External revenue up 13% year on year

In the first half of 2008, the RWE Group generated €24.7 billion in external revenue. Compared with 2007, this corresponds to a 13% rise, which is largely due to price increases on the electricity and gas markets. Net of major currency and consolidation effects, Group revenue rose by 16%. Sterling, our major foreign currency, lost in value compared to the euro: Averaged for the period under review, the exchange rate was £0.78/€ compared with £0.68/€ in the corresponding period in 2007. The US dollar was significantly devalued as well, whereas the Czech crown increased in value.

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

External revenue posted by RWE Power amounted to €645 million, which was 5% above the level in the corresponding period in 2007. As explained, almost all our German electricity production is sold on the market by RWE Supply & Trading and RWE Energy. Therefore, RWE Power's external revenue is relatively low. It primarily comes from electricity sales generated by non-German subsidiaries (predominantly by Mátra in Hungary) and the marketing of lignite-based products (e.g. briquettes). The marginal increase in revenue is mainly due to the fact that we were able to sell our power generation in Hungary at higher prices. The transfer of renewables-based power production business to RWE Innogy had a counteracting effect.

RWE Dea achieved a gain of 31 % to €931 million. External revenue earned by the oil business increased markedly despite declining sales volumes since we were able to sell our production at much higher dollar prices than in the same period last year. However, this effect was slightly weakened through the devaluation of the dollar relative to the euro. RWE Dea recorded strong revenue growth in the gas business as well. Positive price and volume effects were the basis for this.

RWE Supply & Trading produced €3,345 million in external revenue. This was 77 % more than in the same period last year. The new division earns a large portion of its external revenue by selling RWE Power's electricity generation on the wholesale market. Higher prices were realized compared with last year. Another reason for the rise in external revenue is the fact that we started reporting revenue earned by the midstream activities of RWE Transgas under RWE Supply & Trading in 2008.

External revenue generated by RWE Energy advanced by 11 % to €15.3 billion. At €9,957 million, electricity revenue was also 11 % higher than in the same period last year. The aforementioned expansion of the sales volume contributed to this. Moreover, we increased prices in order to pass through the rise in energy procurement costs and expenses incurred to comply with the German Renewable Energy Act. Most of our German regional companies (including RWE Rhein-Ruhr and RWE Westfalen-Weser-Ems) lifted their general tariffs effective January 1, 2008, in the household and small commercial enterprise segment. Another factor contributing to the rise in revenue was the acquisition of eprimo last year. Revenues generated by the web-based electricity sales specialist have been included in our figures since April 1, 2007. RWE Energy contributed €4,889 million in external revenue from gas sales. This figure was up 11 % as well. The recent substantial rise in the price of gas purchases caused us and our competitors to increase prices. Some of RWE's regional companies have already lifted tariffs in the German private customer business. Further rises have been announced for the second half of the year. From September 1, 2008, onwards, similar to the electricity business, we will offer households and commercial operations in Germany the opportunity to procure gas at a set price for three years. By the middle of August, we had already received over 75,000 such orders. The development of our gas revenue in the Czech Republic benefited from the appreciation of the Czech crown over the euro.

RWE npower recorded a 9 % drop in external revenue to €4,291 million. This was largely due to the devaluation of the pound Sterling compared to the euro. Electricity revenue was down 10 % to €2,942 million, while gas revenue slipped 6 % to €1,133 million. Net of currency effects, however, revenues increased by 4 % and 8 %, respectively. RWE npower had reduced electricity and gas prices for household customers by an average of 3 % and 16 % at the end of April 2007, followed by price increases of 12.7 % and 17.2 % at the beginning of January 2008. This had a positive impact on earnings in the electricity sales business, whereas reductions in sales volumes had a counteracting effect. In the gas business, we benefited from the general rise in consumption.

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

Internal revenue ¹ € million	Jan–Jun 2008	Jan–Jun 2007	+ / – in %	Jan–Dec 2007
RWE Power	5,081	3,902	30.2	8,125
RWE Dea	89	100	-11.0	198
RWE Supply & Trading	9,933	7,089	40.1	13,617
RWE Energy	960	769	24.8	1,596
RWE npower	22	1	-	5

¹ Figures based on the Group's new structure and excluding the water utility American Water, which is stated as a "discontinued operation." The previous year's figures have been adjusted accordingly. Prior-year figures were not adjusted for a few small reclassifications; see commentary on page 13.

Operating result down 8% year on year

The continued positive development of the RWE Group's operating earnings has not yet been reflected in the figures for the first six months. EBITDA was down 5% to €4,628 million, and the operating result declined by 8% to €3,933 million. Net of currency and consolidation effects, the declines were 4% (EBITDA) and 7% (operating result). Margin improvements in power generation and the positive impact of the recommissioning of the Biblis nuclear power plant were overshadowed by negative factors: Of notable mention in this context are the stricter framework conditions underlying the emissions trading scheme from 2008 onwards and new cuts in our German grid fees implemented by the regulator. As expected, we could not match the extraordinarily good result achieved last year in the energy trading business. Furthermore, compared with the same period in 2007, a much bigger portion of its performance—which continues to be strong—will not be reported under IFRS until the second half of the year. This is one of the main reasons why the RWE Group expects to be able to close the year as a whole significantly up on its performance in the first six months. We continue to anticipate being at least on par with the EBITDA and operating result posted in 2007. A detailed presentation of our earnings forecast can be found on page 34 et seq.

Reconciliation of income from operating activities to EBITDA € million	Jan–Jun 2008	Jan–Jun 2007 ¹	+ / – in %	Jan–Dec 2007 ¹
Income from operating activities	3,225	3,915	-17.6	5,788
+ Income from investments	237	283	-16.3	596
– Non-operating result	471	78	503.8	149
Operating result	3,933	4,276	-8.0	6,533
– Operating income from investments	-235	-244	3.7	-541
+ Operating depreciation and amortization	930	852	9.2	1,923
EBITDA	4,628	4,884	-5.2	7,915

¹ Figures partially adjusted; see commentary on page 13.

EBITDA¹ € million	Jan–Jun 2008	Jan–Jun 2007	+ / – in %	Jan–Dec 2007
RWE Power	1,961	1,713	14.5	3,072
RWE Dea	448	384	16.7	755
RWE Supply & Trading	73	604	–87.9	534
RWE Energy	1,688	1,756	–3.9	2,802
German regions	1,011	954	6.0	1,552
International regions	417	366	13.9	760
Supraregional operations	319	496	–35.7	833
Other, consolidation	–59	–60	1.7	–343
RWE npower	416	463	–10.2	870
Other, consolidation	42	–36	216.7	–118
RWE Group	4,628	4,884	–5.2	7,915

¹ Figures based on the Group's new structure and excluding the water utility American Water, which is stated as a "discontinued operation." The previous year's figures have been adjusted accordingly. Prior-year figures were not adjusted for a few small reclassifications. See commentary on page 13.

Operating result¹ € million	Jan–Jun 2008	Jan–Jun 2007	+ / – in %	Jan–Dec 2007
RWE Power	1,769	1,538	15.0	2,617
RWE Dea	325	290	12.1	492
RWE Supply & Trading	68	604	–88.7	532
RWE Energy	1,441	1,516	–4.9	2,355
German regions	834	780	6.9	1,209
International regions	386	335	15.2	692
Supraregional operations	274	456	–39.9	767
Other, consolidation	–53	–55	3.6	–313
RWE npower	334	395	–15.4	724
Other, consolidation	–4	–67	94.0	–187
RWE Group	3,933	4,276	–8.0	6,533

¹ Figures based on the Group's new structure and excluding the water utility American Water, which is stated as a "discontinued operation." The previous year's figures have been adjusted accordingly. Prior-year figures were not adjusted for a few small reclassifications. See commentary on page 13.

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

RWE Power achieved an operating result of €1,769 million in the first half of 2008. This division thus posted a gain of 15%. Last year, an outage of the Biblis nuclear power station had a very adverse effect. Both blocks have since been brought back online (see page 14). This had a positive impact on the operating result. Another contributing factor was that we realized higher prices for our German electricity production. However, the division's earnings trend was also marked by negative effects. As mentioned earlier, free state allocations of CO₂ certificates have decreased substantially. Therefore, RWE Power has had to buy more emissions certificates

than in the past. Costs incurred for this in the reporting period amounted to €583 million (first half of 2007: €37 million). The rise in hard coal and power plant gas prices resulted in an additional expense of €190 million in total. Furthermore, staff costs advanced and earnings contributed by those power generation activities which had been transferred to RWE Innogy are no longer included.

RWE Dea improved its operating result by 12 % to €325 million despite much higher exploration costs. The company benefited from the marked increase in crude oil prices, which, however, did not take full effect owing to price hedges concluded to cover part of production and the dollar's weakness. Higher prices and margins in the gas business also had a positive impact on the operating result. The decline in oil production had a counteracting effect. We expect that we will perform even better for the year as a whole compared to the first six months. It is above all the earnings in our gas production business which are likely to improve considerably. This will be the consequence of the fact that gas prices track oil prices, which recently experienced a strong increase.

RWE Supply & Trading earned an operating result of €68 million, which was far below the year-earlier level (€604 million). As expected, especially in the oil and gas trading businesses, we were unable to match the unusually good performance delivered 2007. In addition, compared to the same period last year, a much larger portion of our trading result was not yet recognized under IFRS as of the balance sheet date (June 30, 2008). This relates, among other things, to the sale of electricity generated by RWE Power and RWE npower in cases where delivery is effected after the period under review. Pursuant to IFRS, income from these types of trading transactions can only be accounted for with an effect on profit or loss later on, i. e., at the time of delivery. However, deliveries for a significant amount of the transactions mentioned above will only be made in the second half of 2008. Therefore, we expect the operating result for the full year to put in a much better performance than in the first half. RWE Supply & Trading's half-year performance in the gas midstream business was characterized by the fact that RWE Transgas' purchasing activities were included for the first time. In consequence, we achieved a big gain in this area.

The operating result achieved by RWE Energy was down 5 % to €1,441 million. This was primarily due to the regulatory reduction in German grid fees. This led to a drop in earnings of around €220 million compared with the corresponding period last year. Furthermore, we incurred additional expenses to procure balancing power. However, earnings improvements in the electricity sales business and cost reductions partially offset this. Changes in foreign exchange rates increased the operating result by €42 million, with consolidation and reclassification effects improving it by a total of €20 million. Despite the decline in the operating result in the first six months, we expect it to grow by a single-digit percentage for the year as a whole. Amongst other things, we anticipate that sales margins in the German gas business will recover. Moreover, the cost-cutting measures will have an increasing effect on earnings as they are progressively implemented.

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

- German regions: RWE Energy's domestic regional companies closed the reporting period 7% up year on year—despite fee cuts imposed on their distribution grids. The resulting burdens were curbed by cost-reducing measures. Earnings in the German electricity sales business recorded a marginal improvement, despite the significant rise in pressure from the competition. Slight gains in sales volume contributed to this. The first-time consolidation of small companies also had a positive effect. However, the rise in procurement costs in the gas sales business has had a counteracting effect. So far, we have only been able to pass part of the cost increase through to our end customers. Therefore, several regional companies announced tariff rises for the private customer segment, which should take effect in September and October.
- International regions: We recorded a 15% gain in the Continental European sales business outside Germany. In Hungary, we benefited from higher electricity margins. Our earnings in the Dutch gas sales business also improved. Positive volume-related effects resulting from acquisition successes were felt here as well as margin improvements. Moreover, earnings benefited from the appreciation of the Czech crown over the euro. The absence of a contribution from our Dutch gas grid operations, which we sold to the City of Eindhoven as of June 1, 2007, had a counteracting effect.
- Supraregional operations: The operating result recorded by this business unit declined by 40%, largely due to regulatory cuts to our German electricity transmission grid fees. In addition, costs incurred to purchase balancing power were higher. This is used to balance unexpected fluctuations between amounts of electricity fed into and withdrawn from the power grid. There has been a much increased need for balancing power predominantly owing to the rise in electricity produced from wind power. Another factor contributing to the decline in the operating result was the transfer of the key account contracting activities to RWE Innogy.

RWE npower's operating result declined by 15% to €334 million, mainly due to currency effects. In Sterling terms, the operating result was down 3%. Our earnings in the UK electricity generation business improved because we realized much higher margins. Expenses incurred to purchase CO₂ emissions allowances totalled €92 million, compared with €56 million in the corresponding period in 2007. In contrast, the operating result achieved by the sales business declined considerably—also net of currency effects. This is attributable to the household segment, where sales margins came under pressure from the rise in electricity and gas procurement costs. In addition, gas transmission became more expensive. Furthermore, RWE npower incurred higher costs associated with a government programme that obliges UK utilities to promote energy saving measures at households.

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

The reconciliation from the operating result to net income was characterized by one-off charges. On the one hand, these were related to discontinued operations (American Water). On the other hand, the IFRS accounting treatment of commodity derivatives had a negative effect, which, however, will be offset in later periods.

Non-operating result € million	Jan–Jun 2008	Jan–Jun 2007 ¹	+ / – € million	Jan–Dec 2007
Capital gains	45	260	-215	339
Impairment losses	-	-	-	-
Restructuring, other	-516	-338	-178	-488
Non-operating result	-471	-78	-393	-149

¹ Figures adjusted; see commentary on page 13.

In the first six months, the non-operating result decreased from –€78 million to –€471 million. Its components developed as follows:

- Capital gains totalled €45 million and were thus markedly down on the figure achieved a year earlier (€260 million). The latter included the book gain on the sale of our Dutch gas grids. Our capital gains in 2008 largely stem from the transfer of an 8% stake in rhenag Rheinische Energie AG to RheinEnergie AG. We already divested a 25% interest in rhenag in the first half of 2007.
- No impairment losses were recognized for continuing operations in the reporting period.
- The result stated under “Restructuring, other” decreased despite the absence of substantial negative effects from the same period last year. It dropped by €178 million to –€516 million. This was primarily due to a special item relating to the accounting treatment of derivative transactions that serve to hedge the price of RWE Supply & Trading’s future gas sales. Pursuant to IFRS, derivatives are accounted for at fair value at the corresponding balance sheet date, whereas the underlying transactions are only recognized with an effect on profit or loss later on, when they are realized. This results in short-term effects on earnings, which are neutralized over time. In the first half of 2008, the boom on fuel markets caused RWE Supply & Trading’s oil price-linked gas supply agreements to gain value, whereas reductions in value in the same amount were incurred from the hedges (which show the exact opposite reaction). Since the one-sided disclosure of changes in the fair value of derivatives does not reflect economic reality, we now recognize them in the non-operating result. They totalled –€430 million as of June 30. But we expect the figure for the full year to be much more favourable since we will realize a large part of the counteracting

underlying transactions with an effect on earnings by the end of the year. The “Restructuring, other” item also includes the amortization of RWE npower’s customer base. It amounted to €143 million and was thus marginally lower than 2007’s comparable figure (€165 million) for currency-related reasons. Changes made to nuclear provisions led to €85 million in income (first half of 2007: €89 million).

Financial result € million	Jan–Jun 2008	Jan–Jun 2007 ¹	+ / – in %	Jan–Dec 2007
Interest income	420	439	–4.3	855
Interest expenses	–452	–678	33.3	–1,334
Net interest	–32	–239	86.6	–479
Interest accretion to non-current provisions	–375	–463	19.0	–771
Other financial result	–211	222	–195.0	112
Financial result	–618	–480	–28.8	–1,138

¹ Figures adjusted; see commentary on page 13.

The financial result decreased by €138 million to –€618 million. The decline is primarily attributable to the “Other financial result,” which was clearly in negative territory at –€211 million. Book losses from the sale of securities contributed to this. In the prior-year period, the “Other financial result” was unusually high, partially due to income from the reduction of our interest in Heidelberger Druckmaschinen (€142 million). Furthermore, we had benefited from a one-off effect stemming from the externalization of our pension obligations: At the end of March 2007, we had transferred €7.9 billion in funds, earmarked to finance pension commitments to an external asset management company (RWE Pensionstreuhand e. V.) within the scope of a contractual trust arrangement (CTA) and netted them against provisions for pensions. The deconsolidation of special funds implemented in this context led to €155 million in one-off income. The negative trend witnessed in the “Other financial result” is contrasted by a €207 million improvement in net interest. One factor that came to play here was that our average net financial debt over the course of the first half of 2008 was lower than in the corresponding period in 2007. The interest accretion to non-current provisions also displayed positive development. It was down by €88 million. This was primarily due to the decline in provisions for pensions in connection with the CTA.

Our continuing operations generated income before tax amounting to €2,844 million. This is 24 % less than in 2007. The effective tax rate was 31 %. This roughly corresponds to the “normal rate” in force since income tax rates were cut as part of the German 2008 corporate tax reform. However, the effective tax rate in the year-earlier period was even lower owing to one-off effects (tax income from a tax audit at RWE npower, among other things). Income from continuing operations after tax declined 28 % to €1,954 million.

The RWE Group's discontinued operations (American Water) closed the period with a loss of €628 million, which was largely caused by the IPO of American Water. When we floated what now amounts to 39.5 % of the shares in the US water utility, we recognized an impairment loss and had to write down the value of our remaining stake in the company.

The minority interest totalled €170 million, which was substantially more than in the same period last year. Some of the companies in which entities outside the RWE Group hold a minority stake posted considerable rises in income. This mainly holds true for the regional companies in the Czech Republic and Hungary.

The RWE Group's net income declined by 56 % to €1,156 million. Our earnings per share dropped from €4.68 to €2.12. The number of RWE shares outstanding decreased as a result of the share buyback programme concluded in May. There was an average of 546.3 million shares outstanding in the first half of the year, compared with 562.4 million in the same period in 2007.

Reconciliation to net income		Jan-Jun 2008	Jan-Jun 2007 ¹	+/- in %	Jan-Dec 2007 ¹
Operating result	€ million	3,933	4,276	-8.0	6,533
Non-operating result	€ million	-471	-78	-503.8	-149
Financial result	€ million	-618	-480	-28.8	-1,138
Income from continuing operations before tax	€ million	2,844	3,718	-23.5	5,246
Taxes on income	€ million	-890	-1,018	12.6	-2,081
Income from continuing operations	€ million	1,954	2,700	-27.6	3,165
Income from discontinued operations	€ million	-628	55	-	-274
Income	€ million	1,326	2,755	-51.9	2,891
Minority interest	€ million	170	123	38.2	224
Net income²	€ million	1,156	2,632	-56.1	2,667
Recurrent net income	€ million	2,131	2,229	-4.4	2,985
Earnings per share	€	2.12	4.68	-54.7	4.74
Recurrent net income per share	€	3.90	3.96	-1.5	5.31
Effective tax rate	%	31	27	14.8	40

¹ Figures partially adjusted; see commentary on page 13.

² RWE shareholders' share in income.

Another important performance indicator is recurrent net income. It is net income net of one-off effects and is decisive for our dividend policy. It does not include the non-operating result. Material one-off effects in the financial result, taxes and discontinued operations are deducted as well. In consequence, the goodwill impairment for American Water is disregarded, as is the burden on earnings from the aforementioned changes in the fair value of commodity derivatives. In the first half of the year, recurrent net income totalled €2,131 million. This represents a decline of 4 % compared with the same period in 2007. We expect to see a rise of over 10 % for the year as a whole, on the strength of organic improvements in the second half of the year.

Efficiency-enhancement programme: target doubled to €1.2 billion

As announced earlier, we considerably expanded the programme we initiated to improve efficiency. Previously, we intended to gradually improve our annual earnings level by taking measures to reduce costs and increase revenue by a total of €600 million by the end of 2010. The new target is €1.2 billion. We want to achieve this by the end of 2012. The basis for the expansion was a comprehensive analysis of our key business processes. This enabled us to identify substantial added savings potential. As before, one of the points of focus is to enhance the performance of our German electricity and gas grid business. The aim is to at least partially compensate for the effect of the tariff cuts mandated by the grid regulator. Further savings are to be achieved through improvements in purchasing, the outsourcing of certain IT services, and the pooling of back-office functions. Moreover, we plan to increase revenue, among other things, by taking extensive measures to improve the technical availability of our power plants. However, we will not start realizing the added savings potential until after 2008. Our goal for the current fiscal year therefore remains the same: As in 2007, we intend to generate an additional earnings contribution of €100 million.

Capital expenditure € million	Jan–Jun 2008	Jan–Jun 2007	+/- € million	Jan–Dec 2007
Capital expenditure on property, plant and equipment¹				
RWE Power	708	558	150	1,127
RWE Dea	276	218	58	505
RWE Supply & Trading	-	1	-1	3
RWE Energy	298	279	19	1,147
RWE npower	147	159	-12	587
Water Division	-	254	-254	635
Other, consolidation	134	15	119	61
Total	1,563	1,484	79	4,065
Total capital expenditure on financial assets	784	59	725	162
Total capital expenditure	2,347	1,543	804	4,227

¹ Including intangible assets.

Capital expenditure 52 % up year on year

The RWE Group spent €2,347 million in capital in the first half of 2008. American Water is no longer included in this figure. The €1,543 million recorded in the same period last year, which still included the US water utility, was exceeded by 52 %. This is predominantly allocable to capital expenditure on financial assets, which at €784 million was far above the low figure (€59 million) achieved in the corresponding period in 2007. The single-largest item was the acquisition by RWE Supply & Trading of a 50 % interest in Excelerate Energy, a US-based company that specializes in the transportation of liquefied natural gas. This transaction was completed at the end of May. RWE Innogy undertook new growth projects in Italy and Spain, on which we reported on page 11. Our capital spending on property, plant and equipment totalled €1,563 million and was thus 5 %

up year on year. Excluding American Water, it was 27 % higher. Roughly 45 % of the funds were allocated to RWE Power. This division's major investment project is the construction of a 2,100-MW dual-block lignite-fired power plant in Neurath, Germany. Furthermore, RWE Power is building an 875-MW combined-cycle gas turbine power station in Lingen and a 1,530-MW hard coal twin-unit power plant in Hamm (both of which are located in Germany). RWE Dea has stepped up its capital expenditure on the exploration of gas reserves in North Africa. RWE npower's biggest project is the construction of a 1,650-MW combined-cycle gas turbine power plant in Staythorpe, UK. RWE Energy earmarked most of the capital it spent on property, plant and equipment for measures to maintain and improve grid infrastructure. Capital expenditure on property, plant and equipment by RWE Innogy, which is in its startup phase, was still rather low (€92 million). Most of it was used to increase our wind-based power generation capacity.

Cash flow statement ¹ € million	Jan–Jun 2008	Jan–Jun 2007	+ / – in %	Jan–Dec 2007
Cash flows from operating activities	1,383	2,551	-45.8	6,085
Impact of the change in working capital	-1,918	-935	-105.1	-222
Cash flows from investing activities	2,313	-1,035	323.5	-4,483
Cash flows from financing activities	-4,831	-2,309	-109.2	-2,458
Effects of changes in foreign currency exchange rates and other changes in value on cash and cash equivalents	5	-4	225.0	-16
Total net changes in cash and cash equivalents	-1,130	-797	-41.8	-872
Cash flows from operating activities	1,383	2,551	-45.8	6,085
Minus capital expenditure on property, plant and equipment and intangible assets	-1,563	-1,484	-5.3	-4,065
Free cash flow	-180	1,067	-116.9	2,020

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

Cash flow statement—key figures

In the first half of 2008, we generated €1,383 million in cash flows from operating activities. These and the following figures for 2008 exclusively relate to our continuing operations, whereas the prior-year figures include American Water. Our cash flows from operating activities were €1,168 million down year on year. The main reason was a special item relating to working capital. This is because we sold part of the power generation via futures on the European Energy Exchange (EEX) in Leipzig, Germany, at firm prices early on. We use these types of hedging transactions to limit the short-term influence of volatile commodity prices on our earnings. On the balance sheet date, electricity market prices were higher than the sales prices established on conclusion of the futures. RWE had to provide the EEX with payments called "variation margins" for the differences. These amounted to €1.7 billion as of June 30. However, the payments are only a temporary burden on liquidity since they will be repaid to us no later than when the electricity is delivered. Our cash flows from investing and divesting activities (including cash investments) amounted to €2,313 million in

the period under review. The proceeds largely stem from the sale of securities and were used to finance the redemption of a bond in April and the share buyback, among other things. Cash flows from financing activities totalled €4,831 million. This primarily reflects the share buyback (€2.5 billion) and our dividend payments (€2.0 billion).

Cash flows from operating activities, minus capital expenditure on property, plant and equipment, result in free cash flow. This figure decreased by €1,247 million to –€180 million in part owing to the temporary burden on liquidity arising from the payments made to the EEX.

Increase in net debt due to share buyback and dividend payments

As of June 30, 2008, net debt of the RWE Group (incl. discontinued operations) totalled €20.3 billion. We have established a new definition for it: Net debt previously equalled net financial debt plus provisions for pensions. From 2008 onwards, our net debt also includes provisions for nuclear waste management and mining damage. The capitalized surplus of plan assets over benefit obligations is subtracted. To ensure comparability, we calculated the prior-year figure using the new definition as well. The RWE Group's net debt was up €3.8 billion from the end of 2007. This was largely driven by the share buyback and the dividend payments. Currency effects had a debt-reducing impact of €0.6 billion. The weakness of the US dollar was a major contributing factor. It was the main cause for American Water's decline in net debt in euro terms by €0.2 billion to €3.4 billion.

Net debt € million	06/30/08	12/31/07 ¹	+ / – in %
Cash and cash equivalents	792	1,922	–58.8
Marketable securities	7,245	11,302	–35.9
Other financial assets	3,351	2,125	57.7
Financial assets of continuing operations	11,388	15,349	–25.8
Bonds, notes payable, commercial paper, bank debt	10,712	12,005	–10.8
Other financial liabilities	2,724	1,280	112.8
Financial liabilities of continuing operations	13,436	13,285	1.1
Net financial debt of continuing operations	2,048	–2,064	199.2
Provisions for pensions and similar obligations	3,482	3,565	–2.3
Capitalized surplus of plan assets over benefit obligations	613	507	20.9
Provisions for nuclear waste management	9,107	9,053	0.6
Mining provisions	2,878	2,822	2.0
Net debt of continuing operations	16,902	12,869	31.3
Net debt of discontinued operations	3,422	3,645	–6.1
Net debt of the RWE Group	20,324	16,514	23.1

¹ Figures partially adjusted; see commentary on page 13.

Balance sheet structure

As of June 30, 2008, our balance sheet total amounted to €96.4 billion. This was €13.0 billion more than the level at the end of 2007. The main reason was that the fair value of our commodity derivatives rose significantly on the strength of the crude oil boom. It was up €17.3 billion on the assets' side and €17.1 billion on the equity and liabilities' side. The divestment of €4.0 billion in securities held for sale had a counteracting effect. The proceeds helped finance dividend payments, our share buyback and the maturation of bonds. The devaluation of the US dollar and the pound Sterling also had a negative impact on the balance sheet total. As in the financial statements for fiscal 2007, we are stating American Water as a "discontinued operation." Our equity ratio dropped from 17.6% to 12.5%. This stemmed from the increase in the balance sheet total, the share buyback and the dividend payments, among other things. Our non-current assets are still more than fully covered by equity and non-current liabilities.

RWE Group's balance sheet structure	06/30/08		12/31/07 ¹	
	€ million	in %	€ million	in %
Assets				
Non-current assets	42,983	44.6	41,360	49.6
Intangible assets	11,742	12.2	11,882	14.2
Property, plant and equipment	20,910	21.7	20,038	24.0
Current assets	53,466	55.4	42,060	50.4
Receivables and other assets ²	35,923	37.2	18,309	21.9
Assets held for sale	7,398	7.7	8,619	10.3
Total	96,449	100.0	83,420	100.0
Equity and liabilities				
Equity	12,074	12.5	14,659	17.6
Non-current liabilities	36,509	37.9	36,796	44.1
Provisions	21,133	21.9	21,281	25.5
Financial liabilities	9,728	10.1	10,046	12.0
Current liabilities	47,866	49.6	31,965	38.3
Other liabilities ²	33,008	34.2	17,116	20.5
Liabilities held for sale	5,551	5.8	5,897	7.1
Total	96,449	100.0	83,420	100.0

¹ Figures partially adjusted; see commentary on page 13.

² Including trade accounts receivable and payable.

Employee headcount increases by 3 %

As of June 30, 2008, the RWE Group employed 65,151 people (converted to full-time positions), 40% (25,919) of whom worked outside Germany. The workforce expanded by 1,712 employees, or 2.7%, vis-à-vis December 31, 2007. American Water is not included in these figures. RWE Power created jobs within the scope of our power plant investment programme. RWE npower increased its headcount in the sales and customer service areas of its business. The internal reclassification of businesses also had an impact on employee numbers, due to the founding of RWE Innogy (included in "Other") and RWE Supply & Trading.

Workforce ¹	06/30/08	12/31/07	+ /- in %
RWE Power	17,484	17,238	1.4
RWE Dea	1,121	1,091	2.7
RWE Supply & Trading	735	660	11.4
RWE Energy	28,853	28,323	1.9
RWE npower	12,146	11,975	1.4
Other	4,812	4,152	15.9
RWE Group	65,151	63,439	2.7

¹ Converted to full-time positions.

Research and development: focus on improving efficiency and lowering emissions

In the first half of 2008, we spent €38 million on research and development (R&D), compared to €27 million in the prior-year period. Furthermore, we capitalized €14 million in development costs. Enhancing the efficiency and reducing the emissions of our fossil fuel-fired power plants are the centrepiece of our R&D measures. In this field, we cooperate with partners in plant engineering and the chemical industry. As a result, the activities are only partially included in our R&D expenditure. RWE created a corporate R&D division at the holding company in April 2008. In so doing, we are underpinning the mounting importance of these activities. We coordinate ongoing projects from our corporate headquarters and initiate cross-divisional endeavours. R&D operations will largely remain with our subsidiaries.

One of the main determinants of our competitiveness is whether we succeed in bringing the generation of electricity using fossil fuels—especially coal—in line with climate-protection goals. Among the keys to achieving this is the capture and storage of carbon dioxide produced during the electricity generation process. We are currently preparing to construct the world's first large-scale coal-fired power plant using this type of technology. This involves combining coal gasification with carbon capture and generating electricity using combined-cycle gas turbines located downstream of these processes. A decision on the site is yet to be taken. If the project stays on schedule, the plant could go online in 2014. In parallel, we joined forces

with BASF, Linde, American Electric Power (AEP) and Alstom to conduct projects to remove CO₂ from flue gas ("CO₂ scrubbing"). The objective is to reduce emissions permanently by retrofitting existing power stations with this technology. Moreover, we are conducting our own projects and participating in research consortia to examine the possibility of safely storing carbon dioxide in deep geological formations.

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

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

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

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

Outlook for 2008

Slowing economic growth expected

The momentum of the global economy will continue to decrease in the second half of 2008. There is a much heightened risk of recession in the USA and other western industrialized countries, while inflation remains high. However, the robust economies of numerous newly industrializing countries are likely to support the global economy. In Germany, our main market, we expect the real gross domestic product (GDP) to grow by 2% for 2008 as a whole (2007: 2.5%). The prognosis for the UK economy is slightly less favourable, as it remains marked by the subprime crisis. GDP growth in the UK is anticipated to amount to 1.4% (2007: 3.1%). In contrast, Central Eastern Europe's economies will expand considerably in 2008 once again. Although a weakening in export momentum is becoming apparent, this is contrasted by robust domestic demand. Experts forecast that these countries will post growth rates of 4% to 5%.

Boom on energy markets continues

Despite the slowing world economy, pressure from demand on global energy markets will hardly let up, primarily because of the major need for raw materials in newly industrializing countries such as China and India. This is contrasted by limited production and transportation capacity. At the same time, the energy markets are subject to sudden influences stemming, e.g., from weather conditions and political action. Prices on international oil markets reached new all-time highs in the middle of July before declining again. By the end of the month, a barrel of Brent cost US\$ 123. The price of Brent is likely to clearly exceed the average for 2007 (US\$ 72 per barrel) for the year as a whole. Since gas supply agreements are commonly linked to price developments on the oil market and price formulae are established with a lag, natural gas prices will be markedly higher year on year as well. The situation on hard coal markets eased somewhat in July. At the end of the month, a metric ton of hard coal traded at US\$ 187 on the Rotterdam spot market (including freight and insurance to Rotterdam). It is almost certain that the average price witnessed in 2007 (US\$ 89) will be surpassed substantially. The same applies to German BAFA prices (2007 annual average: € 68 per metric ton of hard coal equivalent).

CO₂ emissions trading: significant shortage of certificates

As explained earlier, a substantial shortage of certificates can be expected as compared to the first CO₂ emissions trading period (2005 to 2007). At the end of July, emissions allowances for 2008 were quoted at €22 per metric ton of CO₂. At the same time, emissions allowances from "Clean Development Mechanism" projects for 2008 traded at €18. We expect that prices will continue to be high.

Prices on European electricity markets remain high

Electricity prices are expected to maintain a high level as well. This is the result of market expectations regarding the development of costs associated with fuel and CO₂ certificates. In addition, we anticipate that generation capacity on many European energy markets will continue to be scarce. Electricity prices on the German forward market recently declined somewhat. But they continue to be far above the average observed in 2007. Base-load contracts for delivery in 2009 traded at €79 per MWh at the end of July 2008. A similar situation existed in the UK, but the price level on that market is higher overall. At the end of July, the forward

price for 2009 base-load deliveries was £ 80 per MWh (€101 per MWh). The RWE Group has sold forward more than 90% of its 2008 electricity production. We have also sold a large part of our 2009 electricity generation (already more than two thirds in Germany).

Revenue expected to be higher year on year

External revenue earned by the RWE Group is anticipated to surpass last year's level. We expect growth of 5% to 10%. This and the following forecasts are based on an assumed exchange rate of £ 0.80 / €. The rise in revenue will be largely driven by electricity and gas price increases, with which we pass through to the customer the rise in procurement costs.

Stable earnings trend despite higher CO₂ costs and grid regulation

We confirm the 2008 earnings forecast we published in our 2007 annual report in February this year. The only exception is the prognosis for net income. We had originally anticipated a rise of more than 10%. But, as we communicated in the first-quarter interim report published in May, we now expect that net income will decline marginally due to the one-off charge resulting from the initial public offering of American Water. This will not affect EBITDA, the operating result or recurrent net income, which is the key determinant for calculating the dividend. We continue to expect to at least match 2007 levels in terms of both EBITDA and the operating result. The basis for this is the organic success of our German power generation activities and of our upstream business. In 2008, we will be faced with substantial negative effects stemming from the stricter conditions underlying CO₂ emissions trading as well as further cuts in our German grid fees mandated by the regulator. In sum, we believe that these two factors will hamper earnings by about €1.5 billion compared with last year. Recurrent net income, which is adjusted for one-off effects, is expected to increase by more than 10%. We still anticipate that the earnings contribution from the efficiency-enhancement programme will amount to approximately €100 million in 2008. The increase in the target will not take effect until subsequent financial years.

Operating result by division:

RWE Power is expected to post another improvement in its operating result. We anticipate an increase of more than 10%. This will be driven above all by the marked rise in electricity prices on the German wholesale market. In addition, the return to service of the Biblis nuclear power plant will have a positive effect on output. However, we will be faced with massive burdens stemming from CO₂ emissions costs. The German allocation plan for the second trading period (2008 to 2012) envisions a much reduced allocation of free emissions allowances. RWE Power will probably have to purchase about 40% of the CO₂ certificates it needs on the market in Germany during this period, or obtain them via Kyoto "Clean Development Mechanism" and "Joint Implementation" projects insofar as possible. We anticipate further adverse effects on earnings to come from higher hard coal and gas prices. Moreover, staff and other costs are expected to clearly surpass the levels witnessed in 2007.

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

RWE Supply & Trading is unlikely to match the unusually strong operating result recorded in 2007. But we expect that the division's earnings contribution in the second half of 2008 will be much higher than in the first one. As explained earlier, a large portion of the trading transactions concluded by June 30 will not be realized until the second half of 2008, at which time they will take effect under IFRS. We anticipate that the operating result posted by the midstream business will improve considerably, since it will include the gas purchasing activities of RWE Transgas for the first time.

Our forecast for RWE Energy envisions a single-digit percent increase in its operating result. This is based on the assumption that we will manage to increase electricity deliveries by successfully acquiring key accounts and that we will benefit from favourable weather-related effects in the gas sales business. Tariff cuts made by the German Federal Network Agency that apply to our German grids are a major burden. To limit the impact on our earnings, RWE Energy has begun implementing further extensive cost reductions, focussing on Germany. Furthermore, we will continue to pursue our value-oriented policy in the electricity and gas sales business. At the same time, we want to limit customer losses across market segments by developing innovative products. The range covers everything from fixed-price offers to private customers with terms of several years through portfolio management to auctions of power plant tranches to industrial enterprises. Moreover, we will expand our web-based sales subsidiary eprimo.

From our current point of view, we do not expect RWE npower to match the operating result it recorded in 2007. We expect the weakness of Sterling to have a negative impact. Net of currency effects, we anticipate that the power generation business' earnings will remain stable. RWE npower will probably have to purchase over 30% of the CO₂ certificates it requires on the market, which would be more than originally forecasted. This is based on the assumption that the capacity utilization of our UK hard coal-fired power plants will be higher than originally planned. The market environment of our electricity and gas sales businesses will remain difficult, above all due to the persistently fierce competition and the recent rise in procurement costs. As mentioned on page 19, we had to lift tariffs for household customers at the beginning of the year. Mounting gas transmission costs could put further pressure on margins. In addition we anticipate that a UK government programme that obliges utilities to promote energy-saving measures for household customers will result in additional burdens. Furthermore, we made a commitment vis-à-vis the UK government to take more action to support low-income households.

Capital expenditure stepped up

We will clearly increase capital expenditure on property, plant and equipment in 2008. The greatest rise is planned for RWE Power. We started to construct the twin-unit hard coal power plant in Hamm, Germany, this year. Work on the gas-fired power plant in Lingen, Germany, and on the dual-block lignite power plant in

Neurath, Germany, has made further progress. The commissioning of these two plants is scheduled for 2009 and 2010/2011, respectively. Power station component prices have recently recorded a substantial rise. By concluding contracts at an early stage, we were able to limit the rise in costs associated with our large-scale projects. Our upstream subsidiary, RWE Dea, is investing much more in gas production—above all in North Africa. RWE Energy has increased its capex budget substantially as well. It will spend some 80% of these funds on the grid business. Other funds have been earmarked for gas storage projects. RWE npower will also step up capital expenditure. Our main projects in the UK are the new gas-fired power stations in Staythorpe and Pembroke. RWE Innogy's focus is on the construction of wind power plants in the UK and Poland. In sum, the RWE Group's capital expenditure on property, plant and equipment will thus be far above the level achieved in 2007. However, we do not expect to record the €6.0 billion anticipated previously (excluding American Water), owing to project delays. We anticipate capex to be in the order of €5.0 billion to €5.5 billion.

Net debt on par with 2007

Despite the share buyback, dividend payments and the marked rise in capital expenditure, net debt is expected to be roughly on par with last year's level by the end of 2008. The basis for this is our assumption that we will be able to place at least the majority of the shares in American Water on the stock exchange by year-end, which would allow us to deconsolidate the US water utility's liabilities. Thanks to the good reputation we have as bond issuer, we always have access to short and long-term financing sources. €1.6 billion in bonds mature in 2008. A large portion of them has already been redeemed.

Employee headcount: significant rise expected

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

Research and development: budget enlarged

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

Development of opportunities and risks

The RWE Group has a groupwide risk management system for the early identification as well as standardized reporting, assessment, control and monitoring of risks. We have formed risk-management boards both at the Group and divisional levels. They are responsible for the risk management system's continued development and establish rules for the risk-management process. The basis for this is provided by a groupwide risk management guideline.

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

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

- **Volatility of commodity and product prices:** Risks and opportunities arise from our electricity generation business. The latter is significantly influenced by the development of market prices for electricity, fossil fuels—especially hard coal and gas—as well as by the development of the price of CO₂ certificates. A risk arises, e. g., if higher commodity prices cannot be passed on by increasing electricity prices. Opportunities stem from the rising margins between electricity prices and prices for fossil fuels. Additional risks and opportunities result from our oil and gas production operations. The impact of unexpected disadvantageous changes in price in this area is minimized through the strategic use of derivative hedges. In addition to production, supply operations are also exposed to risks. Such risks arise, e. g., as a result of unexpected fluctuations in demand owing to changes in temperature. Our price risks on purchasing and sales markets are determined using special evaluation models, while taking current forward prices and expected price volatility into account. Among other things, we use financial and commodity derivatives to mitigate risks associated with sales and procurement.

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

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

- **Volatility of financial prices:** Within the scope of our operations, we are also exposed to currency, interest-rate and share-price risks. Due to our international presence, currency risk management is very important. Group companies are generally obliged to hedge all currency risks via RWE AG. The parent company determines the net financial position for each currency and hedges it with external market partners if necessary. The Value at Risk is used to measure and mitigate risks. In the period under review, the average VaR for the foreign currency position of RWE AG's ledger was less than €1 million.

Interest rate management is also ascribed significant importance. Our interest-rate risks primarily stem from our financial debt and interest-bearing investments. Negative changes in value caused by unexpected interest rate movements are hedged with non-derivative and derivative financial transactions. In the period under review, the VaR for interest-rate risks associated with our financial debt and related hedges averaged €132 million. The VaR from interest-bearing investments including hedges amounted to €54 million. We are also exposed to both risks and opportunities associated with share investments. The VaR for our share-price risks was €15 million.

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

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

- **Continuity of business activities:** We operate technologically complex and interconnected production plants all along our value chain. Earnings risks can arise from uninsured damage to our lignite mining equipment, production plants, power plant components or grids. There is an increasing risk of outages in power plants due to the ageing of their components. Our grid business is exposed to the risk of facilities being destroyed by force majeure such as severe weather conditions. We address these risks through high safety standards as well as regular audit, maintenance and servicing work. As appropriate, insurance policies also limit possible effects of damage.

- **Regulation:** The RWE Group's exposure to the constant change in the political, legal and social environment in which it does business can be expected to have an impact on earnings. Lignite and hard coal power plants account for a significant portion of our electricity generation portfolio. Therefore, we are exposed to a risk due to the EU-wide CO₂ emissions trading system. Risks can arise from unexpected increases in the cost of procuring CO₂ certificates. Therefore, CO₂ risk management is an integral component of our centralized risk-management system. The European Commission adopted a new set of climate-protection measures for the period from 2013 to 2020. They include binding goals for all EU member states regarding the reduction of greenhouse gas emissions and the share of electricity consumption accounted for by renewable energy. The European Commission's proposals are currently the subject of controversial discussions at the European Parliament and the European Council. RWE anticipates that CO₂ costs will be much higher than in the current trading period, which will last until 2012. We intend to continue reducing CO₂ emissions and make our power generation portfolio more flexible through our current power plant projects. Furthermore, we limit CO₂ risks through climate protection projects in developing and newly industrializing countries within the scope of the Kyoto "Clean Development Mechanism" and "Joint Implementation."

Risks still exist in our German electricity and gas grid business as a result of regulatory intervention. We have already received all of the notifications for 2008 from the German Federal Network Agency. Risks arise primarily due to the incentive-based regulation that will take effect from 2009. The regulation's cornerstones have been laid out in a directive which was passed by the German Upper House in September 2007. However, a final decision is yet to be taken on key features. We intend to partially offset some of the negative effects stemming from the regulation by taking measures to cut costs and enhance efficiencies throughout RWE Energy. Our grid and sales operations are exposed to regulatory risks outside Germany as well. This holds true for the UK, among others, where the regulatory authority Ofgem (Office for Gas and Electricity Markets) launched an investigation of the domestic energy market.

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

- **Capital expenditure and divestments:** Decisions approving acquisitions and capital expenditure on property, plant and equipment must take into account both the opportunities and risks associated with tying up capital for extensive periods of time. At RWE, such decisions are prepared and implemented in adherence with specific accountability rules and approval processes. The same applies to divestments such as the sale of our North American water activities.
- **Legal procedures:** Some RWE Group companies are involved in litigations and arbitration proceedings connected with their operations. In addition, out-of-court claims have been filed against individual Group companies in connection with sales of companies. However, we do not expect any major negative repercussions for the RWE Group's economic or financial position. Furthermore, Group companies are directly involved in various procedures with public authorities or are at least affected by their results.

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

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

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

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

The EU Commission initiated an abuse procedure against RWE in early May 2007. It suspects that we hindered access to the natural gas transmission system located in Germany in order to attain a purportedly market-dominating position in the gas supply business. As mentioned on page 10, we aim to agree on a mutually acceptable solution with the EU Commission.

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

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

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, 2008

The Executive Board

Großmann

Bonekamp

Fitting

Jobs

Pohlig

Consolidated Financial Statements (condensed)

Income Statement¹

€ million	Apr–Jun 2008	Apr–Jun 2007	Jan–Jun 2008	Jan–Jun 2007
Revenue (including natural gas tax / electricity tax)	11,326	8,846	24,721	21,841
Natural gas tax / electricity tax	-313	-299	-784	-760
Revenue	11,013	8,547	23,937	21,081
Changes in finished goods and work in progress / other own work capitalized	31	46	106	51
Cost of materials	-8,068	-5,078	-16,588	-12,992
Staff costs	-1,078	-995	-2,090	-1,960
Depreciation, amortization, and impairment losses	-552	-510	-1,079	-1,021
Other operating result	-539	-796	-1,061	-1,244
Income from operating activities of continuing operations	807	1,214	3,225	3,915
Income from investments accounted for using the equity method	86	122	167	199
Other income from investments	55	68	70	84
Financial income	669	692	1,625	1,637
Finance costs	-986	-912	-2,243	-2,117
Income from continuing operations before tax	631	1,184	2,844	3,718
Taxes on income	-205	-147	-890	-1,018
Income from continuing operations	426	1,037	1,954	2,700
Income from discontinued operations	6	56	-628	55
Income	432	1,093	1,326	2,755
Minority interest	-85	-32	-170	-123
Net income / income attributable to RWE AG shareholders	347	1,061	1,156	2,632
Basic and diluted earnings per common and preferred share in €	0.67	1.89	2.12	4.68
of which: from continuing operations in €	(0.72)	(1.79)	(3.31)	(4.58)
of which: from discontinued operations in €	(-0.05)	(0.10)	(-1.19)	(0.10)

¹ Prior-year figures adjusted.

Balance Sheet¹

Assets € million	06/30/08	12/31/07
Non-current assets		
Intangible assets	11,742	11,882
Property, plant and equipment	20,910	20,038
Investment property	151	153
Investments accounted for using the equity method	2,933	2,421
Other non-current financial assets	1,065	1,011
Accounts receivable and other assets	3,678	3,353
Deferred taxes	2,504	2,502
	42,983	41,360
Current assets		
Inventories	2,498	2,352
Trade accounts receivable	8,465	8,816
Accounts receivable and other assets	27,458	9,493
Marketable securities	6,855	10,858
Cash and cash equivalents	792	1,922
Assets held for sale	7,398	8,619
	53,466	42,060
	96,449	83,420
Equity and Liabilities € million	06/30/08	12/31/07
Equity		
RWE Group interest	10,602	13,925
Minority interest	1,472	734
	12,074	14,659
Non-current liabilities		
Provisions	21,133	21,281
Financial liabilities	9,728	10,046
Other liabilities	3,760	3,584
Deferred taxes	1,888	1,885
	36,509	36,796
Current liabilities		
Provisions	5,599	5,713
Financial liabilities	3,708	3,239
Trade accounts payable	6,879	8,054
Other liabilities	26,129	9,062
Liabilities held for sale	5,551	5,897
	47,866	31,965
	96,449	83,420

1 Prior-year figures adjusted.

Cash Flow Statement¹

€ million	Jan–Jun 2008	Jan–Jun 2007
Income	1,326	2,755
Depreciation, amortization, impairment losses, write-backs	1,090	1,152
Changes in provisions	-289	-342
Deferred taxes / non-cash income and expenses / income from disposal of non-current assets and marketable securities	1,174	-79
Changes in working capital	-1,918	-935
Cash flows from operating activities of continuing operations	1,383	2,551
Cash flows from operating activities of discontinued operations	110	
Cash flows from operating activities	1,493	2,551
Capital expenditure on non-current assets	-2,305	-1,537
Proceeds from disposal of assets / divestitures	988	667
Changes in marketable securities and cash investments	3,630	-165
Cash flows from investing activities of continuing operations	2,313	-1,035
Cash flows from investing activities of discontinued operations	-273	
Cash flows from investing activities	2,040	-1,035
Cash flows from financing activities of continuing operations	-4,831	-2,309
Cash flows from financing activities of discontinued operations	163	
Cash flows from financing activities	-4,668	-2,309
Net cash change in cash and cash equivalents	-1,135	-793
Effect of changes in foreign exchange rates and other changes in value on cash and cash equivalents	5	-4
Net change in cash and cash equivalents	-1,130	-797
Cash and cash equivalents at beginning of reporting period	1,922	2,794
Cash and cash equivalents at end of reporting period	792	1,997

1 Prior-year figures adjusted.

Statement of Recognized Income and Expenses¹

€ million	Apr–Jun 2008	Apr–Jun 2007	Jan–Jun 2008	Jan–Jun 2007
Income	432	1,093	1,326	2,755
Currency translation adjustment	323	-140	543	-200
Fair valuation of financial instruments available for sale	-85	-69	-217	-185
Fair valuation of financial instruments used for hedging purposes	-793	-70	-579	288
Actuarial gains and losses of defined benefit pension plans and similar obligations	-282	508	72	280
Other comprehensive income	-837	229	-181	183
Total comprehensive income	-405	1,322	1,145	2,938
of which: total comprehensive income attributable to RWE AG shareholders	(-535)	(1,296)	(866)	(2,834)
of which: total comprehensive income attributable to minority interests	(130)	(26)	(279)	(104)

1 Figures stated after taxes.

Notes

Statement of Changes in Equity¹

€ million	Subscribed capital and additional paid-in capital of RWE AG	Retained earnings and distributable profit	Own shares	Accumulated other comprehensive income	RWE Group interest	Minority interest	Total
Balance at 12/31/06 (as reported)	2,728	10,557		154	13,439	672	14,111
Changes in accounting policies		-425			-425	-26	-451
Balance at 01/01/07 (adjusted)	2,728	10,132		154	13,014	646	13,660
Dividends paid		-1,968			-1,968	-133	-2,101
Income		2,632			2,632	123	2,755
Other comprehensive income		293		-91	202	-19	183
Total comprehensive income		2,925		-91	2,834	104	2,938
Other changes						30	30
Balance at 06/30/07	2,728	11,089		63	13,880	647	14,527
Balance at 12/31/07 (as reported)	2,728	11,283		120	14,131	787	14,918
Changes in accounting policies		-206			-206	-53	-259
Balance at 01/01/08 (adjusted)	2,728	11,077		120	13,925	734	14,659
Share buybacks			-2,500		-2,500		-2,500
Dividends paid		-1,689			-1,689	-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 06/30/08	2,728	10,552	-2,500	-178	10,602	1,472	12,074

¹ Prior-year figures adjusted.

Accounting policies

The interim report for the period ended June 30, 2008, which received clearance for publication on August 11, 2008, was prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable in the EU.

With the exception of the changes and new rules described in the following section, this interim report was prepared using the accounting policies applied in the consolidated financial statements for fiscal 2007. For further information, please see the consolidated financial statements for the period ended December 31, 2007, which provide the basis for this interim report. In line with IAS 34, the scope of reporting for the presentation of the consolidated financial statements of RWE AG for the period ended June 30, 2008, was condensed compared with the scope applied to the consolidated financial statements for the full year.

The interest rates applied to provisions for nuclear waste management and provisions for mining damage are the same as the ones used as of December 31, 2007. Provisions for pensions and similar obligations are discounted at an interest rate of 6.25% in Germany and 6.70% abroad (December 31, 2007: 5.50% in Germany and 5.95% abroad).

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

Changes in accounting policies

Application of IAS 19.93A: To increase the transparency of reporting, in accordance with IAS 19.93A, the RWE Group started fully recognizing actuarial gains and losses from defined benefit pension plans and similar obligations in the period in which they occur as of January 1, 2008. This method replaces the 'corridor method.' According to the 'corridor method' applied previously, actuarial gains and losses were recognized as profit or loss over the anticipated average remaining working lives of the qualified employees, to the extent that they exceeded 10% of the greater of the benefit obligation or the fair value of the plan assets. According to the new method under IAS 19.93A, all actuarial gains and losses are recognized immediately. They are reported as a component of other comprehensive income outside profit or loss, in a consolidated statement of recognized income and expenses. After having been reported as part of other

comprehensive income for the first time, actuarial gains and losses are immediately assigned to retained earnings. They remain outside profit or loss in subsequent periods as well. This retroactive adjustment increased provisions for pensions and similar obligations as of January 1, 2007, by €257 million to a total of €11,841 million. Furthermore, it reduced other non-current receivables and other assets by €413 million to €680 million, because these items include the surplus of plan assets over benefit obligations. Taking the €219 million in deferred taxes recognized outside profit or loss into account, equity as of January 1, 2007, declined by a total of €451 million. Due to the discontinuation of the amortization of actuarial gains and losses recognized with an effect on income, staff costs for the first half of 2007 decreased by €5 million, and income taxes increased by €2 million.

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

IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions” provides guidance on how to apply IFRS 2 to share-based payments involving a company’s own

equity instruments or equity instruments of a company from the same group. The first-time application of IFRIC 11 does not have an effect on the RWE Group’s consolidated financial statements.

New accounting policies

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

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

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

Amendment of IFRS 2 (2008) “Vesting Conditions and Cancellations” clarifies the definition of vesting conditions in share-based payments and stipulates that all cancellations of share-based payments should receive identical accounting treatment, regardless of the party responsible for the cancellation. This amendment of IFRS 2 becomes effective for the first time for fiscal years starting on or after January 1, 2009. The impact of the first-time application of these amendments on the RWE Group’s consolidated financial statements is currently being reviewed.

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

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

IAS 23 (2007) "Borrowing Costs": By revising IAS 23, the IASB abolished the option for the treatment of borrowing costs directly incurred in connection with the acquisition, construction or production of qualified assets. In the future, these borrowing costs must be assigned to the asset's cost and capitalized. IAS 23 (2007) becomes effective for the first time for fiscal years starting on or after January 1, 2009. The impact of the application of the new rules on the RWE Group's consolidated financial statements is currently being reviewed.

IAS 27 (2008) "Consolidated and Separate Financial Statements": By revising IAS 27, the IASB changed the regulations on the treatment of transactions with the non-controlling interests of a group and the treatment in the event of loss of control over a subsidiary. Transactions which result in the parent company changing its ownership interest in a subsidiary without a loss of control over the subsidiary are to be accounted for as equity transactions without an effect on profit or loss. Moreover, the standard regulates how deconsolidation gains are to be calculated and how residual ownership interest in the former subsidiary is to be measured. The revised version of IAS 27 must be applied for the first time for fiscal years starting on or after July 1, 2009. The impact of the application of the new rules on the RWE Group's consolidated financial statements is currently being reviewed.

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

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

IFRIC 15 "Agreements for the Construction of Real Estate" addresses the accounting treatment of real estate sales in cases where a contract is entered into with the purchaser prior to the completion of the construction work. Published on July 3, 2008, this interpretation primarily determines the conditions under which IAS 11 and IAS 18 are applicable and the point in time at which the corresponding revenue is realized. This interpretation becomes effective for the first time for fiscal years starting on or after January 1, 2009. The impact of the first-time application of IFRIC 15 on RWE's consolidated financial statements is currently being assessed.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" clarifies uncertainties relating to hedges of a net investment in a foreign operation. Above all, the interpretation, which was published on July 3, 2008, determines the risks that can be hedged, the group companies that are allowed to hold the hedging instrument, and the accounting treatment applicable in the event that the foreign entity is divested. This Interpretation becomes effective for the first time for fiscal years starting on or after October 1, 2008. The impact of the first-time application of IFRIC 16 on RWE's consolidated financial statements is currently being assessed.

The following IFRSs, which became effective on January 1, 2008, are not being applied by the RWE Group since they are still pending EU approval.

IFRIC 12 “Service Concession Arrangements” governs the accounting for arrangements in which a public agency concludes a contract with a private company for the supply of public services. In order to fulfil these tasks, the private company uses infrastructure which remains under public control. The private company is responsible for the construction, operation and maintenance of the infrastructure. The

first-time application of IFRIC 12 is not expected to have a material impact on the RWE Group’s consolidated financial statements.

IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” addresses detailed issues related to the accounting treatment of pension plans. The first-time application of IFRIC 14 is not expected to have a material impact on the RWE Group’s consolidated financial statements.

Scope of consolidation

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

Changes in the first half of 2008 primarily relate to the RWE Energy Division, in which 20 companies were consolidated for the first time.

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

The scope of consolidation is as follows:

	06/30/08	12/31/07
Fully consolidated companies	313	290
Investments accounted for using the equity method	94	89

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

In accordance with IFRS 5, discontinued operations are recognized at the lower of the carrying amount and the fair value, less costs to sell. The issuance price of the share

placement was already taken into account when measuring American Water as of March 31, 2008.

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

Key figures for American Water € million	06/30/08	12/31/07
Non-current assets	7,062	8,290
Current assets	336	329
Non-current liabilities	4,885	5,210
Current liabilities	666	687

€ million	Jan–Jun 2008 ¹	Jan–Jun 2007
Revenue	708	776
Expenses / income	-555	-685
Ordinary income from discontinued operations before tax	153	91
Taxes on income	-61	-36
Net income	92	55
Fair value adjustments	-720	
Income from discontinued operations	-628	55

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

€ million	Jan–Jun 2008	Jan–Jun 2007
Cash flows from operating activities	110	160
Cash flows from investing activities	-273	-239
Cash flows from financing activities	163	74

Revenue

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

Research and development costs

In the first half of 2008, research and development costs totalled €38 million (first half of 2007: €27 million).

Intangible assets

Intangible assets include €1,365 million (December 31, 2007: €1,241 million) in goodwill from put options and

forward purchases of minority interests that are recognized in accordance with IAS 32.

Equity

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

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

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

Furthermore, in the first half of 2008, RWE Group companies bought 4,118 common shares on the capital market at an average cost of €80.23 per share for issuance to employees of RWE AG and its subsidiaries. They account for €10,542.08 of the company's share capital (0.01% of subscribed capital). Employees were issued a total of 1,483 common shares at an average price of €57.27 per share within the scope of capital formation schemes and 2,635 common shares at an average price of €56.24 per share on the occasion of service anniversaries. Proceeds from the share issuance amounted to €233,123.81. The purchase price rebates offered to employees were recognized in the income statement as share-based payments at the fair value they had at their time of issuance.

Share-based payment

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

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

Dividend distribution

RWE AG's April 17, 2008, Annual General Meeting decided to pay the proposed dividend of €3.15 per common and

preferred share for fiscal 2007. The dividend payment totalled €1,689 million.

Other liabilities

Other liabilities include €795 million (December 31, 2007: €792 million) in non-current and €1,283 million (December 31, 2007: €1,159 million) in current redemption liabilities from put options and forward purchases of minority interests that are recognized in accordance with

IAS 32. In the first half of 2008, the current redemption liabilities increased by €124 million, which resulted in an adjustment to goodwill by the same amount, without an effect on profit or loss.

Earnings per share

		Jan–Jun 2008	Jan–Jun 2007
Net income	€ million	1,156	2,632
Number of shares outstanding (weighted average)	thousands	546,287	562,405
Basic and diluted earnings per common and preferred share	in €	2.12	4.68

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

Contingent liabilities

As of December 31, 2007, €50 million in contingent liabilities related to surety bonds; they no longer existed as of June 30, 2008.

Related party disclosures

The RWE Group classifies associated companies as related parties. In the first half of 2008, transactions concluded with material related parties generated €313 million in income (first half of 2007: €275 million) and €63 million in expenses (first half of 2007: €42 million). As of June 30, 2008, accounts receivable amounted to €571 million (December 31, 2007: €814 million), and accounts payable totalled €7 million (December 31, 2007: €4 million). All business transactions are concluded at arm's length conditions and on principle do not differ from those concluded with other companies.

Furthermore, since October 1, 2007, the companies of the Georgsmarienhütte Group have been classified as related companies, as the CEO of RWE AG, Dr. Jürgen Großmann, is a partner in Georgsmarienhütte Holding GmbH. In

the first half of 2008, RWE Group companies provided services and deliveries to companies of the Georgsmarienhütte Group amounting to €3.5 million. Services and deliveries provided by Georgsmarienhütte Group companies to RWE Group companies in the first half of 2008 totalled €1.4 million. As of June 30, 2008, the Georgsmarienhütte Group had €0.4 million in accounts receivable (December 31, 2007: €0 million) and €0.5 million in accounts payable (December 31, 2007: €0.7 million) to RWE Group companies. All business transactions were completed at arm's length conditions and do not differ from the scope of supply and services provided to other enterprises.

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

Events after the balance-sheet date

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

Review Report

To RWE Aktiengesellschaft, Essen

We have reviewed the condensed consolidated interim financial statements – comprising the condensed balance sheet, condensed income statement, condensed cash flow statement, condensed statement of recognised income and expense and selected explanatory notes – and the interim group management report of RWE Aktiengesellschaft, Essen, for the period from January 1 to June 30, 2008 which are part of the half year financial report pursuant to § (Article) 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, 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Manfred Wiegand
Wirtschaftsprüfer
(German Public Auditor)

Markus Dittmann
Wirtschaftsprüfer
(German Public Auditor)

Supervisory Board

Dr. Thomas R. Fischer
Chairman

Frank Bsirske
Deputy Chairman

Dr. Paul Achleitner

Werner Bischoff

Carl-Ludwig von Boehm-Bezing

Heinz Büchel

Dieter Faust

Simone Haupt

Andreas Henrich
– since April 1, 2008 –

Heinz-Eberhard Holl

Dr. Gerhard Langemeyer

Dagmar Mühlenfeld

Erich Reichertz
– until March 31, 2008 –

Dr. Wolfgang Reiniger

Günter Reppien

Karl-Heinz Römer

Dagmar Schmeer

Dr. Manfred Schneider

Dr.-Ing. Ekkehard D. Schulz

Uwe Tigges

Prof. Karel Van Miert

Executive Board

Dr. Jürgen Großmann
CEO

Berthold Bonekamp

Alwin Fitting

Dr. Ulrich Jobs

Dr. Rolf Pohlig

Financial Calendar 2008 / 2009¹

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

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

¹ All events will be broadcasted live on the Internet and can thus be followed by the public at large, investors and analysts simultaneously. We will keep the recordings on our website for at least twelve months.

RWE Aktiengesellschaft

Opernplatz 1
45128 Essen
Germany

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

Investor Relations

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

Private investors are welcome to call our
Investor Relations hotline:

T +49 1801 451280