

MAKE BIG THINGS HAPPEN.

For our customers.



2009 KEY FIGURES AT A GLANCE.

- All earnings targets achieved
- Recurrent net income up 5 %
- Acquisition of Dutch energy utility Essent
- Dividend of €3.50 per share proposed

RWE Group		2009	2008	+/- %
External revenue	€ million	47,741	48,950	-2.5
EBITDA	€ million	9,165	8,773	4.5
Operating result	€ million	7,090	6,826	3.9
Income from continuing operations before tax	€ million	5,598	4,866	15.0
Net income	€ million	3,571	2,558	39.6
Recurrent net income ¹	€ million	3,532	3,367	4.9
Return on capital employed (ROCE)	%	16.3	17.2	-
Weighted average cost of capital (WACC) before tax	%	9.0	8.5	-
Value added	€ million	3,177	3,453	-8.0
Capital employed	€ million	43,597	39,809	9.5
Cash flows from operating activities	€ million	5,299	8,853	-40.1
Capital expenditure	€ million	15,637	5,693	174.7
Property, plant and equipment	€ million	5,913	4,454	32.8
Financial assets	€ million	9,724	1,239	-
Free cash flow	€ million	-614	4,399	-
Number of shares outstanding (weighted average)	thousands	533,132	538,364	-1.0
Earnings per share	€	6.70	4.75	41.1
Recurrent net income per share ¹	€	6.63	6.25	6.1
Dividend per share	€	3.50 ²	4.50	-22.2
		Dec 31, 2009	Dec 31, 2008	
Net debt of the RWE Group	€ million	25,787	18,659	38.2
Workforce ³		70,726	65,908	7.3

1 Net income excluding the non-operating result and excluding non-recurrent effects in the financial result, in the tax expense and in income from discontinued operations.

2 Dividend proposal for RWE AG's 2009 fiscal year, subject to approval by the April 22, 2010 Annual General Meeting.

3 Converted to full-time positions.

The cover of this annual report shows a picture of our new gas-fired power station in Lingen, Germany, which will go online in the spring of 2010. It takes about half an hour for the plant to ramp up its capacity from zero to nearly 900 megawatts. Today, short ramp-up times are becoming increasingly important, because more and more extremely volatile wind electricity is being fed into the grid. Our gas-fired power plant in Lingen will ensure that electricity is available whenever our customers need it. Even during lulls.

WHAT WE DO.

RWE is one of Europe's five leading electricity and gas companies. We are active in the generation, trading, transmission and supply of electricity and gas. This integrated business model enables us to take advantage of the rising demand for energy. More than 70,000 employees supply over 16 million customers with electricity and approximately 8 million customers with gas. In fiscal 2009, we recorded about €48 billion in revenue.

Europe is our market: RWE is the No. 1 power producer in Germany, No. 2 in the Netherlands, and No. 3 in the UK. We continuously expand our position in Central and South Eastern Europe.

Our power plant portfolio and our investment programme for building new, environmentally friendly and flexible generation capacity are the main basis for growing earnings in the future. Energy from renewables plays a key role. Our leading position in European energy trading helps us make optimal use of our power plants on the market. We react to changes in customer needs by offering new products for homes, commerce and industry. In this context, climate protection and energy efficiency are becoming increasingly important.

Our gas and oil production businesses are displaying above-average growth. In light of the long-term global rise in demand for gas, we plan to steadily increase the amount we produce in-house.

ELECTRICITY AND GAS: RWE OFFERS EVERYTHING FROM A SINGLE SOURCE.



THE RWE GROUP

HOW WE HAVE REORGANISED OURSELVES.

RWE AG

Germany		Netherlands/ Belgium	United Kingdom	Central and Eastern Europe	Renewables	Upstream gas & oil	Trading/ gas midstream
Power generation	Sales and distribution networks						
RWE Power	RWE Vertrieb incl. RWE Aqua, eprimo RWE Effizienz RWE Rheinland Westfalen Netz enviaM/ MITGAS KEVAG LEW Süwag VSE KELAG	Essent	RWE npower	RWE Hungária (Hungary) RWE Polska (Poland) VSE (Slovakia) RWE Transgas (Czech Republic) RWE Transgas Net (Czech Republic)	RWE Innogy	RWE Dea	RWE Supply & Trading

THE RWE GROUP ▲

RWE AG

Amprion Electricity transmission system operator (unbundled)	Thyssengas	RWE Technology	Internal services
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WHAT YOU CAN MEASURE OUR SUCCESS BY.

EBITDA

- ✓ Goal for 2009: In the order of last year's level
- ✓ Goal achieved in 2009: Increase of 4% to €9.2 billion
- Goal for 2010: Increase of 5 to 10%

OPERATING RESULT

- ✓ Goal for 2009: In the order of last year's level
- ✓ Goal achieved in 2009: Increase of 4% to €7.1 billion
- Goal for 2010: Increase of about 5%

RECURRENT NET INCOME

- ✓ Goal for 2009: In the order of last year's level
- ✓ Goal achieved in 2009: Increase of 5% to €3.5 billion
- Goal for 2010: Increase of about 5%

DIVIDEND

- ✓ Goal for 2009: Payout ratio of 50 to 60% of recurrent net income
- ✓ Goal achieved in 2009: Payout ratio of 53% (proposed dividend: €3.50 per share)
- Goal for 2010: Payout ratio of 50 to 60%

EFFICIENCY ENHANCEMENT

- ✓ Goal for 2009: €450 million compared to 2006
- ✓ Goal achieved in 2009: €450 million
- Goal for 2010: €700 million compared to 2006

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For our customers.



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Consolidated financial statements
(from page 139)

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MAKE BIG
THINGS
HAPPEN.

Supplying energy is a complex task. It used to be enough to ensure affordable supplies around the clock. Today, we are also faced by global challenges such as climate change and the scarcity of resources. And what will tomorrow bring?

We conduct research and spend billions of euros so that we can provide our customers with solutions, be it of the order of tera or kilowatt hours. Our position as a leading European power utility provides us with the possibility to do so, in technical, geographic and financial terms. Scale alone is not a strength. But making big things happen for our customers is.



Dieter Rabe, responsible for technical operations,
gas compressor station, Brammer, Germany

LEFT OUT IN THE COLD.

When things go wrong, rapid action is needed. As in the winter of 2009, when the gas dispute between Russia and the Ukraine resulted in supply problems in Eastern Europe. Our cross-border crisis management enabled us to continue to reliably supply our customers in Hungary and the Czech Republic with gas. We also saw to it that Slovakian living rooms remained warm.



PRICE DECELERATOR.

The medium-sized enterprises we serve want an energy partner who is just like them: hands-on and pragmatic. Can a heavyweight pull it off? Sure thing. Like at Angus Chemie in Ibbenbüren. Our flexible electricity tariff enables the special chemicals manufacturer to quickly take advantage of drops in prices on the electricity exchange. And it is hedged against price increases.






Werner Sanning, engineer, in charge of the Responsible Care Department, Angus Chemie GmbH, Ibbenbüren, Germany
Andreas Zünkler, certified chemical technician, Angus Chemie GmbH, Ibbenbüren, Germany

INTELLIGENT HOME.

The future of energy-efficient living has already begun in Essen. The heat pumps we use in our ECODrei pilot project greatly reduce the heating costs of 42 residential units, avoiding some 30 tons of carbon dioxide. Smart meters tell their owners how to conserve electricity, heat and water around the clock. This fetches an energy pass of the highest efficiency rating. And it guarantees happy customers. More than 9,000 homes opted for our heat pump products in 2009.



Heidi Piva, resident of the ECODrei housing development, Essen, Germany





HEALTHCARE REFORM.

Sometimes energy efficiency can even promote health—at least it does in the Muldentel Clinic in Grimma, Germany. We tested every last bit of the facility's entire energy infrastructure. This culminated in a heat insulation and heating system revamp concept. The result is something to be proud of: the clinic can save 100,000 euros every year. That is enough to hire a new physician.



Eberhard Träger, Energy officer,
Muldentalkliniken GmbH, Grimma Hospital



Martin Neumann, Deputy Director, Wittgenstein biomass-fired combined heat and power plant, RWE Innogy

PERFECT DUO.

Our municipal customers also increasingly want electricity generated from renewables, and we are happy to help them. Like in the Green Gecco Project. An undertaking uniting strong partners: a group of municipal utilities and RWE Innogy, our renewable energy specialist. We are pooling our power plant expertise and intend to invest a huge, triple-digit million euro sum through to 2012 alone. The Wittgenstein biomass-fired combined heat and power station may become the first project that we undertake together.





Dennis De Castro Paiva, comprehensive school pupil,
enrolled in a long-term internship programme referred by "move on work! e.V."



JUMP START.

Responsibility has many dimensions at RWE. Promoting young people is one of them. The RWE Foundation's mission is to enable young underprivileged people to take control of their lives by means of educational offerings. Through the Formula Education Grand Prix Project, initiated by "move on work! e.V.," we assist pupils attending comprehensive schools in entering the world of employment by providing them with educational support and occupational mentoring. Thanks to the Foundation's endowment of approximately 56 million euros, we can make big things happen. Personalised help that is effective.

THE ENERGY TO LEAD.

"More growth, less CO₂" is the motto under which we aim to accomplish a great deal. Never before has RWE invested as much as it does today. Never before has RWE adapted its organisation as quickly as it does today. But the energy markets have never changed as rapidly as they do today, either. This is why "The energy to lead" is more than an ambition: Only those who shape change can be successful over the long term.



Dr. Rolf Pohlig
Chief Financial Officer

Dr. Rolf Martin Schmitz
Chief Operating Officer National

Alwin Fitting
Labour Director



Dr. Jürgen Großmann
President and CEO

Dr. Leonhard Birnbaum
Chief Strategy Officer

Dr. Ulrich Jobs
Chief Operating Officer International

2009 IN BRIEF.

JANUARY

RWE initiates acquisition of Dutch energy utility Essent

We agree with the Dutch energy utility Essent on the conditions of a binding cash offer for a complete takeover of the company. The waste management and distribution grid businesses are carved out of the transaction, which we complete successfully on September 30. As a result, we become one of the leading energy utilities in the Benelux region.



FEBRUARY

New RWE bonds issued

RWE issues two Eurobonds for a combined €3 billion. This is followed in June by further placements of €1.5 billion and £1.5 billion. All issues are several times oversubscribed. They primarily serve to finance the acquisition of Essent.

MARCH

Entry into the Turkish electricity market

RWE and the Turkish-based energy company Turcas sign a joint-venture agreement to build a combined-cycle gas turbine power plant in Denizli. The facility's planned net installed capacity is 775 megawatts. RWE will own a 70% stake. The final investment decision is scheduled for the first half of 2010.

APRIL

Joint venture between RWE and E.ON places winning bid for land for new nuclear power plants in the UK

The Nuclear Decommissioning Authority auctions plots of land at three sites. Our joint venture with E.ON secures two plots. We therefore pass an important milestone en route to constructing and operating nuclear power stations in the UK.

MAY

RWE Innogy acquires interest in Belgian offshore wind farm

Our specialist for renewable energy acquires 27% of the project company C-Power, developer of the first Belgian offshore wind farm. The plants are being built at Thornton Bank, up to 30 kilometres off the coast. On completion in 2013, the wind farm will have 60 turbines with a total installed capacity of 300 megawatts.



JUNE

RWE continues sale of American Water

Our stake in the US-based water utility amounting to 60.5% after its IPO in 2008 is reduced to less than 50% in June. American Water is deconsolidated. Further share placements follow in the second half of the year. American Water is completely sold in November 2009.

JULY

RWE establishes energy-efficiency company

We pool our energy-efficiency activities for home and mobile applications in RWE Effizienz GmbH. Headquartered in Dortmund, Germany, the company's purpose, among others, is to accelerate the use of modern power meters (smart meters) and computer systems used to control home technology (smart homes). RWE Effizienz is also active in the field of electric vehicles.

**Expansion of our upstream gas position off the UK coast**

RWE Dea acquires a 70 % interest in the Breagh field, presently the largest undeveloped natural gas discovery in the southern part of the UK North Sea. This gives us access to at least 13 billion cubic metres in resources. Another 2 to 3 billion cubic metres are added by the acquisition of a 50 % stake in the Clipper South field's concession blocks. With the two acquisitions, RWE Dea also takes the operating lead.

SEPTEMBER

RWE advances into the Dow Jones STOXX 50

The index includes the 50 European companies with the largest free-float market capitalisation. RWE's inclusion is very important as it means that numerous funds tracking the Dow Jones STOXX 50 must now also contain RWE shares. The composition of the index is reviewed and adjusted once a year.

OCTOBER

EU Commission ends anti-trust investigation of RWE

This confirms the position we defend and which is verified by independent auditors and external appraisers, namely that RWE is in compliance with market rules. The EU Commission had started investigating several European power utilities in 2006, following an electricity sector inquiry.

Exit from Belene nuclear energy project in Bulgaria

RWE will not participate in the construction or operation of a nuclear power plant in the northern part of the country. We terminate the joint venture agreement with the state-owned energy utility NEK because project financing could not be finalised within the agreed period.

DECEMBER

RWE Innogy opens Rhyl Flats wind farm off the coast of Wales

Its 25 wind turbines with a total capacity of 90 megawatts supply 61,000 homes with electricity. Rhyl Flats is RWE's second large offshore wind farm in operation after North Hoyle, which we commissioned in 2004.



LETTER FROM THE CEO



Dear Investors,

Being a safe haven is probably what most people expect from an energy utility like RWE. Especially when the wind is as turbulent as it was in 2009, the year of the economic crisis. Reliable energy, secure jobs, sustainable investments, robust finances and a relatively low-risk share investment – did we manage to meet these diverse expectations last year?

Let's take a look at the facts: We still rank among the five largest electricity and gas utilities in Europe. And we strengthened this position by acquiring Essent, No. 1 in the Dutch energy market. In 2009, 16 million electricity and 8 million gas customers benefited from security of supply and fair

prices. Whereas other utilities reduced their investments, we increased ours by one third to nearly €6 billion, thanks to our extremely healthy balance sheet. More than 70,000 people were working for us at the end of the year. Contrary to the trend, we added almost 1,000 employees to our payroll in Germany, taking responsibility in difficult times. RWE's common share price including the dividend rose by 16% in 2009, leaving the European sector index far behind. Our proposed dividend for 2009 of €3.50 per share would currently give you a return that is about two percentage points higher than that of a ten-year German government bond. This is not a matter of course, even for a utility. We therefore believe we can be proud enough to claim that yes, your RWE was a safe haven again in 2009.

Financial targets for 2009 achieved, despite the recession. Investing, creating jobs, and paying a dividend are things that can only be done by those who have their business under firm control and post healthy figures. RWE defied the crisis in 2009 and accomplished slightly more than we had promised you in our last annual report. Our aim had been to have earnings match the record level achieved in the previous year. But in fact, at €7.1 billion, the operating result for 2009 is above the year-earlier level, and, at €3.5 billion, recurrent net income is higher as well.

How did we manage to largely decouple ourselves from the economic slump and the significant decline in prices and demand? There were two main reasons for this. First, we generate a large portion of our earnings from fairly crisis-proof operations: the production, transmission and sale of electricity and gas. Second, for years, our sales strategy has been following the principle of the cautious businessman: we hedge the prices of our electricity generation, our earnings mainstay, through forward sales up to three years prior to the electricity's delivery. We had already sold virtually all our production for 2009 and a substantial portion of our 2010 generation before the financial crisis. Through our forward sales, we realised prices that are significantly above the current market level. We generated robust income from the regulated grid business and in the residential customer segment, which displays stable consumption. Industrial customers incurred substantial losses due to the downward economic spiral. However, this did not affect our earnings to the same extent, because we were careful in drawing up our supply agreements.

RWE maintains course for growth, even in difficult times. The crisis is far from having been overcome. We expect that it will take several years for the European economy as well as electricity and gas consumption to get back to normal. This is compounded by the substantial uncertainties in energy policy regarding climate protection and the key question of what tomorrow's energy supply should look like. What does that mean for us, our shareholders, employees and business partners? Can we continue to afford billions in investment if the framework conditions remain uncertain? Can we grow further?

Yes, we are staying on course for growth. Energy supply is a long-term business model for which one must not think in terms of years, but in terms of decades. This is why we review individual investment projects against the backdrop of the crisis and exchange them for more attractive ones if necessary. But we do not fearfully put our foot on the brake simply because our environment has deteriorated temporarily. Quite to the contrary, we intend to invest approximately €7 billion per year through to 2013 alone: to add 12 gigawatts of more climate-friendly coal and gas-fired power plants, to double our renewables-based generation capacity and our international gas and oil production, and to expand and modernise our electricity and gas networks. To learn about the details of what we are doing, please read the chapter entitled “Strategy and structure” in this annual report. This is how we are also taking advantage of the opportunities offered by the current crisis: Costs for large-scale new-build power plants have dropped because raw materials have become more affordable and many utilities and other investors have halted their projects.

We can afford this investment programme because we also expect our earnings to grow in the next few years. Until 2012, we want to improve recurrent net income, the basis for determining your dividend, by an average of about 5% per year compared to 2008. However, we will not achieve the original forecast, which envisaged an increase of about 10%. This is primarily due to unexpected delays in power plant new builds and gas production projects, which will have a positive effect on later fiscal years. Furthermore, gas and electricity margins will probably be lower than originally anticipated.

High earnings expected for 2013, despite stricter CO₂ regulation. In the review of operations, you will also find a prognosis for fiscal 2013 for the first time. It is common knowledge that the framework conditions of CO₂ emissions trading will be tightened substantially in that year. This is why many investors have asked us to provide an assessment of the potential impact as early as possible. We are fulfilling this request, although such statements are accompanied by a great deal of uncertainty, particularly due to the volatility of commodity prices. Despite the deterioration in framework conditions for 2013, we expect the development to be positive overall. We anticipate that recurrent net income will surpass the high level achieved in 2009.

Dividend continuity—our claim. For years, the RWE share has ranked among those with the strongest dividends in the European utility sector, and we intend for that to continue. Thanks to the high expected level of earnings, we stand a good chance of being able to increase the dividend payment further. Our goal is to at least match the previous year’s dividend for each fiscal year from 2010 to 2013. Only rarely will you find this dividend transparency elsewhere, even among utilities.

The challenge of climate protection. A brief note on our current political environment: Although the Copenhagen UN Climate Conference did not provide any tangible results, climate protection has long become a permanent task for us. It is impossible to achieve the German government's and the EU's ambitious CO₂ goals without the utilities' multi-billion-euro investment programmes. Yet many do not want to acknowledge the fact that we are financing the transition to a climate-friendly energy mix with cash flows from existing nuclear power plants and coal and gas-fired units. In addition, RWE is one of the biggest investors in renewable energy. It will take decades to complete the transition. Most of all, it needs investment-friendly framework conditions and the public acceptance of all economically and ecologically sensible technologies. Unfortunately, the public debate is very dogmatic at present, especially with regards to the issue of coal and nuclear-based generation. This worries me a lot. I therefore wish to see fair dialogue and pragmatic action by all those involved in 2010. The new fiscal year should be one of major decisions in energy policy.

Leaner, faster, more international. For us, 2010 is also a year of homework. Last year, we restructured the Group's organisation. In so doing, we made our national activities in Europe more powerful and gave our German business a stronger market orientation. Essent's integration is part of the reorganisation. We have made good progress here so far. All these issues still require our attention, as we do not want to lose momentum in the market. At the same time, we continue to implement our cost-cutting and efficiency-enhancement programme.

All of this demands an outstanding performance from our employees. On behalf of the Executive Board, I would like to express our sincere gratitude to them for the work they did in the fiscal year that just ended. And I would like to thank you, our investors, for your trust, which we intend to continue to earn with all our might in the future. After all, the best way to "Make Big Things Happen," which is the theme of this annual report, is to have strong partners.

Sincerely yours,



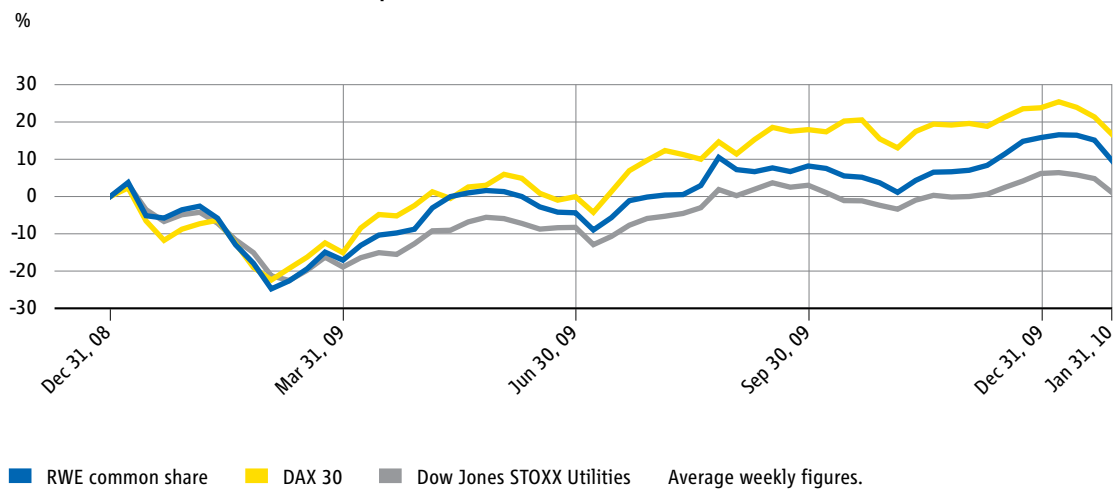
Dr. Jürgen Großmann
President and CEO of RWE AG

Essen, February 12, 2010

RWE ON THE CAPITAL MARKET

Fiscal 2009 was a good year for stocks despite the severe economic crisis, because the economic outlook brightened somewhat. This encouraged investors. Germany's lead index, the DAX 30, was up 24% for the year. RWE common shares closed 2009 with a gain of 16%, clearly outperforming the sector's average. The situation on bond markets also experienced relief. It became much cheaper to hedge credit risk over the course of the year.

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



Stock markets end downward trend. The steep downturn witnessed on stock markets since 2008 came to a halt in March of 2009. Share prices posted a strong recovery thereafter. In 2009, the German lead index, the DAX 30, advanced by 24% to 5,957 points. In fact it gained 62% over the low for the year, which was on March 6 (3,666 points). In December, it briefly surpassed the 6,000-point mark. RWE shareholders can also look back on a pleasing year: At the end of 2009, our common shares traded at €67.96, while our preferred shares closed at €62.29. This results in a total return (return on the share price plus the dividend) of 16% and 28% respectively for the year as a whole. RWE common shares displayed a weaker performance than the DAX 30, but managed to outperform the European sector index, Dow Jones STOXX Utilities (6%). At the beginning of 2009, stock markets had been dominated by the economic crisis. Thereafter, positive economic indicators improved sentiment on stock markets considerably, primarily benefiting shares of cyclical branches of industry. As during the preceding stock market slump, share price peaks and troughs in the utility sector were more moderate. Moreover, the recession-induced drop in electricity and gas prices had a dampening effect. After the turn of the year, disappointing corporate figures and economic data led to an interruption in the upturn on stock markets. The DAX 30 closed the month of January 2010 at 5,609 points, with RWE common shares trading at €64.24.

Total return of RWE shares and important indices up to the end of 2009 % p.a.	1 year	5 years	10 years
RWE common share	15.8	15.6	9.9
RWE preferred share	27.5	18.3	12.3
DAX 30	23.8	6.8	-1.5
Dow Jones EURO STOXX 50	25.6	2.9	-2.6
Dow Jones STOXX 50	28.7	1.7	-3.2
Dow Jones STOXX 600	32.4	3.0	-1.5
Dow Jones STOXX Utilities	6.2	8.4	5.7
REXP ¹	4.9	4.3	5.4

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

Long-term returns: RWE shares clearly outperform the DAX. RWE shares are an attractive investment, particularly for long-term investors: Those who paid €10,000 to buy shares in our company ten years ago and reinvested their dividends saw their investments grow to €25,657 (common shares) or €31,835 (preferred shares) by December 31, 2009. This corresponds to an annual average return of 9.9% and 12.3%, respectively. In contrast, the comparable total return posted by the DAX 30 was negative. An initial investment in the index would have had a negative return of 1.5% per annum, dropping from €10,000 to €8,562.

RWE share indicators		2009	2008	2007	2006	2005
Earnings per share	€	6.70	4.75	4.74	6.84	3.97
Recurrent net income per share	€	6.63	6.25	5.29	4.38	4.01
Cash flows from operating activities per share	€	9.94	16.44	10.82	12.06	9.43
Dividend per share	€	3.50 ¹	4.50	3.15	3.50	1.75
Common share price						
End of year	€	67.96	63.70	96.00	83.50	62.55
High	€	68.58	100.64	97.90	89.85	63.24
Low	€	46.52	52.53	74.72	61.56	41.10
Preferred share price						
End of year	€	62.29	53.61	83.07	72.00	54.44
High	€	62.65	84.39	86.00	73.91	55.09
Low	€	41.75	37.46	66.33	54.18	34.79
Dividend payment	€ million	1,867 ¹	2,401	1,689	1,968	984
Number of shares outstanding (average)	thousands	533,132	538,364	562,373	562,374	562,375
Market capitalisation at the end of the year	€ billion	38.0	35.4	53.5	46.5	34.9

1 Dividend proposal for RWE AG's 2009 fiscal year, subject to the approval of the April 22, 2010, Annual General Meeting.

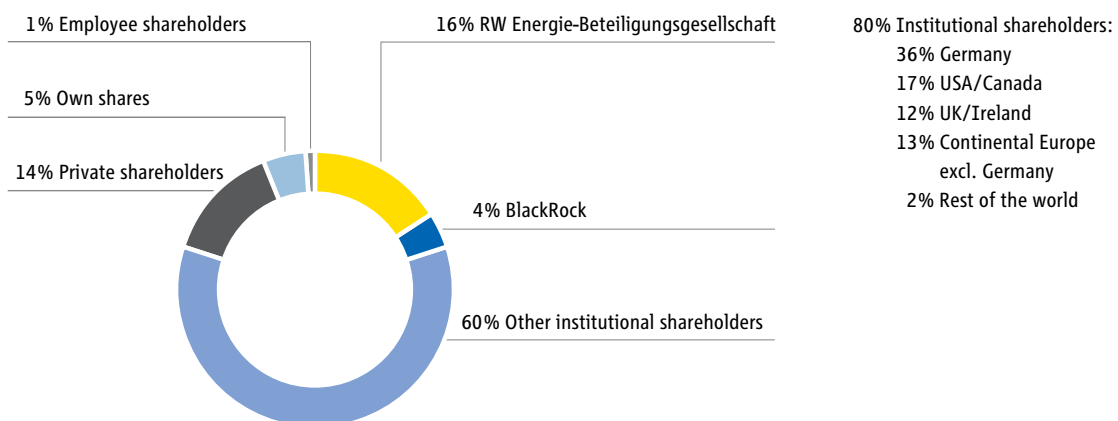
Weighting of RWE shares and RWE bonds in important indices

as of December 31, 2009

Stock index	Weighting %	Bond index	Weighting %
DAX 30	5.3	iBoxx Euro Corporates	1.0
Dow Jones STOXX 50	1.1	iBoxx Euro Utilities	7.7
Dow Jones STOXX Utilities	9.0	iBoxx Sterling Utilities	10.1

RWE included in Dow Jones STOXX 50. RWE joined the Dow Jones STOXX 50, the renowned stock index, effective from September 21. It comprises the 50 European companies with the highest free-float market capitalisation. RWE's inclusion is important as it means that numerous funds tracking the STOXX 50 now also contain RWE shares. The composition of the Dow Jones STOXX 50 is reviewed and adjusted once a year. The key parameter is the free-float market capitalisation at the close of trading at the end of August.

€3.50 dividend per share proposed for 2009. The Supervisory and Executive Boards of RWE AG will propose a dividend of €3.50 per share for fiscal 2009 to the Annual General Meeting on April 22, 2010. Relative to recurrent net income, this results in a payout ratio of 53%. We are thus within our targeted range of between 50% and 60%. Based on the year-end closing share prices of our common and preferred shares, the dividend yields are 5.2% and 5.6%, respectively. This gives us a leading position in the DAX 30.

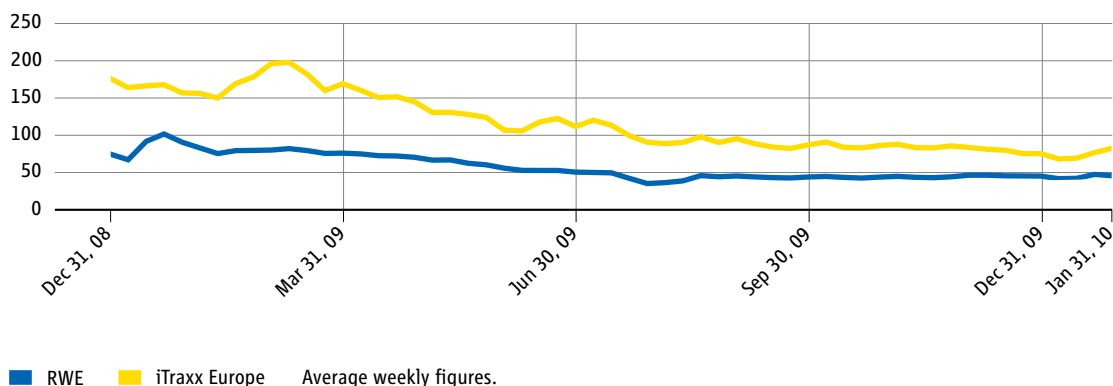
Shareholder structure of RWE AG¹

¹ Percentages reflect shares in the subscribed capital. Sources: Notifications of shareholdings in accordance with the German Securities Trading Act (WpHG) and shareholder identification, as of December 2009.

Shareholder base still widely diversified. At the end of 2009, 80% of RWE's 562.4 million shares were owned by institutional investors, while 15% were held by private investors (including employee shareholders). The remaining 5% are owned by RWE. Institutional investors from Germany hold 36% of the shares, with those in North America and the United Kingdom accounting for a combined 29% and those in Continental Europe, excluding Germany, owning 13%. RW Energie-Beteiligungsgesellschaft, in which municipal shares are pooled, is our single largest shareholder, holding 16%. US-based asset management company BlackRock accounts for the largest RWE position outside Germany (4.2%). The free float of RWE common shares considered by Deutsche Börse AG in terms of index weighting was 80% at the end of the year.

Bond market crisis much less severe. International bond markets also experienced significant relief over the course of the year. Corporate spreads on reference interest rates for new bond placements declined considerably. Prices paid to hedge credit risk via credit default swaps (CDSs) also dropped. The iTraxx Europe index, which is made up of the prices of the five-year CDSs of 125 major European companies, was halved during the year under review. It climbed from 178 to over 200 basis points (March) before falling to 75 basis points. Most recently, prices paid for the five-year CDSs of energy utilities hovered around the level seen before the financial and economic crises. At the end of last year, only 45 basis points had to be paid to hedge RWE's credit risk. In January 2009, the spread had occasionally been above 100.

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



Investor Relations: focus on economic crisis and acquisition of Essent. Once again, we maintained intense dialogue with investors and analysts throughout the financial year. Focal issues included the acquisition of Dutch-based utility Essent and the effects of the economic crisis on our business. We held presentations and Q&A sessions for investors in 26 financial centres on more than 50 roadshows, at 12 conferences, and at numerous one-on-one meetings. More than 130 investors came to our corporate headquarters in Essen to speak with management representatives. Additional communication activities include presentations published on the internet. One highlight is the online publication entitled "RWE Facts & Figures" which contains detailed information on RWE and the European energy sector and can be viewed at www.rwe.com/facts-and-figures-2009. During a conference call in December 2009, we introduced the publication called "The Need for Smart Megawatts," in which we describe the future of Europe's power generation and the ensuing opportunities in the market for RWE. This is available at www.rwe.com/power-generation-in-europe-the-need-for-smart-megawatt.

1.0 REVIEW OF OPERATIONS

Recurrent net income
up 5% to

€3,532 million

Proposed dividend

€3.50 per share

Two birds with one stone. Starting in 2012, we will supply electricity to about seven million people with the new hard coal twin unit in Hamm, Germany. This power plant's technology is state of the art. Its 46 percent efficiency factor makes it 30 percent more efficient than its predecessors. And it also reduces CO₂ emissions by 2.5 million metric tons a year.

1.1 STRATEGY AND STRUCTURE

RWE ranks among Europe's five leading electricity and gas companies. We want to improve this position. The market in which we operate is dynamic. Competition is becoming fiercer, and the demands placed on us by our customers are rising. Furthermore, political and regulatory requirements are becoming increasingly complex. At the same time, Europe's energy markets continue to converge. We are tackling these challenges, investing billions of euros in tomorrow's profitable and environmentally friendly energy supply, despite the economic crisis.

Power utilities face huge challenges. We have not remained unaffected by the financial and economic crisis, either. But we can continue to implement our growth strategy thanks to our robust portfolio. Our investments in power plants, networks and gas and oil production demonstrate that energy supply is a long-term business. We must think in terms of decades, not years. Our strategy is therefore built on long-term fundamental trends. Our environment has not been changed by the current crisis, either. It is characterised by:

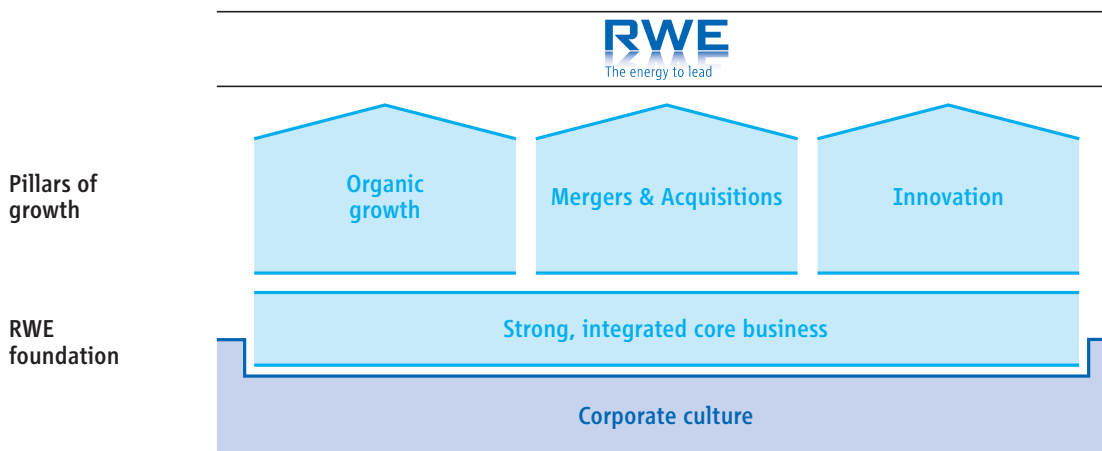
- a persistent need for substantial investments in energy infrastructure, especially in power plants and networks to replace ageing facilities.
- the European Union's climate-protection goals for the reduction of greenhouse gas emissions.
- customers expecting that their energy supply is secure and that their providers cope with the effects of volatile energy prices.
- rules for price and investment-related decisions in the energy sector established by policymakers.
- the European energy sector's sustained consolidation.
- the convergence of regional markets through trading and through the expansion of transmission networks.
- the continued intensification of competition across all stages of the value chain in our business.

Our strength: leading positions in key EU markets, good foothold in growth markets. An environment posing such challenges also offers new opportunities to strong, diverse market participants. What competitive advantages does RWE have to offer? In terms of sales, we hold a leading market position with at least one of our main products (electricity and gas) in our core markets. We also strive to achieve this type of position when tapping into new markets.

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

In our markets, we draw on the strengths that RWE is known for:

- Our expertise in the construction and operation of power plants and networks is world renowned. We pool all our activities relating to the construction and modernisation of power plants in our subsidiary RWE Technology, in order to extend our lead.
- Via RWE Supply & Trading, we occupy one of the leading positions in European energy trading. We take advantage of its know-how not only in trading, but also in optimising the use of our power plants in the market as well as the procurement of gas, coal and CO₂ certificates.
- We have vertically integrated activities. In the electricity business, for instance, we are not just a generator, but also a trader, sales company and, in certain cases, a network operator. This gives us more flexibility in offsetting market fluctuations at every stage of the value chain.
- We realise synergies via our horizontal integration, e.g. the supply of electricity and gas from a single Group company.
- Long-term, close partnerships with municipalities and industrial key accounts strengthen our competitiveness.
- Regionally diversified, fast-growing proprietary gas production improves our position in the field of gas procurement.
- High cash flows and a robust balance sheet secure the financial basis for our growth activities.



Our strategic principles. Our aim is to expand our electricity and gas business while reducing CO₂ emissions. We can take advantage of the current market environment to do so: The global recession provides opportunities for financially strong companies with a robust foundation such as RWE. But we must think and plan far into the future. Therefore, our medium-term operating targets are in line with long-term principles.

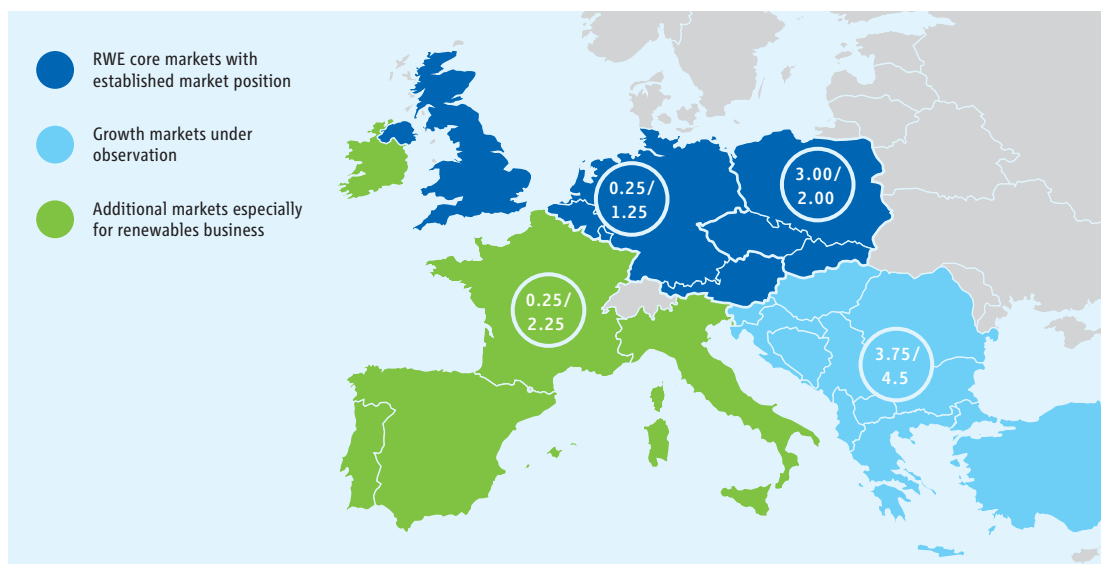
The following is a summary of the cornerstones of our strategy:

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

To this end, we always benefit from two competitive advantages: first, our long experience in achieving and safeguarding operational excellence in business processes and plant operations. This entails a continuous process of improvement along the value chain. An important building block is our current cost-cutting and efficiency programme on which we report on page 75. Second, we focus our business on markets which are close to us: Our market is Europe—primarily North West, Central and Eastern Europe. This is where we best know our way around, this is where political and regulatory frameworks are largely comparable, and this is where we derive an advantage from regional synergies. In addition to Germany, our strategic focus lies on the UK, the Benelux region, Central and South Eastern Europe as well as Turkey. However, we also develop activities wherever necessary in order to supplement our business in the core regions. This applies, for example, to gas production outside Europe as well as liquefied natural gas (LNG) transport and trading.

Gas and oil production	Power generation		Energy trading/gas midstream	Electricity and gas networks	Electricity and gas sales
	Conventional generation	Renewable energy			
RWE Dea	RWE Power	RWE Innogy	RWE Supply&Trading	RWE Rheinland Westfalen Netz	RWE Vertrieb
				German regional companies	
				Central and Eastern European regional companies	
	RWE npower				RWE npower
	Essent				Essent
					RWE Supply&Trading

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



x.y Electricity/gas consumption growth in % p.a. (2010-2020)

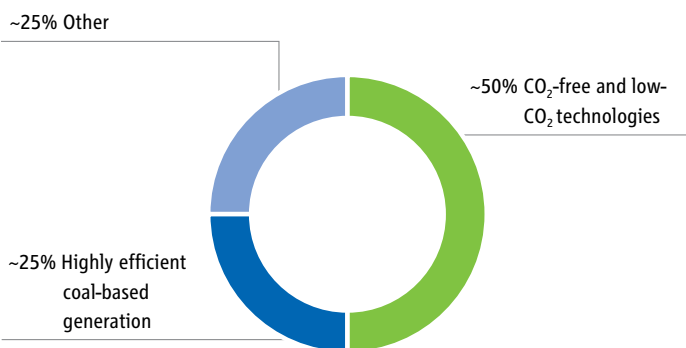
The RWE strategy: greener, more robust and more international. Our strategy has three focal points: profitable growth in Europe, reducing CO₂ emissions, and adapting our business activities to the challenges of the market. We are pursuing six goals to achieve this:

- Earnings growth in our core markets: Our focus lies especially on markets which are most important to RWE at present: Germany, the UK, the Netherlands and Central Eastern Europe.
- Improved CO₂ emissions balance: Our groupwide power plant new-build programme and the acquisition of Essent make important contributions to achieving this goal. Our long-term objective is oriented towards average carbon dioxide emissions per megawatt hour (MWh) of electricity generated. We want to significantly reduce our power plant portfolio's CO₂ intensity. Our goal is to take physical and financial measures to lower our CO₂ exposure to the level of an average competitor in our markets no later than 2020. Our assumption is that the emission factor customary on the market will be roughly 0.45 metric tons of CO₂ per MWh in 2020. By comparison, RWE emitted 0.80 metric tons per MWh in the financial year that just ended.

- Value-added growth by expanding the renewable energy business: RWE Innogy wants to enlarge its renewable electricity generation base substantially. The aim is to have 4.5 gigawatts (GW) under construction or in operation by 2012.
- Stronger international diversification: We want to grow the share of earnings achieved by our activities outside Germany to about 50% by 2013. In fiscal 2009, it was 34%.
- Expansion of our gas midstream position: We intend to increase our annual gas procurement volume to 60 billion cubic metres by 2012. Thanks to our acquisition of Essent, we have already made a jump from 40 to about 50 billion cubic meters.
- Strengthening of our upstream position: We want our annual gas and oil production to reach about 70 million barrels of oil equivalent by 2015 at the latest. This would be more than twice as much as in the financial year just ended.

From strategy to implementation: the biggest investment programme in RWE history. A main building block of our strategy is capital expenditure on power plants and networks. By the end of 2013, we want to have commissioned over 14 GW in new generation capacity. Two thirds of this will be based on CO₂-free and low-CO₂ technologies. We will finance this with the robust earnings of our current generation portfolio. In turn, this means that we must be allowed to continue operating our existing fossil fuel-fired and nuclear power plants profitably so that we can obtain the substantial funds needed to achieve our planned emission reductions. A clear political framework is required for this.

Some €18 billion of the €28 billion in capital expenditure on property, plant and equipment between 2010 and 2013 are earmarked for growth and replacement investments, of which:



- Renewables and gas-fired power plants
 - Hard coal- and lignite-fired power plants
 - Networks, midstream, gas and oil production and other projects
-

In addition to power plants and networks, we are expanding our gas business substantially. This includes our capital expenditure on six gas storage facilities and pipelines—of which the Asian-European Nabucco pipeline is the most prominent example—and the LNG business.

We aim to spend a total of €28 billion from 2010 to 2013 on property, plant and equipment. We also make use of capital-conserving ways of reconfiguring our portfolio, for example, power plant capacity swaps and innovative contractual solutions giving customers longer-term access to these capacities (“virtual power plants”).

We do not rule out the possibility of making small acquisitions which complement our portfolio. However, having acquired the Dutch-based energy utility Essent (see page 49), we will focus on integrating this company for the time being.

We measure all investment projects in terms of the extent to which they help us achieve the aforementioned goals. The key financial yardstick is the internal rate of return (IRR). It must at least match the cost of capital that reflects the risk profile of the division and country in question, plus a return premium.

The new Group organisation: structures and processes for our strategy’s rapid implementation.

Our organisation is the platform with which we achieve our goals. Therefore, it must constantly adapt to changes in market conditions and strategy. Last year, we set the stage for this in multiple areas:

- We are bringing our activities more in line with the characteristics of national markets. The German sales and network business was streamlined. The regional companies RWE Rhein-Ruhr and RWE Westfalen-Weser-Ems were transformed into a sales company (RWE Vertrieb AG) and a distribution network company (RWE Rheinland Westfalen Netz AG). The interim holding company RWE Energy ceased to exist. We transferred the responsibility for our international activities’ operations and regulatory matters to the local companies. This strengthens our presence in political processes, among other things. The local companies now report directly to the Group’s Executive Board. We pooled our business in the Netherlands and Belgium in Essent, which was consolidated for the first time as of September 30, 2009.
- This has been clearly separated from the supra-regional functions in support of the growth strategy. For instance, all power plant projects are being co-ordinated centrally by RWE Technology from 2010 onwards. The functional companies RWE Innogy (renewables), RWE Dea (gas and oil production) and RWE Supply & Trading (energy trading and gas midstream) will maintain their transnational setup.

- The newly created “Strategic portfolio management” function ensures that we can achieve our long-term goal of becoming “greener, more robust and more international” in line with the market. It is not only the success of individual investments and transactions that takes centre stage, but also the long-term effect of all measures on the portfolio. This is where we set our priorities for pivotal issues such as the economically sensible reduction of our CO₂ emissions, the power plant mix we aim for, and the gas procurement strategy we pursue.
- RWE Supply & Trading has been strengthened significantly. Our corporate commercial asset management and corporate origination enable us to obtain more value from our asset portfolio, while improving our commodity risk management (e.g. our current electricity, gas, coal and CO₂ positions).

Value-oriented growth: the in-house control instrument. Our central control instrument is value added. This is how we embed our goal of adding value over the long term in the Group’s management processes. Value added is the return our divisions achieve on capital employed, minus the cost of capital. In addition to other individually agreed targets, this added value is also the yardstick for the performance-linked compensation of our executives and salaried staff. Details on RWE’s value management are described on pages 70 et seqq. and 207 et seq.

1.2 ECONOMIC ENVIRONMENT

As expected, 2009 was a difficult year. Europe experienced the most incisive drop in growth in the post-war era. Gross domestic product in Germany and the UK fell some 5% below the year-earlier level. The recession also clearly left its mark on the energy markets. Electricity and gas consumption declined dramatically. Wholesale energy prices therefore remained far below the records seen in 2008.

Economy bottoms out. The global financial and economic crises overshadowed 2009. Estimates have the world economy shrinking by more than 2%. In the Eurozone, real gross domestic product (GDP) was even some 4% down year on year. However, marginal recovery trends were observed from the third quarter onwards. State economic stimulus packages and expansionary monetary policy made a major contribution to this.

German economic output was 5% lower than in 2008, the steepest decline in the post-war era. The reduction in equipment orders was a large factor. Exports, usually the driver of Germany's economy, decreased by about 15%. In the second half, however, exports benefited from a resurgence in demand from Asia, with China leading the way. Investment in construction also picked up slightly.

Real GDP in the Netherlands and Belgium decreased by an estimated 4% and 3% respectively. The Netherlands experienced its first recession in 30 years. The drop in domestic demand played a significant role. Belgium's economy is more dependent on exports, therefore, the country was especially hard hit by the major decline in foreign orders.

The drop in GDP in the United Kingdom was an estimated 4.8%. Not only is the general economic slump weighing on the country, but the UK is also suffering from a severe real estate crisis. As a result, many households saw their assets substantially devalued. Furthermore, the UK was especially hard hit by the turbulence in the financial sector which accounts for a much bigger share of economic output there than in other countries.

Countries in Central Eastern Europe were diversely affected by the crisis. Those that strongly depend on exports (Czech Republic and Slovakia) or have large amounts of private credit in foreign currency (Hungary) were most affected. In contrast, Poland benefited from the high share of domestic consumption, which was stable. Slovakia, which joined the European Monetary Union in 2009, suffered under the strong euro and the resultant rise in export prices. Based on our estimates, GDP was down 4.1% in the Czech Republic, 5.2% in Slovakia, and 6.3% in Hungary. Poland is likely to be the only eastern EU member state to have posted economic growth in 2009, with an increase of an estimated 1.7%.

Germany: slightly cooler weather and less windy. Whereas the economic trend is reflected above all in industrial demand for energy, residential consumption is significantly influenced by the weather. In Germany and Central Eastern Europe, the weather was cooler in the year under review than in 2008. In contrast, there was no tangible change in the Benelux region or the UK. Weather conditions affect both energy consumption and the supply of electricity—mainly generation from wind turbines. In Germany, there was 11 % less wind in 2009 than the long-term average. Compared to the preceding year, the decrease in wind was 10%. The decline in the UK and the Benelux region was more substantial. On the Iberian peninsula, however, a marginal gain was recorded.

Economic crisis dampens energy consumption in RWE's core markets. The recession left deep marks on energy consumption. The economy's negative impact was slightly mitigated by relatively stable electricity usage by homes and the services sector. Based on available data, electricity demand in Germany was more than 5 % lower than in 2008. This is the steepest fall ever measured there. Likewise, demand for electricity was down considerably in the Netherlands (-6%), the UK (-5%), Poland (-4%), Hungary (-5%) and Slovakia (-11%). Gas consumption was also significantly influenced by the economic downturn. Based on the latest estimates, it declined by 5 % in Germany, by 4 % in the Netherlands, by 7 % in the UK, by 6 % in the Czech Republic and by as much as 11 % in Hungary.

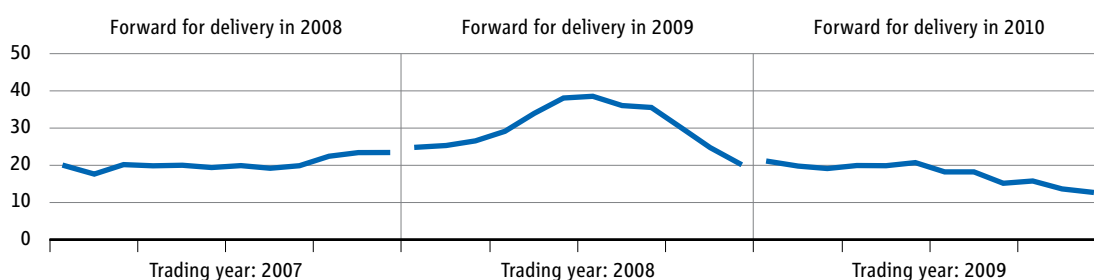
Oil price markedly down year on year. The economic crisis also had a strong impact on energy and commodity prices. This applies especially to international crude oil markets, which have seen prices collapse since the record levels witnessed in the middle of 2008. Early in 2009, the price of a barrel of Brent was occasionally a mere US\$40. Production cut-backs by OPEC countries and the nascent hope of a global economic recovery drove prices back up. In the second half of the year, they plateaued around the 70-dollar mark. Averaged for the year, the price of Brent crude was US\$62 per barrel, more than a third less than in the prior year (US\$97).

Gas prices still marked by 2008 crude oil boom. As a large portion of gas imports to Continental Europe is based on long-term contracts, which track oil prices, the latter also influence developments on the gas market. However, this typically occurs with a lag of several months. In addition, trading freely available volumes is gaining significance. Prices for these trades are not directly influenced by the price of oil. Major trading platforms are the National Balancing Point (NBP) in the UK and the Title Transfer Facility (TTF) in the Netherlands. These markets experienced a substantial reduction in prices, which had a trickle-down effect on the end-customer business, again with a time lag. Last fiscal year, gas became an average of 2 % cheaper for German homes and small commercial operations and 6 % less expensive for industrial enterprises. End-customer prices also declined in the

Netherlands. Developments in the UK varied: Whereas industrial gas bills were down 14%, they were up 13% for households. Gas became more expensive for both customer groups in the Czech Republic, with prices rising 3% and 17%, respectively. The situation in forward trading was as follows: Contracts for delivery in the 2010 calendar year (2010 forward) sold for an average of €18 per MWh on the TTF market in 2009. This is 41% less than was paid for the 2009 forward in 2008.

Development of one-year forward prices on the Dutch TTF gas wholesale market

€/MWh



Average monthly figures.

Source: RWE Supply & Trading.

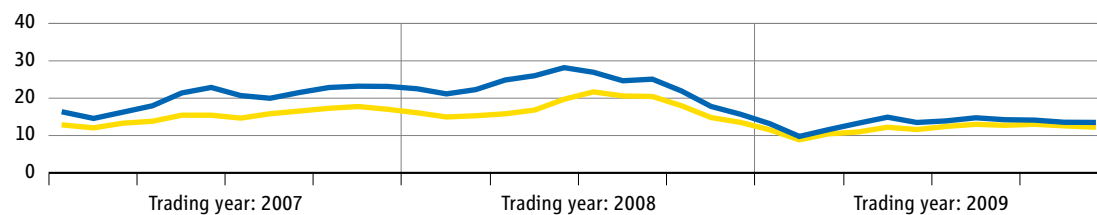
Hard coal spot prices only half as high as in 2008. The price curve for power plant hard coal on international markets was similar to that of crude oil. Over the year, quotations flattened at a level that was much lower than in 2008. In 2009, a metric ton (including freight and insurance) cost an average of US\$71 in Rotterdam spot trading, 52% less than in the previous year. In Europe and the USA, the economic crisis dampened demand for hard coal. Robust demand from China and India had a price-stabilising effect. Hard coal quotations also reflect sea freight rates, which were also markedly down year on year, due to low demand. In 2009, the standard route from South Africa to Rotterdam cost an average of US\$14 per metric ton, compared to US\$30 in the previous year.

German hard coal prices are determined by the German Federal Office of Economics and Export Control (BAFA). Since these prices track those of imported hard coal, they follow developments on international markets, albeit with a slight time lag. The BAFA price for the first nine months of 2009 amounted to €81 per metric ton of hard coal unit. No corresponding figure was available for the fourth quarter when this report went to print, but experts estimate it to be €72. On this basis, the BAFA price for the year as a whole would be approximately €78 (previous year: €112).

CO₂ emissions trading: certificate prices occasionally below 10-euro mark. European trading of CO₂ emission allowances (referred to as EU Allowances—EUAs) was also characterised by the recession. Production outages in energy-intensive plants resulted in a large number of additional certificates on the market, which depressed prices. In February, EUAs for 2009 occasionally traded at less than €10 per metric ton of CO₂. Averaged for the period under review, they sold for €13. This is much less than the price of EUAs in 2008 (€22). Credits earned from emission-reducing measures taken in developing and newly industrialising countries (referred to as Certified Emission Reductions—CERs) also became much cheaper. European companies may also cover domestic emissions up to a predetermined level by submitting CERs obtained through projects within the scope of the “Clean Development Mechanism” (CDM) created by the Kyoto Protocol. The advantage is that the costs for these types of certificates are usually lower than the market prices of EUAs. Last year, 2009 CERs traded at an average of €12 per metric ton of CO₂. The comparable figure for 2008 was €17.

Development of CO₂ certificate prices in the European emissions trading system

€/metric ton of CO₂



■ EU Allowance (EUA) for 2009

■ Certified Emission Reduction (CER) for 2009

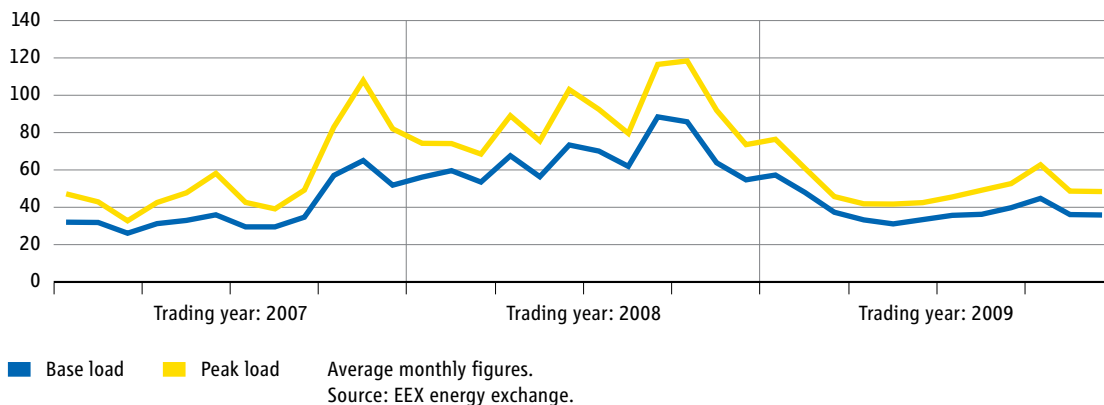
Average weekly figures.

Source: RWE Supply & Trading.

Much lower electricity prices—high volatility due to wind and solar power. The substantial drop in the price of fuel and emission allowances was reflected on European wholesale electricity markets. In German spot trading on the European Energy Exchange (EEX), base-load contracts in the year under review traded at an average of €39 per MWh, while peak-load contracts sold for €51 per MWh. They were more than 40% down on the corresponding figures for 2008. Prices are increasingly influenced by substantially fluctuating amounts of electricity fed into the German grid by wind turbines and solar power plants. This is a result of the progressive expansion of the renewable generation base. Last year, there were several situations of electricity oversupply on the EEX. As a result, the spot price was negative for certain hours and twice averaged for the day (October 4/December 26). This means that utilities were able to earn money by taking their power stations offline and buying electricity instead of producing it. Sudden upward and downward price movements will probably occur more and more in future. This will open the door to additional profit opportunities for power plants capable of rapidly adapting their load to prevailing market conditions.

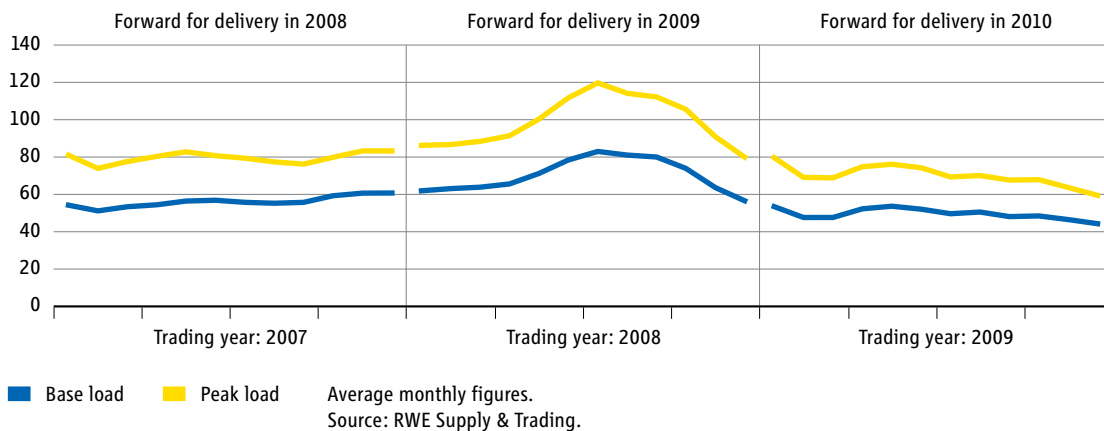
Development of wholesale electricity spot prices in Germany

€/MWh



Development of one-year forward wholesale electricity prices in Germany

€/MWh



In 2009, electricity forward trading displayed the following picture: In Germany, supply agreements for the following calendar year (2010 forward) traded at an average of €49 per MWh of base-load power and €70 per MWh of peak-load electricity. This is 30 % less than was paid for comparable contracts in the preceding year. The 2010 base-load forward fell to €43 at the end of February 2009, the lowest level since the autumn of 2005. After a temporary recovery, it dropped back close to this figure at the end of the year.

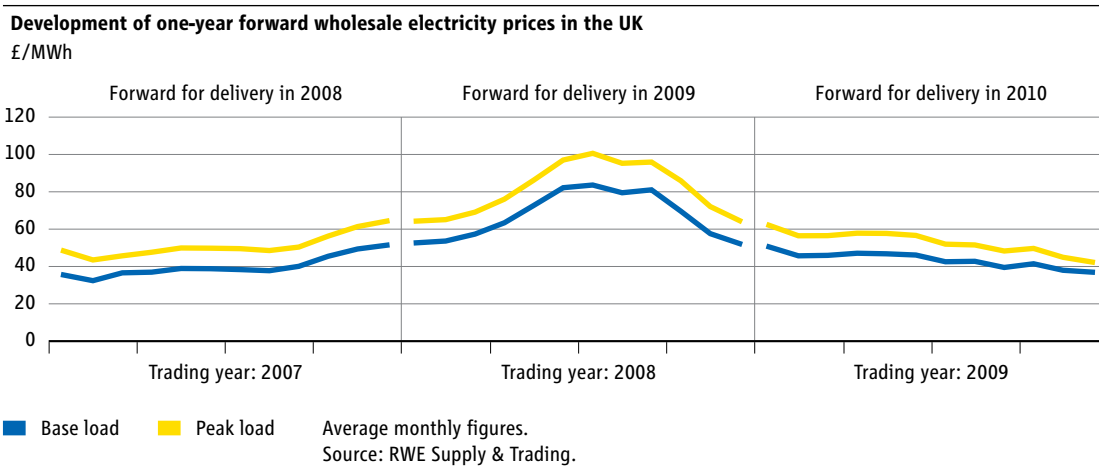
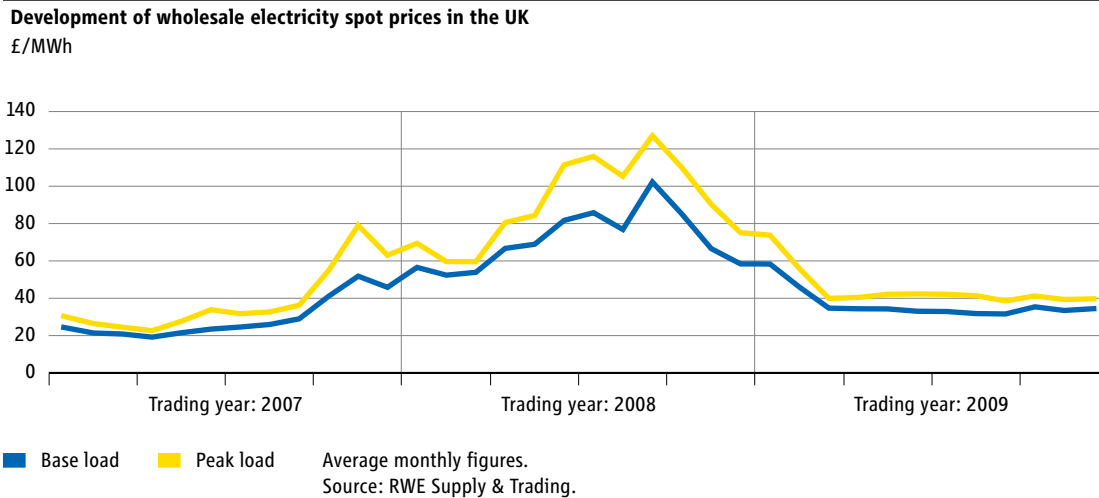
We sell forward nearly all of our in-house electricity generation output in order to reduce volume and price risks. Therefore, current electricity prices only had a minor impact on our income in the period under review. What is much more decisive is the price at which we concluded contracts for delivery in 2009 in preceding years. Since the sales were largely concluded before the start of the financial

crisis, the prices fetched were far above the present level. We sold our 2009 German generation for an average of €70 per MWh. This was also more than the comparable figure a year earlier. We had sold our production for 2008 at an average of €58 per MWh.

The fact that we sold our electricity generation at higher prices in 2009 had a positive effect on earnings. Our nuclear power stations benefited especially from this, as their added revenue was not counteracted by any noteworthy additional fuel costs. The uranium we require has been secured via long-term purchase agreements with firm conditions. Moreover, in nuclear power generation, fuel procurement costs typically account for a small portion of total generation costs. Margins also improved in our lignite-based generation business. We have no significant fuel price risk exposure from lignite since we obtain this fuel from our own opencast mines. Our hard coal and gas power stations face a different situation. Their costs can fluctuate considerably, depending on the development of prices on fuel markets. Effects on earnings due to changes in electricity prices can therefore be more than offset. The earnings development of these power stations is predominantly influenced by so-called clean dark spreads (hard coal) and clean spark spreads (gas). These are calculated by deducting the cost of the respective fuel used and of CO₂ emissions from the price of electricity. The spreads for our German hard coal power plants achieved in the market were similar to the 2008 level, and those for our gas power stations improved.

The most recent decline in electricity wholesale prices was hardly felt by the German sales business with households and commercial operations. Electricity tariffs were an average of 5% higher than in 2008. This is because most of the sales companies had bought electricity in advance and their procurement costs had therefore still been influenced by the rise in wholesale prices in preceding years. In contrast, most electricity purchases by industrial enterprises are more short term. As a result, prices in this customer segment dropped by around 5%.

UK wholesale electricity prices also declined. In the year under review, the average spot price amounted to £37 (€41) per MWh for base-load contracts and £45 (€50) per MWh for peak-load electricity. This was only about half as much as in the previous year. On the UK forward market, base-load contracts for delivery in 2010 sold for an average of £44 (€50) per MWh and peak-load electricity sold for an average of £53 (€60) per MWh. The price level dropped by a third compared to what was paid for 2009 forwards in the previous year.



RWE sells forward most of its UK electricity production, similar to the policy it pursues in Germany. As our UK generation portfolio largely consists of hard coal and gas-fired power plants, RWE npower's earnings trend largely depends on clean dark spreads and clean spark spreads realisable in the market. Overall, these were lower for 2009 than for 2008. The spreads worsened, also regarding short-term spot market transactions. This is in part due to the economically induced reduction in demand for electricity, which mostly affected mid-merit and peak-load power plants. In addition, following several outages in the previous year, UK nuclear power stations had higher levels of availability. Their added generation was largely to the detriment of gas and hard coal-based electricity production.

Most of the utilities in the UK supply business lowered their tariffs in 2009. Nevertheless, the price level averaged over the entire year was higher than in 2008—by 3% for households and small commercial enterprises, and by as much as 17% for industrial and corporate customers. This reflected the fact that a large number of utilities had increased their prices during 2008. These adjustments had been necessary, because most of the supply companies had purchased electricity early on and therefore still had substantial procurement costs.

End-customer prices also rose in most Central Eastern European electricity markets. Industrial customers in Poland and Slovakia had to pay 23% and 21% more year on year, respectively. In contrast, the level of prices for this customer group in Hungary dropped by 4%. Residential electricity bills in all the aforementioned markets grew, rising by 17% in Poland, 9% in Hungary, and 3% in Slovakia.

1.3 POLITICAL ENVIRONMENT

Our economic success and the contribution we make to climate protection and security of supply essentially depend on the political environment in our markets. It was therefore all the more disappointing for us that the UN Climate Conference in Copenhagen failed to produce any tangible results. Nevertheless, there was some movement in energy policy in 2009. The change in Germany's government brightened the prospects for the continued use of CO₂-free nuclear energy. And in the UK, the stage is currently being set for the increased use of nuclear power and energy from renewables.

Germany's new government in favour of nuclear lifetime extension. The change in the country's administration in the autumn of 2009 brought some movement into German energy policy. In its coalition agreement of October 26, the incumbent parties (CDU/CSU and FDP) set out their political programme, including such important topics as climate protection and security of supply. The agreement emphasises that Germany intends to defend its leading role in climate protection. The objective is to reduce domestic greenhouse gas emissions by 40% by 2020, compared to 1990. Renewable energy is to make an important contribution. Among other things, the coalition agreement envisages amending the German Renewable Energy Act (REA) effective from January 2012, more planning security for offshore wind farm operators and a reduction in subsidies for solar facilities. The development of most significance to RWE relates to the lifetimes of Germany's nuclear power stations. Their output is currently limited by the German Nuclear Energy Act and corresponds to 32 years of normal operation. The coalition intends to extend these lifetimes in compliance with the strict German and international safety standards because it will be impossible to achieve the climate goals otherwise. The objective is to reach an agreement with the nuclear power plant operators as quickly as possible, establishing the details of a lifetime extension, including operating periods, safety requirements, etc. However, the timeframe remains unclear to date. The coalition agreement also addresses the construction of new, efficient coal-fired power plants, which is also to be possible in future. Furthermore, the coalition intends to rapidly translate the EU Directive of April 23, 2009 on the environmentally friendly geological storage of carbon dioxide into national law. This would provide a legal framework for operating fossil fuel-fired power stations with carbon capture and storage (CCS). The governing parties agreed to present an overall concept outlining German energy policy by October 2010 at the latest. The German Federal Ministry of Economics and the German Federal Ministry for the Environment are to draft a joint proposal. The first key points are expected to be presented by the summer of 2010.

Copenhagen World Climate Conference falls short of expectations. The UN Climate Conference in Copenhagen took a disappointing course in December 2009. The roughly 190 countries participating were unable to reach an agreement to succeed Kyoto encompassing global conditions for climate protection after 2012. The main concluding document, the "Copenhagen Accord," is not legally binding. However, it does include a minimal consensus establishing the concrete goal of limiting global warming to less than two degrees centigrade compared to pre-industrial levels. But it remains to be

seen how this target is achieved. The delegates did not agree on concrete objectives for lowering greenhouse gases, or on a schedule for the next steps. It is also unclear how and whether the Kyoto Clean Development Mechanism and Joint Implementation can be used after 2012.

United Kingdom establishes strategy to realign energy supply. In July, the UK government published a White Paper on the energy sector, establishing its political guidelines. It accords substantial importance to security of supply and climate protection. The government is committed to reduce CO₂ emissions by 18 % by 2020, compared to 2008 levels. The objective is to increase the share of electricity generation accounted for by technologies that cause little or no emissions to 40 % during this period. A bill building on some of the White Paper's goals was presented in November. Among other things, it envisages the mandatory introduction of social electricity and gas tariffs. In addition, it includes details on subsidy mechanisms for CCS pilot projects. Also in November, the UK government published draft papers setting out the details of its energy policy concept. Central fields of activity are the use of fossil fuels (especially using CCS technology), the increased use of nuclear power and renewable energy, and the expansion of network infrastructure. Planning and approval processes are to be accelerated. Furthermore, the government named sites suitable for the construction of new nuclear power stations, including Wylfa and Oldbury. We placed the winning bids for these two locations with E.ON (see page 50). The share of electricity production accounted for by energy from renewables is to be raised to 30 % by 2020. In future, new coal-fired power plants will only be approved if they include carbon capture and storage technology for an installed capacity of at least 300 MW.

Third Single Energy Market Package creates independent transmission system operators without interfering with ownership. On July 15, 2009, the EU Council of Ministers and the European Parliament agreed on the Third Single Energy Market Package designed to continue the deregulation of electricity and gas markets. The main issue was how to structure ownership relationships between the transmission system operators (TSOs) and their parent companies in a way that ensures non-discriminatory third-party access and provides incentives for necessary investments in networks. The adopted guideline envisages network companies remaining within their respective groups, while increasing their independence substantially. TSOs must be set up as completely self-sufficient companies. They must therefore be separated from other group companies in terms of company law and be capable of performing all operating tasks with their own personnel. The parent companies retain ownership, but the TSOs must take independent, uninfluenced decisions. The Council thus chose to go against the proposal submitted by the EU Commission earlier, which envisaged complete ownership unbundling. The guideline's provisions remain to be translated into national law. By setting up RWE Transportnetz Strom as a fully self-sufficient company operating as Amprion, RWE has already put key elements of the unbundling rules into practice (see page 50).

1.4 MAJOR EVENTS

At RWE, fiscal 2009 was dominated by international growth. By acquiring Dutch-based Essent, we have become a leading energy utility in the Benelux region. We also continued our course for expansion in electricity generation and the upstream business. To be successful internationally, one has to adapt flexibly to regional circumstances and be able to act quickly. We significantly improved the prerequisites for this by carrying out comprehensive restructuring measures. Having sold our remaining stake in American Water, we are fully focused on the energy business.

Acquisition of Dutch utility Essent. Thanks to the takeover of Essent N.V., RWE has advanced to become one of the largest energy utilities in the Benelux region. The acquisition was completed on September 30, 2009. Essent's waste management and distribution network operations have been carved out of the transaction. The same applies to Essent's 50% stake in the EPZ joint venture, operator of the Borssele nuclear power station. A court ruling on this part of the business is pending. The stake in EPZ will remain under ownership of Essent's former shareholders until the proceedings have been concluded. The European Commission gave us anti-trust clearance on condition that Essent divest its 51% stake in Stadtwerke Bremen (swb). This took place as of October 21, 2009. Taking into account the sale of the stake in swb and the spin-out of the EPZ interest as well as further adjustments, the Essent transaction has a value of approximately €7.3 billion. The company is now managed by a four-member executive board, headed by Peter Terium (46), who is of Dutch nationality and whose previous positions include that of Chairman of the Board of Directors of RWE Supply & Trading.

American Water completely sold. After the initial public offering of the US water utility American Water in April 2008, we divested our remaining shares in the company in the last financial year. At the beginning of 2009, we still held a 60.5% stake. We placed our remaining shares in American Water in three tranches over the course of the year, for a total of US\$1.9 billion (about €1.3 billion).

New Group structure in place. In fiscal 2009, we implemented reorganisation measures designed to make it easier for the RWE Group to hit its growth targets and stand its ground against the backdrop of increasingly fierce competition. As presented on page 37, we now manage our activities more in line with national markets. We can therefore adapt to local requirements more flexibly. Our German sales and distribution network businesses were reorganised and streamlined. The single most important measure is the merger of the two regional companies RWE Rhein-Ruhr AG and RWE Westfalen-Weser-Ems AG to form a sales company (RWE Vertrieb AG) and a distribution network company (RWE Rheinland Westfalen Netz AG). RWE Energy, the former holding company, ceased to exist. The two new entities and RWE's other regional companies report directly to RWE AG. As a result of the reorganisation, we are reporting on fiscal 2009 based on a new segment structure. More detailed information on this can be found on pages 55 et seq.

New energy-efficiency company. We pooled our energy-efficiency activities in a new company as part of our reorganisation programme. Headquartered in Dortmund, Germany, RWE Effizienz GmbH began operating on July 1. Its product and consulting offerings target private customers, small and medium-sized enterprises, municipalities as well as service partners such as tradesmen and architects. It promotes, among other things, the use of modern electricity meters (smart meters) to improve monitoring of energy consumption as well as computer systems to control residential equipment and appliances (smart homes). Its activities also include electric vehicles.

Pooling of power plant construction resources. We are also bundling our know-how in the field of power plant construction. RWE Technology GmbH, a new company, has been in charge of all large-scale new-build projects with the exception of those in the field of renewable energy since January 1, 2010. This enables us to realise synergies across markets, e.g. in engineering and supplier selection. RWE is building large-scale power stations in Germany, the Netherlands, and the UK with a combined installed capacity of 12 GW. Further new build projects are planned.

Stronger organisational independence for the electricity transmission network. In July 2009, we spun RWE Transportnetz Strom GmbH, which is responsible for operating our ultra-high-voltage network, out of the former RWE Energy AG and assigned it directly to RWE AG. Its expansion into a fully functional company capable of fulfilling all operational tasks with its own staff is well underway. The company has been operating under the name Amprion GmbH since September 1, 2009. By taking this step, RWE has already largely met the requirements of the Third EU Single Energy Market Package adopted in July 2009, which envisions increasing the autonomy of transmission and long-distance system operators within integrated energy companies.

Joint venture with E.ON for building nuclear power stations in the UK. In January 2009, RWE and E.ON established Horizon Nuclear Power Ltd., a joint venture for the development, construction and operation of nuclear power plants in the UK. At the end of April, the company secured land for this purpose. The Nuclear Decommissioning Authority had auctioned off plots of land at three locations. The joint venture placed the winning bids for two sites, Wylfa and Oldbury.

Entry into the Turkish electricity market. In October of 2009, we signed an agreement with Greek-based Metka Group to build a combined-cycle gas turbine (CCGT) power plant in Denizli in the west of Turkey. The 775 MW facility is to be owned and operated by a joint venture between RWE (70 %) and the Turkish energy company Turcas (30 %). We intend to take a final decision on the investment in the first half of 2010. The CCGT plant is scheduled to go online at the end of 2012.

Exit from nuclear power project in Bulgaria. RWE will not participate in the construction or operation of a nuclear power station in Belene in northern Bulgaria. In October, we terminated the joint venture agreement to develop the project with the state-owned energy utility NEK, because project financing could not be finalised within the agreed period.

Rapid expansion of renewable generation capacity. We made good progress in implementing our growth strategy in the field of energy from renewables in 2009. A major factor besides the acquisition of Essent was RWE Innogy's extensive capital expenditure. In total, RWE had 2.5 GW of renewable generation capacity, with another 0.4 GW under construction. In addition, we are developing projects with a combined installed capacity of 17.1 GW. Wind turbines are the focal point. Furthermore, we invested in biomass-based electricity and heat generation and entered the market for solar thermal power plant technology in 2009.

Above all, we made significant progress in relation to offshore wind power generation. In December, we commissioned the Rhyll Flats (UK) wind farm, which has a total installed capacity of 90 MW. In Belgium, RWE Innogy acquired a 26.7% stake in the Thornton Bank project, which has already been approved. On completion in 2013, this wind farm will have an installed capacity of 300 MW, of which 30 MW have already been completed. We also achieved a major success in the procurement of plant components. We struck an agreement with REpower Systems for the company to provide us with 250 REpower 5M/6M offshore wind turbines. A framework agreement to this effect was signed in February 2009. The order has a total value of up to €2 billion. The wind energy facilities are scheduled for delivery from 2011 to 2015. Their rated outputs of 5 MW and 6 MW place them among the biggest and most powerful turbines worldwide. In addition, RWE Innogy placed an order to build two special ships for the construction of offshore wind facilities. The investment amounts to approximately €100 million per ship. Completion is anticipated for 2011. The scarcity of special ships is considered to be the largest potential bottleneck in the construction of offshore wind farms.

RWE Innogy also posted further growth in onshore wind power generation. In May, we increased our interest in the Spanish wind farm operator Danta de Energías to 98.65%. We previously held a stake of 49.33% via an investment holding company in which we have a 90% interest. Danta de Energías owns three wind farms in the province of Castile and León with a combined installed capacity of 130 MW. RWE Innogy also expanded its onshore wind capacity in the UK, Poland and France, by commissioning new plants in these countries.

Electricity and heat generation from biomass is another area in which RWE Innogy is on course for expansion. We reached a contractual agreement with the UK paper manufacturer Tullis Russell to supply its plant in Markinch (Scotland) with electricity and heat. For this purpose, we will build a biomass-fired thermal power station with an installed electric capacity of 50 MW, scheduled for commissioning in 2012. RWE has set aside €235 million for this investment.

Expansion of upstream gas position in UK North Sea. RWE Dea acquired stakes in two undeveloped gas fields off the UK coast. At the end of July, the company signed an agreement to take a 70 % interest in the Breagh field, currently the largest undeveloped natural gas discovery in the southern UK North Sea. The price amounted to approximately €260 million. The Breagh gas field gives us access to a share of at least 13 billion cubic metres of the resources and the possibility to conduct further exploration in the surrounding fields. Also in July, RWE Dea acquired a 50 % stake in several concession blocks of the smaller Clipper South field. This increases our gas resources by another 2 to 3 billion cubic metres. In total, RWE Dea therefore had 161 billion cubic metres in gas reserves and resources at the end of 2009. With the new investments, we also take the operating lead in the development of the fields. We intend to commence production in the next three years.

RWE Dea sets stage for upstream activities in Caspian region. The Turkmenistan government has granted us the rights for the exploration and development of expected gas reserves in the south east of the Caspian Sea. A corresponding agreement was signed in mid-July. The contracted area spans 940 square kilometres. It was only in April that we had entered into an energy partnership with the Turkmenistan government. It will involve looking into the possibility of gas deliveries from Turkmenistan to Europe, for instance via the planned Nabucco pipeline.

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

Strengthening of position in Luxembourg. RWE took a 19.8% share in the new electricity and gas company Enovos, which was established under the direction of the Grand Duchy of Luxembourg in 2009. The utility operations of Cegedel, Soteg (Luxembourg) and Saar Ferngas (south west of Germany) have been combined in the new entity. RWE incorporated its 30% stake in Cegedel into the new company. We had initially shared it with the investment company Luxempart. We acquired Luxempart's interest in Cegedel in January of 2009 for a purchase price of €188 million.

RWE acquires ExxonMobil's German heating business. At the end of June, RWE purchased FAVORIT Fernwärme GmbH from ExxonMobil for €143 million. FAVORIT is active in the German local and district heating sectors and employed more than 120 people in 2009, earning €86 million in revenue. The company supplies a total of 1 million MWh in heat to 69,000 customers. FAVORIT's core regions are Hamburg, North Rhine-Westphalia, Hesse and Baden-Württemberg.

EU Commission ends anti-trust investigation of RWE. The European Commission has closed its anti-trust investigation of RWE's German electricity business. This was officially communicated to us in October and confirms our position, verified by independent certified public auditors and external appraisers, that RWE operates according to market rules and, in particular, does not withhold any electricity generation capacity or manipulate wholesale prices. The Commission had started investigating several European power utilities in 2006, following an electricity sector inquiry.

Gas transmission anti-trust proceedings against RWE ended. The anti-trust abuse proceedings conducted by the EU Commission against the operator of our long-distance gas grid RWE Transportnetz Gas GmbH (now Thyssengas GmbH) have also been stopped. We have committed to selling the company to a third party which is independent of RWE. This commitment was officially confirmed by the EU Commission on March 18 and is therefore legally binding upon us. The EU had conducted an investigation against us on grounds that it suspected unjustified barriers were put in the way of gaining access to the German gas transmission system. Our commitment to selling Thyssengas is not an admission of guilt. We remain convinced that we have complied with the statutory regulations in the gas business, but we wanted to avoid protracted litigation. Thyssengas operates a grid with a length of approximately 4,000 kilometres. In fiscal 2009, the company generated over €200 million in total revenue.

Dr. Rolf Martin Schmitz joins Executive Board of RWE AG. In its meeting on February 24, 2009, the Supervisory Board of RWE AG appointed Dr. Rolf Martin Schmitz to the Executive Board. Dr. Schmitz took office effective from May 1, 2009. He is responsible for our German generation, network and sales operations. The 52-year-old engineer has a long successful track record in the energy business. His most recent position before joining RWE was that of Chairman of the Board of Management of RheinEnergie AG, based in Cologne, Germany.

Dr. Manfred Schneider new Chairman of the Supervisory Board of RWE AG. In an extraordinary meeting on May 1, 2009, the Supervisory Board elected Dr. Manfred Schneider its chairman. Dr. Schneider, the former CEO of Bayer AG, has been a member of the Supervisory Board of RWE AG since 1992. He succeeded Dr. Thomas R. Fischer, who had chaired the body since the end of 2004 and resigned this position for personal reasons as of April 30, 2009.

Major events after the period under review:

RWE Innogy places winning bids for further offshore wind projects in the UK. Within the scope of an invitation to tender, in early January 2010, the UK government granted RWE Innogy permission to develop the Atlantic Array and Dogger Bank offshore wind projects. A call for bids had been initiated for the development rights to a total of nine zones suitable for wind turbines with an installed capacity of about 25 GW. We will initially develop the Atlantic Array project alone. It will have up to 1.5 GW in generation capacity. For Dogger Bank, however, we placed the winning bid as part of a consortium called "Forewind," which includes the UK utility Scottish & Southern Energy and the Norwegian energy companies Statoil and Statkraft. Up to 13 GW in wind-based production capacity can be built in this area. The consortium aims to develop around 9 GW. RWE Innogy owns a 25% stake. By taking charge of these projects, we have undertaken to develop both zones to approval. We are not committed to build the wind farms thereafter.

1.5 NOTES ON REPORTING

New segment structure in fiscal 2009. We are applying the new Group structure presented on pages 37 et seq. and 49 for the first time in this report. Prior-year figures have been adjusted in order to allow for comparison. The segment breakdown is now more in line with national markets, and the interim holding company, RWE Energy, has ceased to exist. This results in a reporting structure with the seven following divisions:

- **Germany:** This division consists of the “Generation” and “Sales and distribution networks” business areas. The first of these business areas includes RWE Power’s activities (excluding Hungarian-based Mátra). It does not contain RWE Innogy’s or Essent’s German electricity production. The “Sales and distribution networks” business area encompasses the new companies RWE Rheinland Westfalen Netz AG (including RWE Gasspeicher GmbH) and RWE Vertrieb AG (including eprimo and RWE Aqua). It also includes the German regional utilities, which operate their own electricity generation facilities to a small extent, besides handling the network and end-customer business. The new RWE Effizienz GmbH also belongs to this business area. This also applies to several non-German activities: our minority interest in Austrian-based KELAG and Luxembourg-based Enovos as well as our water business in Zagreb, Croatia, which is run by RWE Aqua.
- **Netherlands/Belgium:** This is the division under which we report on Essent, which was consolidated for the first time as of September 30, 2009. It includes the company along with all of the assumed activities. Our former Dutch energy business (RWE Energy Nederland) was transferred to Essent effective from October 1. It has been assigned to the “Other, consolidation” item for the period before that.
- **United Kingdom:** We present RWE npower in this item. It encompasses our entire UK generation and supply business with the exception of electricity production from renewables, which is overseen by RWE Innogy.
- **Central and Eastern Europe:** This division covers our companies in Poland, Hungary, the Czech Republic and Slovakia. In Poland, we focus on electricity supply and the electricity distribution network. In Hungary, we also concentrate on lignite-based electricity generation, which is managed by our subsidiary Mátra. Before the reorganisation, Mátra belonged to RWE Power. Via minority interests, we are also active in gas sales and water supply in Hungary. In the Czech Republic, our main activity is gas. Our local operations encompass regional supply, distribution, supra-regional transmission, transit and storage. In Slovakia, we are active in the electricity network and electricity end-customer businesses through our minority interest in VSE and in the gas supply sector via the new RWE Gas Slovensko.

- **Renewables:** This division encompasses all of the activities of RWE Innogy, which specialises in electricity generation from renewable sources of energy.
- **Upstream gas & oil:** This item consists of RWE Dea's business. The company produces gas and oil, focusing on Europe and northern Africa.
- **Trading/gas midstream:** This segment corresponds to RWE Supply & Trading. In addition to energy trading and the gas midstream activities, this division also subsumes the sales business with our major German industrial and corporate customers previously handled by RWE Key Account before it was incorporated into RWE Supply & Trading in 2009.

The "Other, consolidation" item covers, among others, Amprion (formerly RWE Transportnetz Strom) and Thyssengas, which is for sale (formerly RWE Transportnetz Gas). It also includes the Group holding company, RWE AG, as well as our internal service providers, namely RWE Service, RWE IT and RWE Consulting. From 2010 onwards, we will also report on the new RWE Technology under "Other, consolidation" (see page 50).

EBITDA includes operating income from investments. A further adjustment relates to the determination of EBITDA (earnings before interest, taxes, depreciation and amortisation), which now also includes operating income from investments. We have thus adapted the calculation of EBITDA to that of the operating result. The income contribution made by investments is expected to rise in the coming years and thus gain significance. This will be in part driven by RWE Innogy's growth programme.

American Water deconsolidated. As set out on page 49, we sold our entire stake in American Water last year. This enabled us to deconsolidate the company. It is no longer stated in the balance sheet for the period ended December 31, 2009. Earnings contributed by American Water in 2009 are disclosed as part of "Income from discontinued operations."

1.6 BUSINESS PERFORMANCE

Electricity production by division	Germany ¹		Netherlands/ Belgium		United Kingdom		Central and Eastern Europe		Renewables		RWE Group	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
In-house generation	146.0	177.7	4.5	-	26.7	36.7	5.7	5.7	4.3	4.0	187.2	224.1
Lignite	65.3	68.3	-	-	-	-	5.6	5.6	-	-	70.9	73.9
Hard coal	31.8	44.0	1.6	-	10.7	18.0	-	-	-	-	44.1	62.0
Nuclear	33.9	49.3	-	-	-	-	-	-	-	-	33.9	49.3
Gas	11.5	12.7	2.1	-	15.8	18.2	0.1	0.1	0.2	0.2	29.7	31.2
Renewable energy	1.6	1.5	0.8	-	-	-	-	-	4.1	3.8	6.5	5.3
Pumped storage, oil, other	1.9	1.9	-	-	0.2	0.5	-	-	-	-	2.1	2.4
Electricity purchased from third parties	33.9	33.8	1.5	-	25.9 ²	18.1 ²	20.3	21.4	0.1	0.3	112.8 ³	110.1 ³
Total	179.9	211.5	6.0	-	52.6	54.8	26.0	27.1	4.4	4.3	300.0	334.2

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

In fiscal 2009, it amounted to 18.3 billion kWh, of which 16.2 billion kWh were generated from hard coal.

2 The United Kingdom division largely purchases electricity via RWE Supply & Trading.

3 Including purchases by RWE Supply & Trading and companies subsumed under "Other, consolidation" (mainly Amprion).

Electricity generation markedly down. In the financial year that just came to a close, the RWE Group produced 187.2 billion kilowatt hours (kWh) of electricity—16% less than in 2008. In-house generation and power purchases combined for 300.0 billion kWh. This was 10% less than in fiscal 2008. In the year under review, 38% of electricity generation was from lignite, 24% hard coal, 18% nuclear, and 16% gas. The share of renewable energy amounted to 3%.

- Germany: The Germany division produced 146.0 billion kWh of electricity. Relative to the Group, this corresponds to a share of 78%. In addition to RWE Power's German generation, this figure includes small amounts of electricity produced by regional companies. It also encompasses electricity generated by power plants not owned by RWE that we can deploy on the basis of long-term agreements. In contrast, it does not include electricity produced by RWE Innogy and Essent in Germany. The division's generation was down 18% compared to 2008. This is in part due to an outage at the Biblis nuclear power station for maintenance. Block B was offline from the end of January to the end of November 2009. Block A was disconnected from the grid at the end of February 2009 and is scheduled to be ramped up again in March 2010. Without taking the outages at Biblis into account, electricity production was down 9%. Most importantly, the contractually secured hard coal-fired power stations were used less. This is because, due to lower spot prices, we met some of the obligations arising from forward transactions with lower-cost electricity procured from third parties by RWE Supply & Trading, instead of through the use of these plants.
- Netherlands/Belgium: All of Essent's generation is under this division. Since we consolidated the Dutch utility for the first time as of September 30, 2009, we have only included its fourth-quarter production for 2009. It amounted to 4.5 billion kWh.

- United Kingdom: RWE npower generated 26.7 billion kWh of electricity, 27% less than in the previous year. As set out on page 45, the market conditions for hard coal and gas-fired power plants in the UK deteriorated considerably. This resulted from the cyclically induced decline in demand for electricity and the substantially improved availability of UK nuclear power stations.
- Central and Eastern Europe: Generation in this region totalled 5.7 billion kWh, matching the previous year's level, and largely comes from the Hungarian lignite-based power producer Mátra.
- Renewables: RWE Innogy produced 4.3 billion kWh of electricity, nearly exclusively from renewable sources of energy, posting a gain of 8%. This is a result of our strategy of increasing the share of total generation accounted for by renewable energy. In particular, the acquisition of the Spanish wind farm operator Urvasco Energía in June 2008 had a positive impact. Furthermore, RWE Innogy commissioned new wind farms. A counteracting effect was felt from the fact that the use of wind turbines experienced a weather-induced drop compared to the high level witnessed in 2008.

In addition to our in-house generation, we procure electricity from external suppliers. These purchases totalled 112.8 billion kWh (2008: 110.1 billion kWh). This included electricity fed into RWE's network by third parties, in accordance with the German Renewable Energy Act (EEG).

Power plant capacity by division as of Dec. 31, 2009, in MW	Germany ¹	Netherlands/ Belgium	United Kingdom	Central and Eastern Europe	Renewables	RWE Group
Primary energy source						
Hard coal	9,785	1,180	4,575	-	-	15,540
Lignite	10,162	-	-	763	-	10,925
Gas	4,169	1,802	3,026	147	-	9,144
Nuclear	6,295	-	-	-	-	6,295
Renewable energy	306	651	-	1	1,574 ²	2,532
Pumped storage, oil, other	2,489	-	2,657	-	-	5,146
Total	33,206	3,633	10,258	911	1,574	49,582

1 Including capacities of power stations not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. As of December 31, 2009, these capacities amounted to 8,712 MW, of which 6,547 MW were based on hard coal.

2 Including small shares of other energy sources (gas, among others).

Among Europe's leading electricity generators with nearly 50 gigawatts in power plant capacity.

At the end of the 2009 financial year, the RWE Group had an installed capacity of 49.6 GW. We rank fifth among Europe's energy utilities. These figures include the contractually secured capacities mentioned earlier that are not owned by RWE. Our electricity generation capacity increased by 4.4 GW

compared with 2008. The acquisition of Essent alone added 3.6 GW. Hard coal accounts for the biggest share of our installed capacity at 31%, followed by lignite (22%), gas (18%) and nuclear power (13%). Renewable energy had a share of 5%, which we intend to increase considerably in the future. Germany is the division that accounts for the largest share (67%) of our power plant capacity. The UK and the Netherlands/Belgium account for 21% and 7% respectively.

Emissions balance by country	Germany ¹		Netherlands/ Belgium		United Kingdom		Central and Eastern Europe		RWE Group	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Million metric tons of CO ₂										
CO ₂ emissions	123.3	140.9	2.7	-	16.6	24.8	6.5	6.4	149.1	172.1
Free allocation of CO ₂ certificates	83.1	84.9	2.4	-	14.9	14.9	4.8	4.8	105.2	104.6
Shortage of CO ₂ certificates	40.2	56.0	0.3	-	1.7	9.9	1.7	1.6	43.9	67.5

¹ Includes power stations not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. In the year under review, they produced 15.4 million metric tons of CO₂ and were allocated certificates for 19.8 million metric tons.

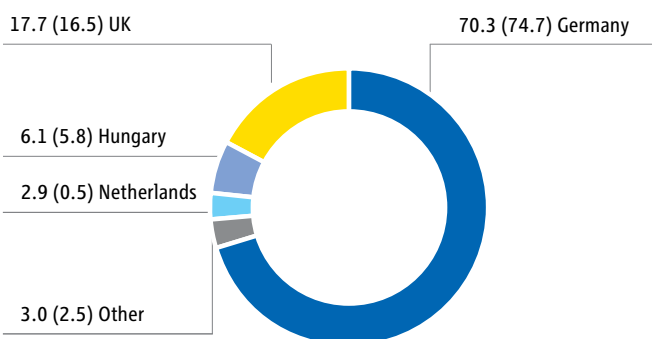
CO₂ emissions down 13%. In fiscal 2009, our electricity generation operations emitted 149.1 million metric tons of carbon dioxide. RWE-owned power plants accounted for 133.7 million metric tons, and the remaining 15.4 million metric tons come from contractually secured capacity. Although Essent was consolidated for the first time, emissions decreased by 23.0 million metric tons, or 13% compared to the previous year. This is due to the significant decline in electricity generated in Germany and the UK. We emitted 12% and 33% less CO₂ in these countries than in 2008. In the fourth quarter, Essent emitted 2.7 million metric tons. In the year under review, we were allocated free state certificates corresponding to 105.2 million metric tons in CO₂ emissions. We received emissions allowances for 83.1 million metric tons in Germany, 14.9 million metric tons in the UK, and 2.4 million metric tons in the Netherlands. In total, the allocation was far from being enough to cover our emissions. Therefore, we had to purchase certificates. At the Group level, the shortage amounted to 43.9 million metric tons. However, it was much smaller than in 2008.

In the trading period from 2008 to 2012 and thereafter, we are allowed to cover a maximum of 100 million metric tons of our CO₂ emissions by submitting certificates obtained through Kyoto "Clean Development Mechanism" and "Joint Implementation" projects. This is advantageous because the cost of these certificates is usually below the market price of emissions allowances allocated by EU member states. By the end of the 2009 financial year, we had contractually secured certificates for about 75.2 million metric tons of carbon dioxide. Taking project risks into account, we estimate that this will give us emissions certificates covering 43.9 million metric tons. We have already received certificates for 10.1 million metric tons.

Gas and oil production down year on year. In the year under review, RWE Dea produced 2,920 million cubic metres of gas and 2,336 thousand cubic metres of oil. Converting the gas to oil equivalent and adding it to crude oil production results in a total production of 5,163 thousand cubic metres, or 32.5 million barrels. This was 10% less than in 2008. Our natural gas production declined by 12%. Quantities obtained from the UK North Sea decreased substantially. In that region, we experienced a natural drop in production as existing reserves are being gradually exhausted. Our gas production in Germany and Egypt also dropped, whereas it grew in Norway. The crude oil production of RWE Dea was 7% lower than in 2008. Here again, there was a natural decline in production, which primarily affected our German and Danish fields. In Denmark, the situation was compounded by the fact that production was interrupted for repairs. In contrast, production in Norway increased.

Electricity sales mirror reduction in power plant use. In fiscal 2009, we supplied 282.8 billion kWh of electricity to outside customers. Electricity sales are typically lower than generation levels. The main reasons are transmission losses and in-house use by lignite production operations and pumped storage power stations. Electricity sales were 11% down on 2008. This drop is largely attributable to RWE Supply & Trading and is primarily due to the fact that trading of externally sourced electricity is not recognised in the sales volume. Excluding the trading activities, consolidated electricity sales were essentially flat, despite the negative economic influence. One reason for this was that new customers were won in the German distributor segment.

Electricity sales volume of the RWE Group in 2009 (2008) by region
%



External electricity sales volume	Private and commercial customers		Industrial and corporate customers		Distributors		Electricity trading		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Billion kWh										
Germany	26.1	26.8	27.3	27.0	54.6	47.1	-	-	108.0	100.9
Netherlands/Belgium	3.5	-	2.0	-	-	-	1.3	-	6.8	-
United Kingdom	20.1	21.4	29.8	31.1	-	-	-	-	49.9	52.5
Central and Eastern Europe	8.7	9.4	9.0	10.3	7.1	5.7	-	-	24.8	25.4
Trading/gas midstream	-	-	26.8	31.2	-	-	32.6	70.1	59.4	101.3
Renewables	0.1	0.1	0.1	0.5	1.6	1.1	-	-	1.8	1.7
RWE Group¹	59.3	58.8	95.7	100.6	93.9	87.6	33.9	70.1	282.8	317.1

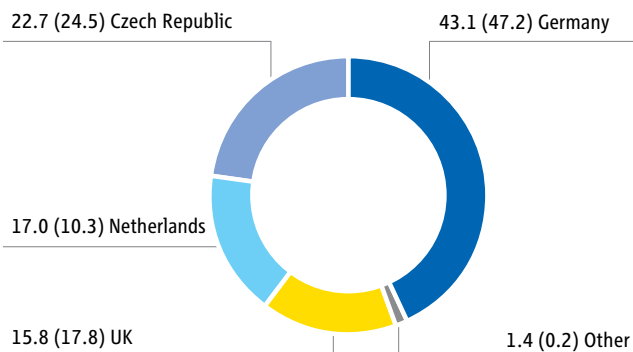
1 Including sales of the "Other, consolidation" segment (primarily of Amprion).

- Germany: This division sold 108.0 billion kWh of electricity, 7% more than in 2008. In the distributor segment, we won new customers and expanded volumes in existing contracts. Sales in the industrial and corporate customer segment posted a marginal gain, despite the economic crisis. We also served new customers in this segment. Furthermore, we expanded the residential and small commercial customer base. By the end of 2009, the Germany division was supplying 6,863,000 customers with electricity, 87,000 more than in the preceding year. These figures only include fully consolidated companies. Our sales subsidiary eprimo increased its market share considerably. The company was serving 626,000 electricity customers at the end of the year.
- Netherlands/Belgium: After the acquisition of Essent as of September 30, 2009, the division contributed 6.8 billion kWh to the RWE Group's electricity sales volume. As explained earlier, RWE Energy Nederland's supply activities are also included. For the period prior to the Essent acquisition, they are included in "Other, consolidation" at the Group level. Effective from December 31, the division was supplying 2,316,000 customers with electricity, of which 2,144,000 were in the Netherlands and 172,000 were in Belgium.
- United Kingdom: RWE npower's electricity sales amounted to 49.9 billion kWh, which were 5% down on 2008. The weak economy led to receding sales volumes primarily in the industrial and corporate customer segment as well as to more cost-aware energy consumption by households. Furthermore, our UK market share shrank somewhat, owing to fierce price competition. As of December 31, 2009, RWE npower was serving 4,147,000 electricity customers, 82,000 fewer than a year earlier. We currently have a 15% share of the UK residential market.

- Central and Eastern Europe: Electricity sales achieved by this division totalled 24.8 billion kWh. This is marginally less than in 2008. We suffered economically and competition-induced declines in the corporate customer segment in Hungary. However, the number of homes we serve there increased. In total, we had 2,231,000 electricity customers in Hungary at year-end, 42,000 more than in 2008. We also felt the effects of the weaker economy in Poland. Despite this, in the year under review, our Polish electricity customer base expanded by 21,000 to 901,000.
- Trading/gas midstream: RWE Supply & Trading sold 59.4 billion kWh of electricity, 41 % less than in 2008. The main reason for this is that the company covered less of its electricity sales on the wholesale market via in-house generation than in 2008. It often met its supply obligations with lower-cost purchases from third parties. In such cases, the trading volumes are not included in external sales. The economic crisis led to a decline in sales in the former RWE Key Account business. A stabilising effect was felt from the fact that our contracts generally include a purchase obligation ("take-or-pay" clause).

Gas sales volume of the RWE Group by region in 2009 (2008)

%



External gas sales volume	Private and commercial customers		Industrial and corporate customers		Distributors		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Billion kWh								
Germany	22.8	24.4	16.4	23.0	55.7	62.2	94.9	109.6
Netherlands/Belgium	17.9	-	16.2	-	2.0	-	36.1	-
United Kingdom	45.1	48.5	6.8	9.0	-	-	51.9	57.5
Central and Eastern Europe	33.1	33.5	27.5	31.5	15.3	14.4	75.9	79.4
Upstream gas & oil	-	-	2.8	2.7	16.2	17.4	19.0	20.1
Trading/gas midstream	-	-	18.9	19.4	14.2	8.0	33.1	27.4
RWE Group¹	125.7	114.2	102.9	111.6	103.4	102.0	332.0	327.8

1 Including sales by RWE Energy Nederland. The company was assigned to the "Other, consolidation" segment in the first three quarters of 2009 and in the entire previous year.

Gas sales slightly higher year on year. External gas sales amounted to 332.0 billion kWh, marginally up on the 2008 level. Excluding the effect of Essent's first-time consolidation, sales would have decreased by 7%. Many industrial customers ramped down production in response to the weak economy and therefore used less gas.

- **Germany:** In the year being reviewed, this division sold 94.9 billion kWh of gas. This represents a drop of 13% compared to 2008. In reaction to increasingly fierce competition in the German gas market, some of our customers switched suppliers or started diversifying their gas procurement. This primarily applied to the German distributors. In addition, the recession caused industrial operations to use less gas and households to make more cost-aware use of gas. However, below-average temperatures in January and December stimulated demand somewhat. Moreover, eprimo won new customers, serving 47,000 homes by the end of 2009. In total, our fully consolidated German gas sales companies had 1,072,000 customers at the cut-off date, 36,000 more than a year earlier.
- **Netherlands/Belgium:** In the fourth quarter, Essent (including RWE Energy Nederland) contributed 36.1 billion kWh to the RWE Group's gas sales volume. At the end of 2009, Essent was supplying 1,979,000 customers with gas, of which 1,920,000 were in the Netherlands and 59,000 were in Belgium.
- **United Kingdom:** RWE npower's gas sales were down 10% to 51.9 billion kWh. One of the reasons was the reduction in demand among industrial enterprises, due to the economic situation. Gas consumption by households and small commercial operations also dropped. This was due to energy savings, partly in reaction to the economic crisis. By December 31, 2009, RWE npower had 2,641,000 gas customers. We won a net 21,000 customers in the year under review. The number of customers to whom we supply both electricity and gas rose by 121,000 to 2,348,000.

- Central and Eastern Europe: Gas sales recorded by this division declined by 4% to 75.9 billion kWh. Cyclically and competition-induced losses in the Czech Republic were the main reason. Our customer base in that country shrank by 23,000 to 2,281,000 over the course of the year. A positive effect came from the fact that we now sell gas in Slovakia as well. Established in July 2008, our sales subsidiary RWE Gas Slovensko delivered 2.2 billion kWh of gas to corporate customers.
- Upstream gas & oil: RWE Dea delivered 19.0 billion kWh of gas to external customers, falling below the prior-year figure by 5%. This was due to the decline in gas production.
- Trading/gas midstream: RWE Supply & Trading's external gas sales volume totalled 33.1 billion kWh. This company focuses on procuring gas for RWE Group companies and therefore predominantly generates internal sales. The company's external sales consist of supplies to major industrial and corporate customers. They also reflect sales of surplus purchases, which we sell directly to distributors or on the wholesale market. In the latter case, similar to electricity, this portion is not included in sales. The share accounted for by direct sales to distributors was much higher in 2009 than in 2008. This is the main reason gas sales rose by 21%.

RWE Group revenue¹ by region in 2009 (2008)

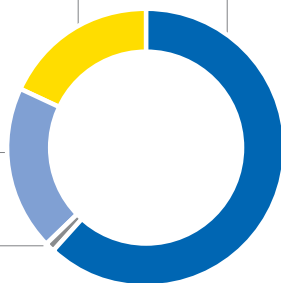
%

18.1 (20.3) UK

62.0 (62.6) Germany

19.6 (16.5) Rest of Europe

0.3 (0.6) Other



¹ Including natural gas/electricity tax.

External revenue € million	2009	2008	+/- %
Germany	19,386	18,606	4.2
Power generation	1,056	1,093	-3.4
Sales and distribution networks	18,330	17,513	4.7
Netherlands/Belgium	1,799	-	-
United Kingdom	7,843	8,618	-9.0
Central and Eastern Europe	5,254	5,776	-9.0
Renewables	245	269	-8.9
Upstream gas & oil	1,208	1,765	-31.6
Trading/gas midstream	6,937	8,663	-19.9
Other, consolidation	5,069	5,253	-3.5
RWE Group	47,741	48,950	-2.5
of which:			
Electricity revenue	31,225	31,359	-0.4
Direct electricity tax	1,041	964	8.0
Gas revenue	12,443	13,768	-9.6
Oil revenue	1,024	1,164	-12.0

External revenue marginally down year on year. In 2009, the RWE Group generated €47.7 billion in external revenue. This was 2 % less than in the previous year despite Essent's first-time consolidation. The main reason was that we sold less in-house generation. Currency exchange rates also had a negative impact on the revenue trend. Sterling, our major foreign currency, lost value compared with the euro. Averaged for fiscal 2009, Sterling cost €1.12; in the preceding year, the equivalent was €1.25. The Czech crown, the Hungarian forint and the Polish zloty also decreased in value. In contrast, the US dollar rose from €0.68 to €0.72. Net of major consolidation and currency effects, revenue was down 3 %.

- Germany: The division's external revenue amounted to €19.4 billion, 4 % up year on year. Electricity revenue rose by 12 % to €13.6 billion. The aforementioned improvement of the sales volume and price increases due to higher procurement costs contributed to this. Notably, our sales companies generally purchase electricity far in advance, similar to our competitors. Therefore, 2009 procurement costs were still affected by the price peaks seen on the wholesale market in 2008. Gas sales by the Germany division resulted in €4,052 million in revenue, 16 % less than in 2008. The decline in sales mentioned earlier was a reason. Price-related effects also caused revenue to drop. Our German regional utilities reduced tariffs several times in 2009. In so doing, they passed the advantage derived from declining procurement costs through to their customers.

- Netherlands/Belgium: The new division earned €1,799 million in revenue in the last three months of the year being reviewed. €737 million and €813 million of this were attributable to the electricity and gas businesses, respectively.
- United Kingdom: External revenue generated by RWE npower dropped by 9% to €7,843 million, mainly due to currency effects. Excluding them, revenue would have recorded a marginal increase. Electricity revenue amounted to €5,418 million, down 10%, and down 1% excluding currency effects. Gas revenue declined by 7% to €1,997 million. It increased by 3% in Sterling terms. Revenue from both products was hampered by decreases in sales. But in total, changes in prices had a positive effect: RWE npower lifted its electricity and gas tariffs for household customers by an average of 14% and 26% at the end of August 2008. This was followed by a competition-induced cut in electricity tariffs by 8% as of March 31, 2009.
- Central and Eastern Europe: We posted external revenue amounting to €5,254 million in this division, €2,453 million of which came from the electricity business, with €2,705 million stemming from our gas operations. Compared to 2008, we recorded declines of 9% for both products. Currency effects also played a role here. Excluding them, revenue would have been essentially flat. We suffered volume-induced declines in revenue in the Czech gas and Hungarian electricity businesses. However, they were contrasted by a number of positive effects. Revenue generated by the Polish supply business grew in terms of both price and volume. Increases in electricity tariffs in Hungary and gas prices in the Czech Republic, as well as RWE Gas Slovensko's start of operations, also added revenue.
- Renewables: RWE Innogy's external revenue totalled €245 million. This was 9% less than in the previous year. Lower electricity prices, which had an especially strong impact on our Spanish wind activities, were the main contributors. The fact that the Spanish wind power producer Urvasco Energía, which was acquired in June 2008, was consolidated for the full year for the first time in 2009, had a counteracting effect. €144 million, or more than half, of RWE Innogy's external revenue was generated in Germany, primarily from electricity and heat generated by biomass and gas-fired thermal power stations. Production from German hydroelectric power plants only accounts for a small proportion, since most of it is sold internally. Revenue outside Germany predominantly stems from wind turbines in the UK and Spain.
- Upstream gas & oil: This division's external revenue was down by 32% to €1,208 million. RWE Dea sold its crude oil production at much lower dollar prices than in the preceding fiscal year. The negative impact on revenue was slightly mitigated by the US currency's gain on the euro. Average gas prices realised were also down year on year. The decline in gas and oil sales was also reflected in revenue.
- Trading/gas midstream: External revenue achieved by RWE Supply & Trading totalled €6,937 million, dropping by 20% compared to 2008. Most of it was achieved by selling the Group's in-house electricity generation on the wholesale market. However, in 2009 the division increasingly met its supply obligations through purchases from third parties. This reduced revenue, because only the margins on these transactions are recognised in revenue.

EBITDA € million	2009	2008	+/- %
Germany	5,811	5,545	4.8
Power generation	3,889	3,500	11.1
Sales and distribution networks	1,922	2,045	-6.0
Netherlands/Belgium	277	-	-
United Kingdom	445	714	-37.7
Central and Eastern Europe	1,285	1,142	12.5
Renewables	126	103	22.3
Upstream gas & oil	437	748	-41.6
Trading/gas midstream	986	487	102.5
Other, consolidation	-202	34	-
RWE Group	9,165	8,773	4.5

Reconciliation of income from operating activities to EBITDA € million	2009	2008	+/- %
Income from operating activities	7,326	5,887	24.4
+ Income from investments	262	454	-42.3
- Non-operating result	-498	485	-
Operating result	7,090	6,826	3.9
+ Operating depreciation and amortisation	2,075	1,947	6.6
EBITDA	9,165	8,773	4.5

Operating result € million	2009	2008	+/- %
Germany	4,780	4,560	4.8
Power generation	3,428	3,072	11.6
Sales and distribution networks	1,352	1,488	-9.1
Netherlands/Belgium	180	-	-
United Kingdom	247	534	-53.7
Central and Eastern Europe	1,055	908	16.2
Renewables	56	55	1.8
Upstream gas & oil	203	494	-58.9
Trading/gas midstream	985	486	102.7
Other, consolidation	-416	-211	-97.2
RWE Group	7,090	6,826	3.9

Operating result 4% up year on year. The RWE Group's operating earnings improved further in 2009. EBITDA increased by 4% to €9,165 million, and the operating result also rose by 4%, to €7,090 million. Net of currency effects, both these figures were 6% higher year on year. The main drivers were good earnings from our German electricity generation, the unusually high earnings contribution made by RWE Supply & Trading, and the first-time consolidation of Essent in the fourth quarter. This was contrasted by significant drops in earnings in gas and oil production as well as in the UK energy business. Excluding the effect of Essent's first-time consolidation, both EBITDA and our operating result were up 2% compared to 2008. We therefore slightly exceeded the forecast we issued in February 2009. Without Essent, we had expected to post figures in the order of the previous year.

- Germany: The division posted an operating result of €4,780 million. This represents an increase of 5% over 2008. Developments in the "Power generation" and "Sales and distribution networks" business areas were as follows:

Power generation: Our German electricity production improved its operating result by 12% to €3,428 million. This was mainly due to the realisation of higher prices for our generation. We had sold most of it forward before 2009 at an average price of €70 per MWh (prior year: €58 per MWh). However, compared with the previous year, the division's earnings were also marked by negative effects, in particular the outage of both of the Biblis nuclear power plant's units for maintenance purposes (€967 million) and a negative effect of prices on fuel procurement costs (€357 million). Staff costs also rose. In contrast, due to the reduction in electricity production, the expense we incurred owing to the shortage of CO₂ emission allowances was lower in 2009 (€959 million) than in 2008 (€1,089 million).

Sales and distribution networks: The operating result posted by this business area declined by 9% to €1,352 million. Negative effects were felt from the fact that the price of some of our gas purchases tracks developments on the oil market. However, the prices in these contracts are much higher than the current quotations in international gas trading. A portion of our forward purchases can therefore not be sold profitably. Conversely, earnings in the German electricity sales business improved, because we optimised our procurement strategy. No notable additional negative effects resulted from the introduction of incentive-based regulation to the German network sector.

- Netherlands/Belgium: In the fourth quarter, the new division recorded an operating result of €180 million. Essent's activities, which were assumed with effect from September 30, 2009, contributed €141 million. The remaining €39 million is attributable to RWE Energy Nederland.
- United Kingdom: RWE npower's operating result amounted to €247 million, slightly less than half of the previous year's level. Net of currency effects, the decrease was 49%. Our electricity generation activities recorded a substantial drop because power plant margins achievable in the UK market were lower than in the preceding year. This primarily affected the short-term position management (STPM) of RWE npower's generation capacity. In 2008, owing to the outages of competitors'

power stations, the division's STPM had made an unusually high contribution to earnings. Expenses incurred to purchase CO₂ emission allowances in 2009 amounted to €51 million (prior year: €194 million). Earnings also deteriorated in the UK supply business. As explained earlier, due to competitive pressure, RWE npower lowered electricity tariffs at the end of March 2009, although electricity procurement costs had risen. Measures to promote energy savings in households also led to approximately €80 million in additional expenditure. UK energy companies are obliged to do so within the scope of government programmes. In order to stabilise earnings, RWE npower cut costs substantially in 2009, leading to €120 million in relief.

- Central and Eastern Europe: The operating result achieved by this division grew by 16% to €1,055 million. The significant rise was largely driven by our Czech gas business, as sales companies in that country raised their prices. Furthermore, the Czech regulator approved higher network fees. Hungarian-based Mátra also posted a gain, in part because the company increased its electricity production from biomass. Cost reductions also contributed to the growth in earnings. Currency effects had a counteracting impact, as did the aforementioned declines in sales suffered by our Hungarian electricity and Czech gas sales activities.
- Renewables: RWE Innogy recorded an operating result of €56 million, roughly matching the year-earlier level. Positive factors were the first-time full-year consolidation of Urvasco Energía, the acquisition of the Spanish wind farm operator Danta de Energías, and the commissioning of new wind farms. Negative effects were felt in particular due to RWE Innogy's extensive capital expenditure programme, as it goes hand in hand with run-up costs and requires additional manpower. Declining electricity prices dampened the earnings trend as well. This primarily related to our generation business in Spain.
- Upstream gas & oil: RWE Dea experienced a 59% drop in its operating result to €203 million. This was mainly due to the decline in oil and gas prices. However, the impact was slightly buffered by the fact that the company hedged about a third of its oil production in advance. The fact that RWE Dea produced less oil and gas than in 2008 depressed earnings even more. In contrast, a positive effect was felt from the marked decrease in exploration costs. It is predominantly due to the fact that the share of successful exploratory wells was higher than in 2008. Expenses incurred for successful wells are capitalised on the balance sheet, whereas, for dry wells, they are directly recognised in the income statement.
- Trading/gas midstream: RWE Supply & Trading more than doubled its operating result to €985 million. Our good performance in energy trading was essentially equal to 2008. In addition, we benefited from the fact that, in compliance with IFRS, major successful forward transactions concluded in earlier years have only started to have a positive effect on the income statement in 2009. This primarily applies to the external marketing of electricity produced by RWE Power and RWE npower. Margins realised from these trading transactions can only be accounted for as profit or loss on realisation of the underlying transactions, i.e. at the time of delivery of the electricity. In the year under review, the share of successful trading transactions directly recognised in the operating result

was larger than in 2008. This had a positive impact as well. RWE Supply & Trading also recorded a strong gain in the gas midstream business. This was due to significant one-off effects, including the reversal of provisions accrued in preceding years to cover purchase agreement uncertainties. In addition, we received strong earnings contributions from the continuous optimisation of our international gas procurement portfolio.

- Other, consolidation: The operating result stated under this item worsened by €205 million to –€416 million, despite the earnings improvements posted by Amprion, the electricity transmission system operator. The main reason were the negative effects of intra-group consolidations, which rose considerably.

Key figures for value management by division	Operating result	Capital employed	ROCE	Capital costs	Absolute value	Weighted average cost	Absolute value
	2009	2009 ¹	2009	before taxes	added	of capital	added
	€ million	€ million	%	%	€ million	%	€ million
Germany	4,780 ²	27,650	17.3	9.5	2,164 ³	9.0	2,243 ³
Power generation	3,428 ²	12,923	26.6	10.0	2,146	9.5	1,874
Sales and distribution networks	1,352	14,727	9.2	9.0	27	8.5	371
Netherlands/Belgium	180	1,380	13.0	9.0	56	–	–
United Kingdom	247	5,009	4.9	10.0	-254	9.5	30
Central and Eastern Europe	1,055	5,305	19.9	9.0	578	8.5	436
Renewables	56	2,323	2.4	9.5	-165	8.5	-66
Upstream gas & oil	203	2,114	9.6	13.0	-72	12.0	277
Trading/gas midstream	985	1,648	59.8	10.0	821	9.5	393
Other, consolidation	-416	-1,832	–	–	49	–	140
RWE Group	7,090²	43,597	16.3	9.0	3,177	8.5	3,453

1 Averaged for the year.

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

3 Due to the consideration of the different costs of capital, this figure is not identical to the sum of the value contributions made by “Power generation” and “Sales and distribution networks.”

RWE achieves a return on capital employed of 16.3 %. Our strategy centres on increasing the company’s value. Additional value is created when the return on capital employed (ROCE) exceeds the cost of capital. In fiscal 2009, our ROCE was 16.3 %, clearly surpassing the Group’s cost of capital before tax, which was 9.0 %. In the preceding year, we used a Group cost of capital of 8.5 %. The increase in the cost of capital reflects the fact that our market environment has become more volatile.

Our organic performance can primarily be deduced from the development of absolute value added, the central controlling instrument for all of the RWE Group's activities. It is an important criterion for assessing investments and determining our executives' performance-linked payments. Absolute value added is obtained by multiplying the difference between ROCE and cost of capital by capital employed. In fiscal 2009, the RWE Group's value added amounted to €3,177 million. This is 8% less than in 2008 (€3,453 million), despite the marginal improvement in the operating result. The reason for this is the increase in the Group's cost of capital which went hand in hand with corresponding adjustments in all divisions. Furthermore, our intensified investment activity led to a higher asset base. New plants are assigned to capital employed during the construction phase even if they do not contribute to earnings yet.

- Germany: Value added by the division totalled €2,164 million, representing the largest contribution within the RWE Group, but falling slightly below the previous year's figure (€2,243 million). If the cost of capital had not been raised, value added would have grown marginally. This is due to the improved earnings of our power generation operations, whereas considerable investments in power plant new builds and the decline in earnings in the sales and distribution networks business area had a counteracting effect.
- Netherlands/Belgium: €56 million in value was added in this division, €17 million of which was attributable to Essent's first-time consolidation, with RWE Energy Nederland's sales business contributing €39 million. As the division's operating result was only included for the fourth quarter of 2009 when determining value added, we considered capital employed on a pro-rata basis as well.
- United Kingdom: RWE npower's value added was negative, amounting to -€254 million, falling far below the positive figure recorded in the previous year (€30 million). This was predominantly due to the steep fall in earnings.
- Central and Eastern Europe: The fact that this division's earnings improved compared to 2008 is also reflected in the development of its value added. It grew by €142 million to €578 million.
- Renewables: RWE Innogy's value added fell by €99 million to -€165 million. This reflects the substantial investment in the expansion of the generation portfolio and the higher capital cost base.
- Upstream gas & oil: RWE Dea also failed to cover its cost of capital. At -€72 million, its value contribution was far below the previous year's high level (€277 million). This was mainly due to the significant deterioration of its earnings. Again, intensified investing activity and the rise in the cost of capital also had an impact.

- Trading/gas midstream: RWE Supply & Trading produced €821 million in value added, the second-highest contribution within the RWE Group. The division posted an increase of €428 million on a year-on-year basis. The main driver was the unusually high earnings contribution in 2009.

Detailed information on the value management concept can be found on pages 207 et seq.

Reconciliation to net income: positive one-off effects. The reconciliation from the operating result to net income is characterised by positive one-off effects of the fair valuation of commodity derivatives. Compared to the previous year, the absence of the charges incurred owing to American Water's IPO also had an impact. This was contrasted by higher interest expenses and a write-down of our stake in US-based Excelebrate Energy.

Non-operating result € million	2009	2008	+/- € million
Capital gains	35	89	-54
Impairment losses	-	-	-
Restructuring, other	463	-574	1,037
Non-operating result	498	-485	983

In the year under review, the non-operating result amounted to €498 million. This was a marked improvement on the previous year's figure (-€485 million). Its components developed as follows:

- As in 2008, there were no notable capital gains. The single largest contribution came from the transfer of electricity networks and sales activities of the former RWE Rhein-Ruhr to Stadtwerke Neuss. This transaction, through which we acquired a 24.9% stake in the municipal utility, uncovered hidden reserves.
- The result stated under "Restructuring, other" amounted to €463 million, up by €1,037 million compared to 2008. This was largely due to effects relating to the accounting treatment of derivative transactions, which are concluded to hedge the prices of forward contracts (underlying transactions). Pursuant to IFRS, these derivatives are accounted for at fair value at the corresponding balance sheet date, whereas the underlying transactions (which show the exact opposite reaction) are only recognised with an effect on profit or loss later on, when they are realised. This results in short-term effects on earnings, which are neutralised over time. The derivatives largely related to gas forward sales of RWE Supply & Trading, RWE Vertrieb and RWE Energy Nederland. Changes in their fair values led to €720 million in income, following the expense of €404 million in the preceding year. A counteractive effect was felt from the US\$250 million (€179 million) write-down of our at-equity investment in Excelebrate Energy. The US liquefied natural gas (LNG)

transport specialist has not been able to meet our profitability expectations so far, due to the underlying conditions in the LNG market, which are difficult at present. The “Restructuring, other” item also includes income resulting from changes in nuclear and mining provisions. At €411 million, it was much higher in 2009 than in the previous year (€167 million). This was primarily due to changes in the estimates for mining provisions. We assume that the costs we will incur to restore lignite mining properties will be lower, among other things. We recognised €252 million in amortisation on RWE npower’s customer base. It was therefore somewhat lower than 2008’s comparable figure (€279 million) for currency-related reasons.

Financial result € million	2009	2008	+/- € million
Interest income	589	807	-218
Interest expenses	-1,224	-965	-259
Net interest	-635	-158	-477
Interest accretion to non-current provisions	-957	-738	-219
Other financial result	-398	-579	181
Financial result	-1,990	-1,475	-515

In the year under review, the financial result decreased by €515 million to –€1,990 million. Its components developed as follows:

- Net interest declined by €477 million to –€635 million. Debt rose due to our growth investments and the acquisition of Essent, causing the interest expenses to increase. Charges also resulted from the fees on the credit line we were granted by banks in the run-up to the acquisition of Essent. In addition, sales of securities led to a reduction in interest income.
- The interest accretion to non-current provisions rose by €219 million to €957 million. One reason for this was the decline in income from our pension funds due to a drop in assets. When the interest accretion is calculated, this income is deducted. Furthermore, we lowered the discount rates for other non-current provisions and made a corresponding upward adjustment to the provisions. The impact from this is also reflected in the interest accretion.
- The “Other financial result” improved by €181 million. But, at –€398 million, it was still clearly in the red. Two of the reasons were that we realised book losses on the sale of securities and write-downs on securities in the year under review. However, these charges had been much higher in 2008, due to the crisis experienced by financial markets.

As a result of the aforementioned effects, our continuing operations generated €5,598 million in income before tax. This was 15% more than in the prior year. Our effective tax rate rose by four percentage points to 33%, in part because the previous year's figure still included one-off effects. In 2008, we successfully concluded tax litigation cases in the UK and Germany.

Income from continuing operations after tax totalled €3,740 million, up 9% on 2008. The RWE Group's discontinued operations (American Water) earned €91 million in income. In the preceding year, the company had recorded a loss of €567 million, which was in relation to the IPO of American Water. When we floated 39.5% of the shares in the company in April 2008, the issue price was below the carrying amount and we wrote down the value of our remaining stake in the company accordingly. As presented on page 49, we sold the remaining shares in American Water in several tranches in 2009.

The minority interest declined by €58 million to €260 million. This was caused by the gradual sale of American Water, among other things.

The RWE Group's net income rose by 40% to €3,571 million. Our earnings per share advanced from €4.75 to €6.70. The number of RWE shares outstanding decreased due to the share buyback conducted between February and May 2008. In 2009, they averaged 533.1 million, compared to 538.4 million in the prior year.

Reconciliation to net income		2009	2008	+/- %
Operating result	€ million	7,090	6,826	3.9
Non-operating result	€ million	498	-485	202.7
Financial result	€ million	-1,990	-1,475	-34.9
Income from continuing operations before tax	€ million	5,598	4,866	15.0
Taxes on income	€ million	-1,858	-1,423	-30.6
Income from continuing operations	€ million	3,740	3,443	8.6
Income from discontinued operations	€ million	91	-567	116.0
Income	€ million	3,831	2,876	33.2
Minority interest	€ million	260	318	-18.2
Net income	€ million	3,571	2,558	39.6
Recurrent net income	€ million	3,532	3,367	4.9
Earnings per share	€	6.70	4.75	41.1
Recurrent net income per share	€	6.63	6.25	6.1
Effective tax rate	%	33	29	-

Recurrent net income improved by 5%. The key figure that is decisive for our dividend policy is recurrent net income. It does not include the non-operating result. Major non-recurrent effects in the financial result, in income taxes and in income from discontinued operations are also excluded. In the year under review, recurrent net income totalled €3,532 million, 5% more than in 2008. As Essent only contributed to the operating result in the fourth quarter of 2009, we only recognised the costs of acquisition financing incurred in that period. Excluding Essent, recurrent net income increased by 3%. We therefore exceeded the forecast we had issued in February 2009, which envisaged a figure in the order of the preceding year.

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

Efficiency-enhancement programme: target for 2009 achieved. We are still making good progress with the efficiency-enhancement programme we initiated in 2007. By taking measures to reduce costs and increase revenue, we aim to gradually lift annual earnings by a total of €1.2 billion by the end of 2012. The reference year is 2006. One of the project's goals is to enhance the performance of our German electricity and gas network business, which should limit the effect of tariff cuts mandated by the network regulator. Further savings are to be achieved through improvements in IT services and purchasing as well as the pooling of back-office functions. Moreover, we intend to increase revenue by improving the technical availability of our power plants. We had envisaged obtaining additional earnings from the programme every year, gradually rising to €450 million until 2009, compared to 2006. We have achieved this target.

Capital expenditure on financial assets € million	2009	2008	+/- € million
Germany	1,325	53	1,272
Power generation	45	1	44
Sales and distribution networks	1,280	52	1,228
Netherlands/Belgium	7,794	-	7,794
United Kingdom	114	1	113
Central and Eastern Europe	3	11	-8
Renewables	286	812	-526
Upstream gas & oil	-	-	-
Trading/gas midstream	141	321	-180
Other, consolidation	61	41	20
RWE Group	9,724	1,239	8,485

Capital expenditure on property, plant and equipment € million	2009	2008	+/- € million
Germany	2,813	2,180	633
Power generation	1,791	1,420	371
Sales and distribution networks	1,022	760	262
Netherlands/Belgium	156	-	156
United Kingdom	853	610	243
Central and Eastern Europe	368	355	13
Renewables	447	290	157
Upstream gas & oil	855	606	249
Trading/gas midstream	2	-	2
Other, consolidation	419	413	6
RWE Group	5,913	4,454	1,459

Capital expenditure on property, plant and equipment a third higher year on year. The RWE Group increased capital spending by €9.9 billion to €15.6 billion. Our capital expenditure on financial assets totalled €9,724 million, which was nearly eight times higher than in 2008. The acquisition of the Dutch utility Essent was the main factor. We spent €5,913 million in capital on property, plant and equipment. This was a third more than in the preceding year. Nevertheless, we remained slightly behind our expectations, in part due to delays in power plant projects. In February 2009, we had forecast capital expenditure on property, plant and equipment in the order of €6.5 billion for the Group excluding Essent.

- Germany: Capital expenditure by this division amounted to €4,138 million. This represents an increase of 85 % compared to 2008. The division's business areas displayed the following development:

Power generation: Capital spending by this business area was up 29 % to €1,836 million. Almost all of this money was spent on property, plant and equipment. The major project is the 2,100 MW dual-block lignite-fired power plant in Neurath near Cologne, Germany. However, delays occurred, primarily due to quality-related problems experienced by suppliers and a severe accident in 2007. Based on our current planning, both units will go online in 2011. In addition, RWE Power is building an 887 MW combined-cycle gas turbine power station in Lingen and a 1,528 MW twin-unit hard coal facility in Hamm (both Germany). Quality-related problems experienced by suppliers led to delays here as well. The Lingen gas-fired power station is scheduled for commissioning in 2010, and the hard coal twin unit in Hamm is due to commence production in 2012. Also among the projects being developed by RWE Power is the 1,560 MW twin-unit hard coal facility in the Dutch port of Eemshaven. Construction on this plant started at the beginning of 2009. Our schedule envisages putting the facility online in 2013. We plan to assign the project to the Netherlands/Belgium division in our reporting from 2010 onwards. These new-build power plants will enable us to achieve significant improvements in terms of efficiency and emissions. Furthermore, the new units will be capable of switching loads much faster than old facilities. This enables us to take advantage of price fluctuations in electricity spot trading by making more flexible use of our power plants.

Sales and distribution networks: We spent €2,302 million in capital in this business area. €1,280 million was earmarked for financial assets. €800 million thereof was spent to acquire the 20 % stake in the former regional company RWE Westfalen-Weser-Ems held by municipal shareholders. An additional €188 million was used to purchase the remaining shares in a joint venture which owns 19.8 % of the new Luxembourg-based energy utility Enovos (see page 53). Furthermore, we acquired the German district heating company FAVORIT from ExxonMobil for €143 million. As mentioned earlier, by transferring network and sales activities to Stadtwerke Neuss, we also took a 24.9 % stake in that company. Capital expenditure on property, plant and equipment amounted to €1,022 million. A sizeable portion of this was dedicated to the expansion and modernisation of network infrastructure. Moreover, we invested in the enlargement of our gas storage capacity.

- Netherlands/Belgium: Capital expenditure in this division totalled €7,950 million. Including ancillary acquisition costs, €7,794 million was used to take over Essent. We acquired the Dutch energy utility as of September 30, 2009, along with its stake in Bremer Stadtwerke (swb), which was sold on in October. After Essent had been consolidated for the first time, the division spent €156 million in capital on property, plant and equipment. The major projects are the Moerdijk 2 and Claus C combined-cycle gas turbine power plants in the Netherlands. They are both under construction. Moerdijk 2 is being built directly adjacent to the Moerdijk power plant and can make use of the latter's high-voltage connection, gas supply lines and cooling system. It will have an installed capacity of 426 MW and is scheduled to go online in 2011. Claus C is envisaged to have

an installed capacity of 1,304 MW and replace the existing Claus B (640 MW) gas-fired power station. According to our schedule, the facility will go online in 2012. We have set aside approximately €1.5 billion for these two projects until their completion.

- United Kingdom: RWE npower increased capital expenditure by 58 % to €967 million. Spending on financial assets accounted for €114 million, a small share of total capital expenditure. These funds were used to acquire the Superior Plumbing Installation Group (SPI), which specialises in providing mechanical and electrical installations and maintenance services. Capital expenditure on property, plant and equipment amounted to €853 million. Centre stage was taken by the construction of two state-of-the-art combined-cycle gas turbine power stations. One facility is being built at Staythorpe, which will have an installed capacity of 1,650 MW and is due to go online in 2010. The second plant, located at Pembroke, will have an installed capacity of 2,188 MW, and is scheduled to begin generating electricity in 2012.
- Central and Eastern Europe: Capital expenditure totalled €371 million, roughly matching the 2008 level. It was almost exclusively used on property, plant and equipment. Most of the funds were dedicated to the electricity and gas network infrastructure. Furthermore, we invested in the expansion of our Czech gas storage capacity.
- Renewables: RWE Innogy aims to expand its renewable generation base significantly and is making good progress. Capital expenditure on property, plant and equipment and financial assets totalled €733 million, a third less than the previous year's figure, which included several sizeable acquisitions. In the year under review, RWE Innogy spent €286 million on financial assets (prior year: €812 million). This included the acquisition of shares in the Thornton Bank offshore wind farm and in the Spanish wind power generator Danta de Energías. Furthermore, we made advance payments for commissioned special ships that we intend to use to build offshore wind farms. In addition, RWE Innogy granted loans, which are not classified as capital expenditure on financial assets, to affiliated companies: €220 million in funds were dedicated to the Greater Gabbard Offshore Winds Ltd. joint venture, which is building the namesake wind farm off the UK coast. We hold a 50 % stake in the company. RWE Innogy's capital expenditure on property, plant and equipment totalled €447 million. The majority of the funds was earmarked for wind power projects, including the construction of the 90 MW Rhyl Flats wind farm off the coast of Wales, which we completed in December 2009. Including the aforementioned loans, RWE Innogy spent approximately €1 billion in capital to expand its renewable generation base.
- Upstream gas & oil: Capital spending at RWE Dea amounted to €855 million, up 41 % year on year. The focus was placed on developing existing discoveries in preparation for production. In July, RWE Dea also acquired stakes in two undeveloped gas fields in the UK North Sea (see page 52).

- Trading/gas midstream: RWE Supply & Trading spent €143 million in capital, almost all of which was dedicated to financial assets. The latter accounted for less than half of the previous year's figure, which included the acquisition of a 50 % stake in Excelebrate Energy, the US LNG company. Additions to Excelebrate Energy's equity were the single largest item in the year under review.
- Other, consolidation: This item includes €480 million in capital expenditure for 2009, largely relating to property, plant and equipment. Most of the funds were used by Amprion to modernise and expand the electricity transmission grid.

Employee headcount much higher due to acquisition of Essent. As of the balance-sheet date, the RWE Group employed 70,726 people (converted to full-time positions). The workforce expanded by 4,818 personnel, or 7%, compared to December 31, 2008. Company acquisitions added 4,948 staff members, 4,287 of which are allocable to Essent alone. A further 480 came from the Superior Plumbing Installation Group (SPI), which was acquired by RWE npower. Operating changes resulted in the loss of 1,108 positions in our non-German Group companies, whereas 978 were added in Germany. RWE Power and RWE Innogy had a large number of new hires. One of the reasons was increasing investment. As in prior years, we trained far more people than required to cover our own needs. By December 31, 2009, 3,081 young adults were in a professional training programme at RWE. Staff figures do not include trainees.

Workforce¹	Dec 31, 09	Dec 31, 08	+/- %
Germany	33,605	33,684	-0.2
Power generation	15,346	15,101	1.6
Sales and distribution networks	18,259	18,583	-1.7
Netherlands/Belgium	4,695	-	-
United Kingdom	12,224	12,747	-4.1
Central and Eastern Europe	11,289	11,627	-2.9
Renewables	980	712	37.6
Upstream gas & oil	1,279	1,144	11.8
Trading/gas midstream	989	883	12.0
Other ²	5,665	5,111	10.8
RWE Group	70,726	65,908	7.3

1 Converted to full-time positions.

2 Including Amprion, Thyssengas, RWE IT, RWE Service and RWE Consulting. The 2008 figure also includes RWE Energy Nederland.

Continued savings in Group purchasing. RWE Service, our internal service provider, is in charge of purchasing goods and services. This does not include the procurement of commodities, insurance services, or power plant components needed for new build projects. RWE Service uses standardised purchasing systems and complies with the principles of best practice. The company realised substantial savings in fiscal 2009 yet again, inter alia through the systematic recording of major product groups and suppliers. In addition, it has introduced groupwide standards for processes, IT systems and purchasing tools, stepped up its participation in auctions, and carried out a comprehensive qualification programme for procurement personnel.

Raw materials are sourced by our generation companies directly on the market, or via RWE Supply & Trading. In 2009, the amount of hard coal procured to generate electricity totalled 16.2 million metric tons of hard coal unit (HCU), compared to 19.0 million metric tons in the previous year. This includes coal for power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. In the financial year that just came to a close, RWE Power sourced 10.5 million metric tons of HCU (previous year: 13.9 million metric tons), and RWE npower purchased 5.2 million metric tons (previous year: 5.1 million metric tons). Essent accounts for 0.5 million metric tons, but was again only included for the fourth quarter. The considerable decline in purchasing volume in the RWE Group is due to the reduced utilisation of our hard coal power stations. We cover 50 % of coal demand through our own German power plants from domestic production sources. Russia is RWE npower's major supplier region, delivering some 70 % of the hard coal used in our UK power plants.

RWE sources lignite from proprietary opencast mines. In the Rhineland, our main mining region, we produced 92 million metric tons of lignite in 2009 (previous year: 96 million metric tons). Our power plants used 82 million metric tons to generate electricity, and we used 10 million metric tons to manufacture refined products.

Our gas purchasing is pooled in RWE Supply & Trading. Including Essent on a full twelve-month basis gives us an annual procurement volume in the order of 50 billion cubic metres. About half of it is sourced from the National Balancing Point in the UK and the Title Transfer Facility in the Netherlands, both of which are wholesale markets. Furthermore, we purchase gas on the basis of long-term take-or-pay agreements, the conditions of which are strongly orientated towards the development of oil price indices. We conclude such supply agreements largely with companies in Russia, Norway, Germany and the Netherlands. Approximately 3 % of our gas purchase volume is covered by RWE Dea's in-house production.

1.7 FINANCIAL POSITION AND NET WORTH

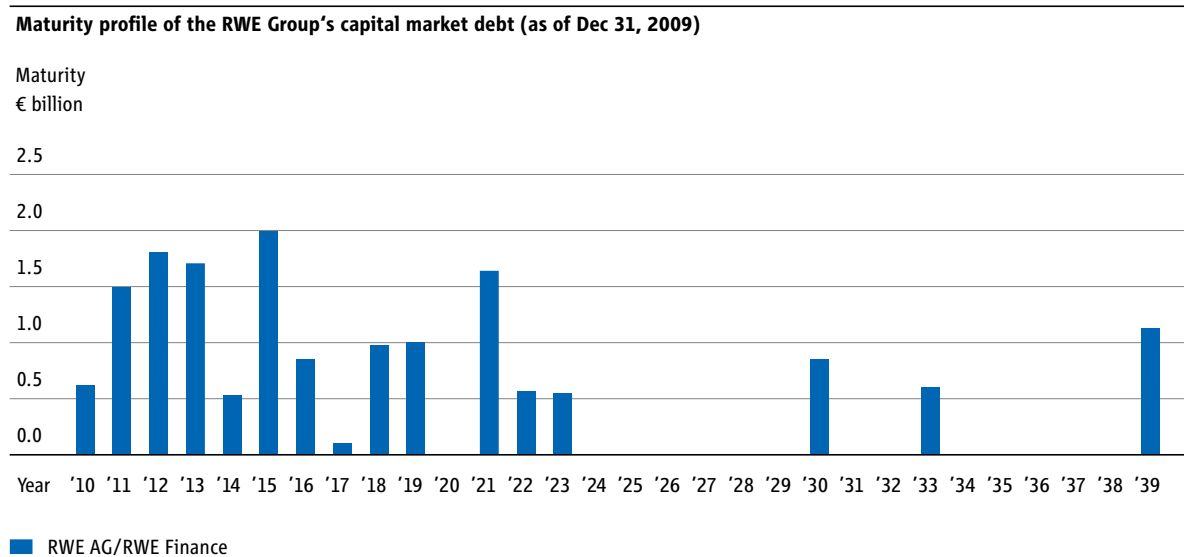
The acquisition of the Dutch-based energy utility Essent caused us to take extensive financing measures in 2009. We issued €6.2 billion in bonds for this. Due to the acquisition, our net debt rose to €25.8 billion. It is now 2.8 times as high as our EBITDA. In future, we will orientate ourselves towards an upper limit of 3.0. This is how we intend to secure our good credit ratings over the long term.

Central financing. The RWE Group's financing is the responsibility of RWE AG, the corporate headquarters. RWE AG usually issues bonds via RWE Finance B.V. Only in specific cases do other subsidiaries raise capital directly, especially if it is more advantageous economically to make use of local credit and capital markets. Furthermore, RWE AG acts as co-ordinator when Group companies assume a liability: The company co-ordinates and decides on the scope of warranties issued and letters of comfort signed. Pooling these activities is a basic prerequisite for managing and monitoring financial risks centrally. Moreover, this strengthens our position when negotiating with banks, business partners, suppliers and customers.

Financial flexibility. We primarily meet our financing needs with the high and relatively stable cash flows that we generate from our operating activities. In addition, we have access to a number of flexible financing instruments. One of our major tools is the Debt Issuance Programme (DIP) for long-term refinancing on the capital market. The maximum nominal volume of bonds that we can issue through the DIP totals €30 billion. At the end of 2009, a nominal €16.4 billion in bonds were outstanding. In addition to the DIP, we have a US\$5 billion commercial paper programme for short-term financing on the money market. As of December 31, 2009, a foreign-currency equivalent of €0.2 billion in RWE commercial paper was outstanding.

Two €2.0 billion credit lines serve as an additional liquidity reserve. They will remain available to us until October 2011. We have not used them so far. A €9 billion credit line granted to us by banks at the beginning of 2009 in the run-up to the Essent acquisition has not been used either. We financed the acquisition directly by issuing bonds and using our own funds and cancelled that line of credit.

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



RWE places bonds to refinance the acquisition of Essent. In 2009, we issued a total of €6.2 billion in bonds via RWE Finance B.V. They are denominated in euros and Sterling. Their maturities range from 2.5 to 30 years. All of the issuances were several times oversubscribed. This proves that RWE continues to have a good reputation as a bond issuer. These funds were used to finance the acquisition of Essent and in part to finance the strong rise in capital expenditure on property, plant and equipment. The weighted average remaining term to maturity of RWE's outstanding bonds was nine years at the end of the period under review. €0.6 billion in bonds come due in 2010.

RWE Group's capital market debt as of Dec 31, 2009 by remaining term to maturity		0-3 years	4-7 years	8-12 years	> 12 years
Nominal volume	€ billion	3.9	5.1	3.7	3.7
Relative share of total volume	%	24	31	22	23

Net debt up to €25.8 billion. As of the balance sheet date, our net debt amounted to €25.8 billion. It increased by €7.1 billion in the 2009 financial year. This was mainly due to the acquisition of Essent (€6.9 billion). In addition, our capital expenditure on property, plant and equipment (€5.9 billion) and our dividend payment (€2.6 billion) hit record levels. In contrast, cash flows from operating activities dampened the rise in liabilities. Furthermore, we deconsolidated American Water's net debt when we sold the company. It amounted to €4.2 billion at the end of 2008. Changes in foreign exchange rates caused debt to rise by €0.2 billion. Sterling lost ground to the euro averaged for the period under review. However, if one compares the exchange rates at the 2009 and 2008 balance sheet dates, it gained on the euro.

Net debt € million	Dec 31, 09	Dec 31, 08	+/- %
Cash and cash equivalents	3,074	1,249	146.1
Marketable securities	3,443	8,052	-57.2
Other financial assets	3,247	4,832	-32.8
Financial assets of continuing operations	9,764	14,133	-30.9
Bonds, other notes payable, bank debt, commercial paper	17,707	11,839	49.6
Other financial liabilities	2,439	1,644	48.4
Financial liabilities of continuing operations	20,146	13,483	49.4
Net financial debt of continuing operations	10,382	-650	-
Provisions for pensions and similar obligations	3,281	2,738	19.8
Surplus of plan assets over benefit obligations	79	-	-
Provisions for nuclear waste management	9,491	9,465	0.3
Mining provisions	2,712	2,866	-5.4
Net debt of continuing operations	25,787	14,419	78.8
Net debt of discontinued operations	-	4,240	-
Net debt of the RWE Group	25,787	18,659	38.2

Securing current A rating is top priority. Assessments of creditworthiness made by independent rating agencies have a substantial influence on a company's options to raise capital. The better the rating, the easier it is to gain access to international capital markets and the better the conditions for debt financing. Therefore, we benefit from the fact that the two leading rating agencies, Moody's and Standard & Poor's, have given RWE high credit ratings. Their most recent ratings are A2 and A. They already take into account our acquisition of Essent. It had caused both agencies to review their ratings in 2009. Standard & Poor's confirmed our rating, but lowered the outlook from "stable" to "negative." In November, Moody's lowered our rating by one notch. Its outlook for RWE is also "negative." We aim to at least maintain our present ratings. The following table provides an overview of our credit ratings at the end of January 2010:

Credit rating	Moody's	Standard & Poor's
Long-term	A2/negative outlook	A/negative outlook
Short-term	P-1	A-1

Leverage factor up to 2.8. We manage our debt based on recognised parameters. One of the key figures is the ratio of net debt to EBITDA, which we refer to as the “leverage factor.” This key performance indicator is of more informational value than the debt total as it reflects the company’s earning power and, in turn, the company’s ability to service the debt. In February 2008, we set ourselves the goal to keep our leverage factor between 2.8 and 3.4 from 2010 at the latest. In fiscal 2008, it was 2.1. The acquisition of Essent and our capital expenditure programme caused it to rise to 2.8 in 2009, which is within the targeted range. In 2010 and subsequent years, we want to orientate ourselves towards an upper limit of 3.0. This is how we intend to safeguard our current rating.

Cost of debt slightly higher. In 2009, our cost of debt (including hedges) amounted to 4.9% of the RWE Group’s average financial liabilities. This was marginally up on 2008 (4.6%). Our issuance of new bonds made a significant contribution to this. The average coupon for the bonds issued in the year under review was 4.9%.

Currency distribution of financial debt essentially unchanged. By the end of 2009, our interest-bearing financial debt totalled €18.1 billion. This was €5.6 billion more than in the preceding year. New issuances and bond redemptions added a net €6.2 billion. Including currency hedges, at the end of the year under review, 54% of our financial debt was in euros, 37% in Sterling and 5% in US dollars.

Cash flows from operating activities down on previous year due to special items. In fiscal 2009, we generated €5,299 million in cash flows from operating activities. This was much less than in the prior year (€8,853 million). Special items were the main reason. Among other things, the cash we used to purchase CO₂ emissions allowances increased considerably. We had to buy a much greater quantity of certificates for 2008 because the framework conditions of European emissions trading became tighter. However, it was not until 2009 that this resulted in an additional burden to cash flows, as emissions allowances purchased for a certain calendar year are typically paid for at the beginning of the following one. The additional cash outflow amounted to €1,071 million. A special item in working capital also contributed to the drop in cash flows from operating activities. This is because we fixed the price for some of our electricity generation early on via forward sales on the EEX energy exchange. By concluding these types of hedges, we aim to limit the short-term influence of volatile commodity prices on our earnings. On the balance sheet date, the prices established in the forward contracts for large parts of this generation were higher than prices on the electricity market. Our contracting partners were required to provide us with payments to make up the difference (“variation margins”). Netting them with the variation margins paid by us results in a positive cash flow effect of €321 million. However, the net cash inflow of €1,753 million in 2008 was much higher.

Cash flow statement € million	2009	2008	+/- %
Cash flows from operating activities	5,299	8,853	-40.1
of which: impact of the change in working capital	-795	1,687	-147.1
Cash flows from investing activities	-8,326	-3,584	-132.3
Cash flows from financing activities	4,839	-5,907	181.9
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	13	-35	137.1
Net changes in cash and cash equivalents	1,825	-673	371.2
Cash flows from operating activities	5,299	8,853	-40.1
Minus capital expenditure on property, plant and equipment and on intangible assets	-5,913	-4,454	-32.8
Free cash flow	-614	4,399	-114.0

Cash outflows for investing activities totalled €8,326 million. This is the sum by which our cash outflows for investing activities (including changes in cash investments) exceeded proceeds from the disposal of assets and the sale of companies. The single largest item was the acquisition of Essent. The purchase price paid was €7,574 million. Assumed cash and cash equivalents of €686 million must be deducted from this sum.

Cash flows from financing activities amounted to €4,839 million. They primarily stem from the bond issuances in February and June 2009, whereas the dividend payment had a counteracting effect. Cash and cash equivalents rose by €1,825 million in the year under review.

Cash flows from operating activities, minus capital expenditure on property, plant and equipment, result in free cash flow, which amounted to -€614 million, and was much lower than in 2008 (€4,399 million). The decrease in cash flows from operating activities and the significant rise in capital expenditure on property, plant and equipment were the reasons.

Balance sheet structure	Dec 31, 2009		Dec 31, 2008	
	€ million	%	€ million	%
Assets				
Non-current assets	56,563	60.5	41,763	44.7
Intangible assets	17,320	18.5	11,202	12.0
Property, plant and equipment	28,627	30.6	21,762	23.3
Current assets	36,875	39.5	51,667	55.3
Receivables and other assets ¹	27,396	29.3	31,433	33.6
Assets held for sale	–	–	8,710	9.3
Total	93,438	100.0	93,430	100.0
Equity and liabilities				
Equity	13,717	14.7	13,140	14.1
Non-current liabilities	45,633	48.8	36,793	39.4
Provisions	22,315	23.9	21,072	22.6
Financial liabilities	17,019	18.2	11,154	11.9
Current liabilities	34,088	36.5	43,497	46.5
Other liabilities ²	25,132	26.9	28,769	30.8
Liabilities held for sale	–	–	6,714	7.2
Total	93,438	100.0	93,430	100.0

1 Including financial accounts receivable, trade accounts receivable, and tax refund claims.

2 Including trade accounts payable and income tax liabilities.

Balance sheet structure: marginal improvement in the equity ratio. As of December 31, 2009, the RWE Group's balance sheet total amounted to €93.4 billion. This includes €15.9 billion from the acquisition of the Dutch energy utility Essent. The fact that our balance sheet total matched the previous year's level nevertheless is in part due to the deconsolidation of American Water, which had an effect of €8.7 billion. Marketable securities were down by €4.4 billion. We sold some of them, mainly to finance the acquisition of Essent. Our financial accounts receivable from sureties (margins and collateral) declined by €1.5 billion, while derivative positions were down €2.3 billion. In contrast, changes in foreign exchange rates at the balance sheet date caused the balance sheet total to increase by €1.2 billion. Last fiscal year, the RWE Group's equity ratio rose from 14.1% to 14.7%. Equity and non-current liabilities covered 105% of our non-current assets at the balance sheet date—proof of RWE's solid finance and capital structure.

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

RWE AG's role in the Group. As the management holding company of the RWE Group, RWE AG handles central management tasks. Its economic situation is largely determined by the subsidiaries' activities.

Financial statements. RWE AG prepares its financial statements in compliance with the rules set out in the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). They are submitted to Bundesanzeiger Verlagsgesellschaft mbH, Cologne, Germany, the operator of the electronic Federal Gazette (Bundesanzeiger) and published in the electronic Bundesanzeiger. They can be ordered from us and are also available on the internet.

Balance sheet of RWE AG (abridged) € million	Dec 31, 2009	Dec 31, 2008
Non-current assets		
Financial assets	40,039	30,298
Current assets		
Accounts receivable from affiliated companies	3,896	9,870
Other accounts receivable and other assets	778	788
Marketable securities and cash and cash equivalents	3,711	4,834
Total assets	48,424	45,790
Equity	9,453	9,416
Provisions	7,360	7,341
Accounts payable to affiliated companies	29,966	26,029
Other liabilities	1,645	3,004
Total equity and liabilities	48,424	45,790

Income statement of RWE AG (abridged) € million	2009	2008
Net income from financial assets	3,662	3,751
Net interest	-1,091	-961
Other income and expenses	982	330
Profit from ordinary activities	3,553	3,120
Taxes on income	-1,115	-285
Net profit	2,438	2,835
Profit carried forward	7	83
Allocation to retained earnings	-578	-510
Distributable profit	1,867	2,408

Assets. The net worth of RWE AG is determined by the management of investments and the performance of management functions for the Group companies. The holding company holds the shares in the Group companies and performs financing functions for them. In the year under review, its assets were primarily affected by the merger with RWE Energy AG. Major effects resulted from the fact that RWE AG assumed financial assets and liabilities vis-à-vis other companies from RWE Energy, whereas its accounts receivable from RWE Energy were eliminated. The acquisition of Essent also affected RWE AG's assets. The takeover was carried out via a subsidiary which received €3.8 billion in equity from us for this purpose. In the year being reviewed, a total of €4.7 billion in non-current and current securities were sold. Our non-current assets include 28.8 million of our own shares with a carrying amount of €2.0 billion.

The €3.3 billion in provisions for pensions contained in the provisions include coverage for the vested benefits of RWE AG's and its subsidiaries' current and former employees. RWE AG was reimbursed for pension expenses by the companies concerned. This caused a corresponding reduction of income from investments.

As of December 31, 2009, RWE AG's equity ratio was 19.5%. It was slightly lower than in the preceding year (20.6%) although our equity base was essentially unchanged. This was because the balance sheet total increased. This resulted from the acquisition and financing of Essent as well as the merger with RWE Energy, among other things.

Financial position. One of RWE AG's key tasks is to procure funds for its subsidiaries' ongoing business activities. The subsidiary RWE Finance B.V. handles most of the company's external refinancing on the capital market by issuing bonds backed by RWE AG. In the financial year that just ended, these types of issuances had a substantial influence on RWE AG's financial position. In a volatile capital market environment, we successfully placed three Eurobonds with a total nominal volume of €4.5 billion and two Sterling bonds with a total nominal volume of £1.5 billion in 2009. The issuances were used to finance the acquisition of Essent, among other things. As of December 31, 2009, RWE bonds and commercial paper outstanding amounted to €16.4 billion and €0.2 billion, respectively. The sale of the remaining shares in American Water also had a substantial impact on the financial position.

Earnings position. RWE AG's earnings are largely determined by the earnings generated by its subsidiaries. Income from financial assets, which was primarily contributed by RWE Power AG and the companies of the sales and distribution network business area, was nearly on a par year on year. Net interest deteriorated due to the aforementioned financing activity. In contrast, the "Other income and expenses" item improved substantially because we recognised write-ups on securities due to increases in value. Income taxes paid by subsidiaries were higher than in 2008. However, this also applies to the tax expense, in part due to the absence of one-off effects seen in the preceding year.

The Supervisory and Executive Boards of RWE AG will propose to the Annual General Meeting on April 22, 2010, that a dividend of €3.50 per share be paid for fiscal 2009. Relative to the Group's recurrent net income, this results in a payout ratio of 53 %. It is thus within the target range of 50 % to 60 %.

Takeover provisions: disclosure in compliance with Secs. 315, Para. 4 and 289, Para. 4 of the German Commercial Code (HGB) and report of the Executive Board in accordance with Sec. 176, Para. 1, Sentence 1 of the German Stock Corporation Act (AktG). RWE AG's subscribed capital remained unchanged, consisting of 523,405,000 no-par-value common shares in the name of the bearer (93.1 % of the subscribed capital) and 39,000,000 no-par-value preferred shares in the name of the bearer without voting rights (6.9 % of the subscribed capital). The remaining rights and obligations are determined by the German Stock Corporation Act (AktG). Holders of non-voting preferred shares have a right to a preferred share of profits of €0.13 per share when the distributable profit is distributed. The composition of subscribed capital and, above all, the legal definition of the non-voting preferred shares issued by RWE are in compliance with the provisions of the law and of the Articles of Incorporation.

In compliance with Sec. 21, Para. 1 of the German Securities Trading Act (WpHG), on December 21, 2007, RW Energie-Beteiligungsgesellschaft mbH & Co. KG, Dortmund, informed us that it held 16.089 % of RWE AG's voting stock at the time.

Executive Board members are appointed and dismissed in accordance with Secs. 84 et seq. of the German Stock Corporation Act (AktG) in connection with Sec. 31 of the German Co-Determination Act (MitbestG). Amendments to the Articles of Incorporation are made pursuant to Secs. 179 et seqq. in connection with Sec. 16, Para. 5 of the Articles of Incorporation of RWE AG. According to Sec. 16, Para. 5 of the Articles of Incorporation, unless otherwise provided for by law or in the Articles of Incorporation, the Annual General Meeting shall adopt all resolutions with a simple majority of the votes cast; in so far as a majority of the capital stock represented is required, the simple majority shall suffice. We thus made use of the legal possibility of determining a different capital majority for amendments to the Articles of Incorporation than prescribed by law. Amendments to the Articles of Incorporation that only concern the wording, without changing content, may be decided upon by the Supervisory Board (Sec. 10, Para. 9 of the Articles of Incorporation).

Pursuant to the resolution passed by the Annual General Meeting on April 22, 2009, the company was authorised to purchase shares of any class in RWE until October 21, 2010, totalling up to 10 % of the share capital. The purchase may be limited to shares of a single class. It is at the company's discretion to purchase the shares on the stock market or by making a public call for shares. This can be done through the use of put or call options. The own shares may then be called in. If common shares are bought back, they can also be transferred to third parties within the scope of mergers or acquisitions, or sold in another manner. A sale not conducted on the stock exchange or via a tender to all shareholders may only be made in exchange for cash. Moreover, the price at the time of sale may not be significantly lower than the stock-market price for common shares bearing the same rights.

Common shares bought back may be used to redeem convertible and option bonds issued on the basis of the resolutions passed by the Annual General Meeting of April 22, 2009. The authorisation may be exercised in full or in part and also for partial amounts.

Pursuant to the resolution passed by the Annual General Meeting on April 22, 2009, the Executive Board was authorised to issue option or convertible bonds until April 21, 2014. The bonds' combined nominal value is limited at €6 billion. The shareholders' subscription rights can be waived if the bonds are issued at a price in line with the market and the new shares do not account for more than 10% of the share capital. The Executive Board may also waive the shareholders' subscription rights in order to avoid allocation of fractions of shares that would result from the subscription. This can also be done in order to offer the shares to holders of earlier convertible and option bonds in a number to which they would be entitled on conversion or exercise of the option as shareholders. Pursuant to Sec. 4, Para. 3a and 3b of the Articles of Incorporation, €143,975,680 in conditional capital, divided among 56,240,500 common shares in the name of the bearer, may be used to exercise convertible and option rights.

Pursuant to Sec. 4, Para. 2 of the Articles of Incorporation, the Executive Board is authorised to increase the company's capital stock with the Supervisory Board's approval by up to €287,951,360 until April 16, 2013, either at once or in several increments through the issuance of no-par-value common shares in the name of the bearer in exchange for contributions in cash or in kind (authorised capital). The shareholders' subscription rights can be waived with the Supervisory Board's approval, in order to avoid allocation of fractions of shares. The subscription rights can also be waived in order to issue shares in exchange for contributions in kind within the scope of mergers or for the purpose of acquiring stakes in companies. Subscription rights can also be waived in the event of a cash capital increase if the price at which the new shares are issued is not significantly lower than the price at which shares outstanding are traded on the stock market, and if the portion of the capital stock accounted for by the new shares, for which subscription rights are waived, does not exceed 10% in total. The Executive Board shall be empowered, subject to the consent of the Supervisory Board, to determine the further details and conditions of the share issuance. Shares from authorised capital are added to shares from conditional capital in cases where they are both issued waiving the shareholders' subscription rights. In such cases, the capital stock may not be increased by more than 20% through the issuance of new shares.

RWE AG's syndicated credit lines have a change of control clause including the following main provisions: In the event of a change of control or majority at RWE, the lenders shall enter into negotiations with RWE on a continuation of the credit line. Should an agreement with the majority of the lenders not be reached within 30 days from such a change of control, the lenders have a special right of termination.

Executive Board members have a special right of termination in the event of a change of control. On execution of this special right of termination, Executive Board members receive a one-off payment in the amount of the compensation due until the end of the duration of the contract originally agreed, which shall correspond to at least twice their total contractual annual compensation and shall not correspond to more than three times their total contractual annual compensation. This is in line with the requirements of the German Corporate Governance Code. Dr. Jürgen Großmann was granted this special right of termination before the amendment to the German Corporate Governance Code, which took effect in 2008. On exercise of his special right of termination, he shall receive a one-off payment that covers all of the remuneration due until the expiry of his employment contract as well as the amount contractually agreed instead of a pension commitment.

The 2005 long-term incentive plan (Beat) for the Executive Board and executives of RWE AG and of affiliated companies includes a provision for a change of control. In such events, all holders of performance shares under the Beat programme receive a compensatory payment. The amount of the compensatory payment is determined by multiplying the price paid for RWE shares as part of the takeover by the final number of performance shares as of the date of the takeover offer, in line with the plan conditions.

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

1.9 INNOVATION

Coal-fired power plants with carbon capture units, solar power from the desert, remote-controlled household appliances and electric vehicles have one thing in common: They are gentle on the climate. They could become a fixture in tomorrow's energy landscape. Our research and development activities aim to contribute to this. After all, we feel a commitment to the goal of ensuring reliable and affordable energy supplies over the long term through innovative solutions.

Research and development (R&D) is very important to RWE. We can only remain competitive over the long term if we continually invest in new technologies and refine existing ones. This is an area in which we greatly rely on our co-operation with partners in plant engineering and the chemical industry as well as research institutes. As a result, our activities are only partially reflected in the RWE Group's figures. Last financial year, we spent €110 million on R&D, €5 million more than in 2008. The main reason for this is that we included Essent's R&D expenditure in the year under review. Three hundred and fifty of our employees were solely or partially dedicated to R&D work. This also represents an increase, in part due to the acquisition of Essent. Moreover, we initiated a series of new projects in 2009.

Research and development		2009	2008	2007	2006	2005
R&D costs	€ million	110	105	74	73	55
R&D employees		350	330	270	273	223

Climate protection drives the development of new electricity generation technologies. Our competitiveness depends on whether we succeed in bringing electricity generation based on fossil fuels—especially coal—in line with the goal of protecting the climate. One of the keys is the capture and storage of carbon dioxide when producing electricity. We plan to build a power plant in Hürth, near Cologne, Germany, in which coal is converted to a gaseous state, the CO₂ is captured, and the electricity is generated in gas and steam turbines. This is referred to as IGCC (Integrated Gasification Combined Cycle) technology, which captures roughly 90% of the carbon dioxide contained in the flue gas. However, we are hardly making any progress with the project at present, because Germany still lacks a legal framework for subterranean CO₂ storage.

Another method of producing climate-friendly electricity besides IGCC is the removal of carbon dioxide from flue gas (CO₂ scrubbing). The advantage of post-combustion CO₂ scrubbing is that many existing power plants can be retrofitted for this purpose. In August 2009, RWE Power, BASF and Linde commissioned a pilot plant using this technology at the Niederaussem site in Germany. This is where we are testing a newly developed CO₂ scrubbing agent for large-scale application. Our objective is to put the method to commercial use by 2020. The REAplus project will benefit us in this area as well: In co-operation with Austrian Energy & Environment, an energy and environmental technology sys-

tem supplier, we installed a highly effective flue gas desulphurisation unit, which began operating at the same location in July of 2009. The idea is that the cleaner the flue gas, the better the capture of carbon dioxide.

The fiscal year saw us give the go-ahead for yet another CO₂ scrubbing project. We will build a 3 MW pilot plant on the premises of our Aberthaw hard coal-fired power station in the UK in co-operation with Shell subsidiary Cansolv, which we will use to test scrubbing agents other than the ones being evaluated in Niederaussem. This will give us a number of technological options, all of which are being developed in competition to each other. In addition, RWE Power and RWE Dea are concerning themselves with the entire process, covering the capture, transport and storage of carbon dioxide, within the scope of a project in New Haven (Connecticut) USA. The partners are the US power utility American Electric Power (AEP) and the plant engineering company Alstom. Among other things, we are conducting research on a capture method based on ammonium, developed by Alstom. In October of 2009, we activated a carbon capture system in a demonstration plant and began storing carbon dioxide underground at AEP's Mountaineer site.

Capturing and storing carbon dioxide reduces efficiency when generating electricity. This is one of the reasons we constantly work on increasing the efficiency of our power plants. The demonstration facility for drying lignite before the combustion process at our Niederaussem site, commissioned in February 2009, is one of the activities serving this purpose. The method used here—fluidised bed drying with internal waste heat utilisation—improves the efficiency of lignite-based electricity production by some four percentage points. RWE developed this technology and had it patented. We have already sold a licence to an Australian buyer.

Desertec initiative: electricity from the desert for Europe. Besides enlarging our generation footprint based on established technologies, our strategy in the field of renewable energy also encompasses in-house research and development work as well as the construction of demonstration plants. Moreover, we acquire stakes in young companies developing promising technologies. Large-scale projects involving partners are also conceivable. In October of 2009, for instance, we established the Desertec Industrial Initiative (Dii) with eleven companies. Dii's objective is to develop framework conditions for investments required to supply Europe, the Middle East and North Africa with large amounts of solar and wind power. If the project progresses successfully, North African generation capacity may suffice to cover approximately 15% of Europe's demand for electricity in 2050. Solar thermal power plants are intended to play a key role in this. They bundle sunlight using mirrors to heat up special oil, and use this heat to produce vapour to drive turbines. The project partners are working on feasibility studies, proposals for reference projects, and an implementation plan for the overall concept.

New approaches to electricity storage and networks. Expanding installed renewable energy capacity poses new challenges for power utilities in many respects. In future, electricity feed-ins will fluctuate more and more. Therefore, it is important to develop new efficient storage concepts early on. Against this backdrop, RWE Power is working with the German Aerospace Centre as well as General Electric Group and Züblin to develop a highly efficient pressurised-air storage facility. When electricity supply is high, air is compressed and forced into subterranean cavities where it is stored. This compressed air can be used to generate electricity when needed. A major challenge faced by this project is to develop components enabling the high levels of efficiency of pressurised-air storage power plants, especially for the compressor and heat storage sections.

The expansion of the renewable energy footprint is making the demands placed on electricity networks more complex. For example, the rising number of small, distributed generation units causes substantial shifts in the load conditions of low and medium-voltage networks. In July of 2009, we launched the “Grids for the Power Supply of the Future” project with Dortmund Technical University, ABB and Consentec GmbH which analyses the new requirements that network have to fulfil. The objective is to use this as a basis for developing viable concepts for solutions for maintaining our networks’ high levels of functionality and profitability.

Energy efficiency in living and mobility. Efficiency is not sought after only in generating energy, but also in its use. Established as of July 1, 2009, RWE Effizienz GmbH wants to help make consumer behaviour more thrifty through new product and consulting offerings. In December of 2009, the company started working with the north German electronics specialist ELV/eQ-3. The aim is to create systems for making efficient use of electricity and heat in homes marketable. These systems will be designed to enable the user-friendly control of heating, light and household appliances.

Electric vehicles are another promising field of R&D we have tapped into. RWE has already begun to set up intelligent infrastructure in Germany. By this undertaking, we aim to build a network of charging stations that will initially cover catchment areas, combined with a billing system, enabling people to recharge their vehicles quickly and conveniently. We have developed a large share of the required systems ourselves. At present, we are testing them in regional pilot projects with Daimler (Berlin) and Renault (North Rhine-Westphalia). Technical aspects are not the only focal point. We also intend to gain knowledge of customer acceptance.

The future of energy supply after 2030. Energy efficiency, resource conservation, security of supply and climate protection are goals that will also be faced by future generations. Anyone working on tomorrow’s concepts like RWE must also think about the day after. We are looking at possible roads to the future of energy supply beyond 2030 on the basis of numerous studies. This involves examining all conceivable technologies and assessing them, especially with regard to cost as well as their contributions to climate protection and security of supply. Results obtained from our analyses for Germany and the UK so far give us a basis for discussing the whole picture of the future of energy, which also serves as a foundation for making decisions concerning the composition of our R&D portfolio going forward.

1.10 DEVELOPMENT OF RISKS AND OPPORTUNITIES

As a company with international operations, RWE is exposed to a number of risks. In our view, systematically recording, assessing and controlling them are key elements of sound company management. At the same time, opportunities must be identified and taken advantage of. Our risk policy aims to increase the company's value without taking on risks that are unreasonably high. This approach has proven itself, especially in the economic crisis.

Organisation of risk management in the RWE Group. Responsibility for the groupwide risk management system sits with the Executive Board of RWE AG. It establishes the rules and minimum standards, defines the caps for the aggregated market and credit risks and takes decisions on transactions that can result in substantial risks. The corporate "Group Risk Management" department reports directly to the Chief Financial Officer and exercises control and co-ordination functions. Its tasks include developing groupwide specifications for methods and processes, regular reporting, and monitoring risks. It derives limits for the operating companies' commodity and credit risks from the risk caps determined by the Executive Board.

Risks in financial reporting are monitored by RWE AG's "Group Accounting" corporate department. This department also reports directly to the CFO. It uses an internal control system, which is described in detail on pages 102 et seqq. We also take compliance risks very seriously. Monitoring and controlling them is the responsibility of the "Compliance" corporate department. It reports to the CEO and President of RWE AG and, if members of the Executive Board are affected, also directly to the Chairman of the Supervisory Board and the Chairman of the Audit Committee. Our Group companies ensure the uniform implementation of the groupwide risk management guidelines under the specialist supervision of the aforementioned corporate departments.

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

- **Risk Committee:** This body handles the tracking and monitoring of commodity price risks and credit risks arising from trading, sales and purchasing activities. This ensures close monitoring of those risks that are pivotal to us. The CFO of RWE AG is the Chairman of the Risk Committee. He is supported by the heads of the following corporate departments: Group Risk Management, Group Finance and Value Chain Management. The CFOs and/or the managing directors in charge of finance at RWE Dea, Essent, RWE Innogy, RWE npower, RWE Power, RWE Supply & Trading, RWE Transgas and RWE Vertrieb also sit on the Risk Committee. They ensure uniform compliance with groupwide commodity and credit risk management directives. They are assisted in this by their companies' risk controlling departments, which are separated from the operating units in organisational terms.

- **Risk Management Committee:** This body is responsible for monitoring and refining the risk management system. It is composed of the heads of RWE AG's following corporate departments: Compliance, Controlling, Finance, Legal/Board Affairs, Accounting, Risk Management, Audit, Strategy and Insurance. The Risk Management Committee is chaired by the head of the Group Risk Management Department.
- **Asset Management Committee:** It defines, among other things, the long-term financial asset strategy, taking the earnings prospects and risks into account. This includes selecting suitable asset classes (bonds, stocks, etc.) and the allocation of the company's funds to the individual asset categories. This committee's members are the CFO of RWE AG, the head of corporate finance and the CFOs of RWE Power, RWE Dea, RWE npower, LEW, enviaM and Süwag.

Risk management as a continuous process: Risk management has been integrated into our operating workflow as a continuous process. In the RWE Group, risks and opportunities are identified and classified early on. We evaluate risks according to their probability of occurrence and damage potential and aggregate them at the Group company level and at the Group level. Risk monitoring covers the medium-term planning horizon. However, it may extend beyond that for material strategic risks. Risks that share the same cause are aggregated to one position. If a risk can be reduced, the residual risk is reported together with the countermeasures already taken. A risk's damage potential is defined in relation to the operating result and equity of the business unit concerned and the Group as a whole. Risks with a high probability of occurrence or damage potential are mitigated by taking operational measures. Where necessary, we account for them by taking precautionary steps on the balance sheet, e.g. provisions. We evaluate and manage opportunities as part of our regular planning process.

We prepare standardised reports on our risks and opportunities for our management and supervisory committees on a quarterly basis. The Executive Board of RWE AG is immediately informed of unforeseen material changes to the risk situation. Our Group Audit Department regularly appraises the quality and functionality of our risk management system. However, it is impossible to guarantee absolute security with respect to the identification and management of risks or the effectiveness of the controls. This is an area where we are limited by potential human error.

Overall assessment of the risk and opportunity situation by executive management. The markets in which we are primarily active are among the most politically and economically stable in the world. But, even here, we are exposed to substantial risks. As a utility, we plan our investments decades in advance. We are therefore especially dependent on reliable political framework conditions in the energy sector. However, they harbour substantial uncertainty in some respects, such as the future of nuclear energy in Germany, European trading of CO₂ emission allowances, and legal issues concern-

ing the approval of power plant new builds. These topics currently demand a lot of our attention. We believe this is associated with both risks and opportunities. In addition to energy policy, the economy's development has lasting effects on our earning power. If the economic slump persists, it will cause demand for energy to drop. Furthermore, there is a threat of counterparty defaults. We would be affected above all if electricity and gas prices remained low for years. We largely sell our electricity generation and gas purchasing volumes forward, in order to limit the earnings risks arising from the short-term volatility of prices. In Germany, we have sold forward almost all of our generation for 2010 and over 70% of our generation for 2011 (as of January 31, 2010). Our gas purchases have been fully hedged for 2010 and partially hedged for 2011. Given the lower level of commodity prices at present, pressure on prices is also increasing in the sales business. This gives rise to the risk of declining margins and customer losses. Counterparty defaults have been moderate so far. The current economic situation also provides opportunities for us. For instance, RWE continues to be considered a safe bond issuer and is thus in a position to finance projects, the implementation of which has become much more difficult for other companies. Further opportunities arise from the lower prices of capital goods such as power plant components—above all in the field of renewable energy. Overall, the risk structure of our business has not changed. At present, there are no identifiable risks that jeopardise the continued operation of RWE AG or the RWE Group.

Major risk and opportunity categories. The following illustrates the risks and opportunities which may have a substantial impact on our asset, financial and earnings positions. They can be divided among the following categories:

- **Risks and opportunities arising from the volatility of commodity prices:** The development of prices on commodity markets greatly influences our earnings, especially in the field of electricity generation. For example, decreasing electricity prices or rising fuel costs may lead to a decline in generation margin contributions. However, opportunities arise from counteracting price trends. In our upstream business, changes in the market price of oil and gas can influence our earnings. Another area exposed to risk is the sales business. This is partly because it is possible that increasing procurement costs may not be fully passed through to end-customer prices, or because changes in temperature may lead to unexpected fluctuation in demand. We assess the price risks to which we are exposed on the procurement and sales markets taking account of current forward prices and expected price volatility. Commodity and credit risks faced by generation and sales companies are managed by following hedging rules established by RWE AG in its role as holding company. In the generation business, we limit risks by selling most of our electricity early on, via forward contracts, and hedging the price of fuels and emissions certificates in line with the electricity sales.

RWE Supply & Trading plays a central role when it comes to managing commodity price risks. The company is the RWE Group's interface to the world's wholesale markets for energy and energy commodities. It markets large portions of the Group's generation position and purchases the fossil fuels and CO₂ emissions certificates needed to produce electricity. Through its role as internal transaction partner, it limits the earnings risks stemming from price swings on energy markets for the generation and sales businesses, thus creating a stable basis of calculation. RWE Supply & Trading thus pools the risk and value added from commodity transactions for the Group and pools the expertise for these transactions centrally. RWE Supply & Trading also uses commodity derivatives based on contracts that are settled physically (delivery) and financially (cash settlement) to minimise risk in the procurement and sales businesses. The trading activities are not exclusively oriented towards reducing risks. RWE Supply & Trading undertakes proprietary trading in adherence with limits, in order to make use of changes in prices on energy markets.

The RWE Group's risk management system for energy trading is firmly aligned with best practice as applied to the trading transactions of banks. Transactions are concluded with third parties only if certain credit risk limits can be complied with. Groupwide guidelines provide structures and processes for the treatment of commodity risks and associated credit risks with respect to third parties and within the Group. The commodity price risks in our subsidiaries are constantly monitored and reported to the responsible bodies, including the Risk Committee of RWE AG. Furthermore, the Executive Board of RWE AG is kept informed of our consolidated commodity risk positions by way of quarterly reports. The Group companies inform Group Risk Management about their positions, and the corporate department consolidates them. This procedure is not followed for market risks arising in connection with the pure trades conducted by RWE Supply & Trading. Such risks are stated separately.

The upper risk limits in the energy trading business are set and constantly monitored by the Executive Board of RWE AG. Among other things, we calculate the Value at Risk (VaR) to quantify price risks. The central risk controlling parameter is the Global VaR, which limits trading activities of RWE Supply & Trading and may not exceed €40 million. In principle, the VaR figures within the RWE Group are based on a confidence interval of 95% and a holding period of one day. This means that, with a probability of 95%, the maximum daily loss does not exceed the Global VaR. In fiscal 2009, RWE Supply & Trading's Global VaR averaged €14.0 million, and the daily maximum was €21.1 million. However, our risk analysis is not only based on the amount of VaR. We also constantly factor extreme scenarios into stress tests, determine the influence they can have on liquidity and earnings, and take countermeasures whenever the risks are too high.

- **Financial risks and opportunities:** The volatility of foreign exchange rates, interest rates and share prices can also have a significant effect on our earnings. The management of financial risks is governed by a specific guideline and is the responsibility of the CFO of RWE AG. As explained earlier, the Asset Management Committee manages risks arising from investments in securities. At the RWE AG level, the Financial Controlling Department handles the operational implementation of the financial risk management system. It is also responsible for reporting on this risk category.

Due to our international activities, currency risk management is very important. Group companies are obliged to hedge currency risks via RWE AG. The parent company determines the net financial position for each currency and hedges it with external market partners if necessary. The VaR concept is one of the tools used to measure and limit risk. In the year under review, the average VaR for RWE AG's foreign currency position was less than €1 million.

Significant importance is also given to the management of interest rate risks. They primarily relate to our interest-bearing investments and financial debt. Negative changes in value caused by unexpected interest rate movements are hedged with non-derivative and derivative financial instruments. In fiscal 2009, the average VaR (including hedges) was €168 million for our financial debt and €21 million for interest-bearing investments. Furthermore, we are exposed to risks associated with fluctuation in share prices. The average VaR (including hedges) for this risk was €21 million.

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

- **Creditworthiness of business partners:** Our business relations with financial institutions, trading partners, customers and suppliers expose us to credit risks, especially in the current economic crisis. We counter them in part by closely tracking the creditworthiness of our counterparties. Credit risk management is governed by a dedicated guideline which is valid throughout the Group. The Risk Committee is in charge of monitoring credit risks. Its operating requirements are implemented by risk controlling units at RWE AG and at the Group companies.

We manage credit risks by setting limits and by adjusting them on a timely basis, especially in the event of changes in creditworthiness. If necessary, we request cash collateral or bank guarantees. We also take out credit insurance policies insofar as economically feasible. In the financial and energy trading activities, we conclude credit transactions largely with banks and trading partners of

good creditworthiness. We determine their credit standing using an internal assessment method. For banks, we use external ratings and an early warning indicator, which we developed in light of the financial market crisis. We sell a significant portion of our electricity generation on the exchange. The credit risk for these sales is assumed by a clearing unit. As a rule, over-the-counter trading transactions are concluded on the basis of framework agreements, e.g., those prescribed by the European Federation of Energy Traders (EFET). In addition, we agree on collateral. We measure the credit risks of the energy trading and financial activities on a daily basis.

- **Liquidity risk:** Liquidity risks consist of the danger of our liquidity reserves no longer being sufficient to meet financial obligations in a timely manner. At RWE, such obligations result above all from the refinancing of due financial liabilities. Furthermore, we must put up collateral if trading contracts (e.g. with exchanges) marked to market result in a loss. Despite the sustained economic crisis, we classify our liquidity risk as low. The basis for this is our solid financing: We have strong cash flows from operating activities, substantial cash and cash equivalents, unused credit lines, and further financial latitude through our Commercial Paper and Debt Issuance Programmes (see page 81). Our careful planning ensures that we are liquid at all times.
- **Risks and opportunities associated with corporate strategy:** Decisions on capital expenditure on property, plant and equipment and acquisitions are associated with serious risks and opportunities, due to the amount of capital employed and the fact that it is tied up long term. When a company is acquired, problems can arise in relation to the integration of employees, processes and technologies. RWE has specific accountability provisions and approval processes in place to prepare and implement strategic decisions concerning capital expenditure on property, plant and equipment and acquisitions, as is the case with the acquisition and integration of Essent. Closely monitoring both our markets and competitors helps us record strategic risks and opportunities adequately and early on.
- **Continuity of business activities:** We operate technologically complex and interconnected production plants in all parts of our value chain. Uninsured damage can be incurred by our lignite mining equipment, power stations, power plant components and grids. There is an increasing risk of outages in our power plants due to the ageing of their components. In addition, the construction of new plants can be delayed due to accidents, faulty material or time-consuming approval procedures. Our grid business is exposed to the risk of facilities being damaged by force majeure such as severe weather conditions. We limit these risks through high safety standards as well as regular audit, maintenance and servicing work. If appropriate, we take out insurance policies.

- **Regulation:** The RWE Group's exposure to the constant change in the political, legal and social environment in which it does business can be expected to have a substantial impact on earnings. Lignite and hard coal power plants account for a significant portion of our electricity generation portfolio. This represents a substantial risk due to the EU-wide CO₂ emissions trading system. Risks can arise above all from increases in the cost of procuring CO₂ certificates. In December 2008, the EU member states agreed that the Western European electricity sector will hardly be allocated any free certificates from 2013 onwards. This will cause our CO₂ costs to be much higher than in the current trading period, which will last until 2012. We intend to continue reducing emissions and make our power generation portfolio more flexible through our investment programme. Furthermore, we limit CO₂ risks through climate-protection projects in developing and newly industrialising countries within the scope of the Kyoto Clean Development Mechanism and Joint Implementation programme.

In Germany, risks also arise from the monitoring of anti-competitive pricing practices, the legal framework of which became stricter at the end of 2007. The German Federal Cartel Office has been reviewing the energy wholesale sector and pricing in the fields of electricity, gas and district heat supply since the spring of 2009. This also affects certain RWE companies.

The incentive-based regulation of our German electricity and gas network companies in effect since 2009 is also associated with earnings risks. Uncertainty exists for example regarding the recognition of costs incurred to procure electricity to compensate for transmission losses. We intend to limit the effects of regulation on our earnings by taking measures to cut costs and enhance efficiency.

- **IT security:** Our business processes are supported by efficient data processing systems. Nevertheless, we cannot rule out a lack of availability of IT infrastructure or of the security of our data. We mitigate these risks by regularly investing in hardware and software, applying high security standards as well as raising user awareness and limiting access privileges. Our IT is largely based on standards common in the market. Its operations are run in modern data centres. We manage IT risks during the development of IT solutions designed to support business processes with a mandatory groupwide process for engineering and managing IT projects.
- **Human resources:** Competition for the best talent is becoming increasingly fierce. To secure and strengthen our position in this area, when recruiting staff, we highlight RWE's attractiveness as an employer and strive to retain experts and executives over the long term. In addition to performance-based compensation and progressive employee benefits, we put a lot of effort into the varied prospects offered throughout the RWE Group: trainee programmes, cross-disciplinary career paths,

assignments in various European Group companies as well as attractive continued education and advanced training offerings. We limit staff fluctuation risks by ensuring suitable replacements are in place and by planning for successors early on.

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

Raw materials production and power generation activities might be curtailed by risks arising from approval processes for our opencast mines and nuclear power plants. Furthermore, there is a risk of financial loss when capital is spent on power plant new builds before all of the construction-related decisions have been taken by the public authorities. We take precautionary measures against this by preparing our applications for approval with great care and ensuring that approval processes are handled competently.

Conciliation proceedings in connection with the legal restructuring of companies are currently pending. They were initiated by outside shareholders in order to examine the appropriateness of the conversion ratios and/or the amount of cash paid in compensation. In our opinion, associated risks are low, as these figures were calculated by independent experts. If different legally enforceable decisions are reached, we will pay a cash compensation to the affected shareholders, including those who are not directly involved in the conciliation proceedings.

Report on the Internal Control and Risk Management System – statements in accordance with Sec. 315, Para. 2, No. 5 and Sec. 289, Para. 5 of the German Commercial Code (HGB): Risks associated with financial reporting reflect the fact that our annual and interim financial statements may contain misrepresentations that may have a significant influence on the decisions made by their addressees. Our accounting-based internal controlling system (ICS) aims to detect potential sources of error and limit the resulting risks. It covers the financial reporting of the entire RWE Group. This enables us to ensure with sufficient certainty that the parent company and consolidated financial statements are prepared in compliance with statutory regulations.

The design of the accounting-related ICS largely mirrors the organisation of our accounting and financial reporting process. One of the main features of this process is the control over the entire Group and its operating units. The basis is provided by the target parameters determined by the Executive Board of RWE AG. Building on them and our expectations concerning the operating trend, we develop our medium-term budget once a year. It includes the following fiscal year's figures as well as the figures planned for subsequent years. We prepare forecasts in line with the

budget for financial years underway. The Executive Board of RWE AG and the management boards of its major subsidiaries convene once a quarter in order to evaluate the interim and annual financial statements and update the forecasts.

Accounting is mostly handled locally. Occasionally, this function is performed by Group companies as a service to their subsidiaries. Certain processing tasks such as payroll accounting are pooled at internal service providers like RWE Service GmbH or are at least subject to uniform groupwide quality standards. As holding company, RWE AG performs central accounting tasks. These include the consolidation of figures, the accounting treatment of provisions for pensions in Germany, and goodwill impairment tests. RWE AG is also in charge of tasks relating to the management and monitoring of financial instruments, money transactions, cash investments and tax group accounting. External service providers are commissioned in certain cases.

The CEOs and CFOs or the managing directors of major subsidiaries as well as select RWE AG department heads must take an internal balance-sheet oath for external half and full-year reporting. Only once all of the internal balance-sheet oaths have been taken do the members of the Executive Board of RWE AG take an external half and full-year balance-sheet oath and sign the responsibility statement. Thereby, they confirm that the prescribed accounting standards and the RWE Group's accounting guidelines have been adhered to and that the figures give a true and fair view of the net assets, financial position and results of operations. In addition, the effectiveness of the ICS is confirmed at the end of the year.

We prepare our financial statements using a groupwide reporting system that we also use to prepare the budgets and forecasts. All fully consolidated subsidiaries use this system. It forms the basis for a standardised data reporting process within the Group. The financial accounting systems are largely maintained by RWE Service GmbH.

We identify risks in financial reporting at the divisional level on the basis of quantitative, qualitative and process-related criteria. The foundations of the ICS are our generally binding guidelines and ethical values, which are also set forth in RWE's Code of Conduct. Building on this, the minimum requirements of the major processing steps ensure the integrity of data collection and management. The risks of individual balance-sheet items resulting from subjective discretion or complex transactions are recorded in a groupwide risk and control matrix. Once a year, we use a control process introduced in 2009 to determine whether the necessary control measures have actually been implemented and carried out properly. This is done by external auditors, the internal Audit Department, or the management in charge of performing the controls.

When in session, the Audit Committee of the Supervisory Board regularly concerns itself with the effectiveness of the accounting-related ICS. Once a year, the CFO of RWE AG holds a presentation on the risks of financial reporting to this committee. He also explains which control measures were taken and how the proper implementation of the controls was verified.

Our Group Audit Department is certified to the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA). In organisational and disciplinary matters, it reports directly to the CEO.

Corporate Governance Declaration in accordance with Sec. 289a of the German Commercial Code (HGB): The Executive Board of RWE Aktiengesellschaft issued a corporate governance statement in accordance with Sec. 289a of the German Commercial Code on February 12, 2010 and made it accessible to the general public on the internet at www.rwe.com/corporate-governance-declaration-sec-289a-HGB.

1.11 OUTLOOK FOR 2010

The economy will only recover slowly. Nevertheless, we are confident that the RWE Group will continue to improve earnings from operations in 2010. Our operating result is expected to rise by around 5%. We are optimistic in relation to the coming years as well. This also applies to 2013: We anticipate that our earnings will be better than, compared to 2009, despite the substantial burdens added by emissions trading.

Economy picks up again. The economy's slight recovery witnessed since the middle of 2009 is likely to continue this year. However, setbacks are still conceivable. Based on initial forecasts, global economic output in 2010 will be more than 2% higher than last year. We estimate that in the Eurozone, it will grow by less than 2%. Stimulus originally provided by state economic packages is fading. Furthermore, banks are maintaining their restrictive lending policies. Investing activity will also be moderate, given the industry's persistently low capacity utilisation. Germany's economy may achieve a growth rate of up to 2% in 2010. However, gross domestic product (GDP) will return to its 2008 level no earlier than 2012. Germany's strong dependency on exports may prove to be a pillar of the economy in 2010, owing to rising foreign demand. We anticipate that Dutch GDP will grow by more than 1% and Belgian GDP will advance by about 1%. The effects of the crisis are expected to be felt for quite some time in the United Kingdom. Consumer spending in the UK is likely to stagnate due to the substantial devaluation of assets resulting from the real estate crisis and mounting unemployment. Furthermore, the tight situation in the banking sector will probably hinder the financing of investments over the long term. In 2010, UK GDP is expected to grow by roughly 1%. Initial estimates for our key markets in Central Eastern Europe paint an inhomogeneous picture. Expansion is forecast to be moderate in Poland (+2.7%), the Czech Republic (+1.5%) and Slovakia (+2.1%), whereas Hungary's economy is set to continue shrinking in 2010 (-0.2%).

Rapid recovery of energy consumption not in sight. The expected marginal economic recovery will have a positive effect on demand for energy. As regards electricity, however, we anticipate very little growth. Production by energy-intensive industries will remain curtailed both in 2010 and subsequent years. We expect that German electricity consumption in 2010 will not be much higher than in 2009. Our forecast for the Netherlands is similar. In the UK, demand for electricity had already been on the decline from 2006 to 2008 due to progress made in the field of energy efficiency. At best, it will match last year's level in 2010. In contrast, electricity usage in Central Eastern Europe may increase by more than 2%. Given the economy's more dynamic development in these countries, it is also likely to rise significantly in subsequent years.

Since demand for gas depends more on temperature than electricity, it is subject to greater fluctuation and difficult to predict. Leaving potential weather-related effects aside, gas usage in Germany, the Netherlands, and the UK should come close to last year's level in 2010. There may be some economic stimulus, as is the case with electricity. However, increasing energy efficiency is resulting in lasting reductions in consumption in the aforementioned countries. In general, our Central Eastern

European markets are expected to record marginal growth excluding weather-related effects. In addition to economic effects, the mounting significance of gas compared to other sources of energy plays a role in these countries.

Fuel and electricity prices to remain much lower than 2008's record level. Due to demand, energy prices will probably remain far below the highs achieved in 2008 in the foreseeable future. However, they may rise slightly compared to 2009, depending on the speed at which the economy emerges from the crisis. The oil market painted the following picture in late January 2010: A barrel of Brent sold for US\$72 in spot trading, which was above the previous year's average. The forward market currently has a contango structure, i.e. the later the delivery, the higher the price. Purchases of Brent crude for the current year made at the end of January 2010 cost between US\$72 (delivery in March) and US\$76 (delivery in the fourth quarter).

The development of crude oil prices will also be reflected on the Continental European gas market. This is due to the fact that long-term gas import agreements track oil prices, as mentioned earlier. Taking into account the time lag and the current Brent forward prices, the oil-indexed gas price for 2010 at the end of January was €21 per MWh. Last year's comparable figure was of a similar order. Prices presently observed at Europe's major trading points are much lower: Anyone who bought gas on the Dutch TTF market at the end of 2009 (for 2010) paid approximately €14 per MWh. We expect gas procurement via the TTF to also be more affordable over the remaining course of the year than purchases made via long-term, oil-indexed contracts.

Hard coal prices in the year underway will also fall significantly short of the record level seen in 2008. However, they should increase marginally compared to 2009. At the end of January 2010, a metric ton cost US\$86 in Rotterdam spot trading (including freight and insurance to Rotterdam), which was more than the prior-year average (US\$71). In addition, forward contracts for 2010 and subsequent years have the aforementioned contango structure. The BAFA quotation, which determines the price of German hard coal, will mirror the development on international markets with a lag of several months. It is likely to be slightly down on 2009's average, which is an estimated €78 per metric ton of hard coal unit.

In European CO₂ emissions trading, prices do not have the prospect of increasing significantly in the near future. As energy-intensive industries are only ramping up production slowly, they continue to have a surplus of certificates, which they can sell on the market. This will depress prices. Moreover, the international community failed to agree on a successor agreement to Kyoto at the Copenhagen World Climate Conference in December 2009. If the conference had been successful, it would have strengthened the trust placed in the long-term survival of emissions trading substantially. At the end of January, the right to emit a metric ton of CO₂ cost €13. This corresponds to the average market price for 2009.

Persistently low hard coal, gas and CO₂ certificate prices are reflected in electricity prices. As set out on page 43, the 2010 base-load forward cost an average of €49 on the German wholesale market last year, and was thus much cheaper than the 2009 forward in the preceding year. Similar to fuel, the coming years have a contango price structure: At the end of January 2010, base-load electricity for delivery in 2011 in Germany sold for €50 per MWh. The same contract for subsequent years traded at €53 (2012) and €56 (2013).

We have sold forward nearly all of our German electricity generation for 2010. The price we realised was below the corresponding figure for 2009 (€70 per MWh). A portion of our German production has also already been placed on the market for the years ahead: over 70% for 2011 and over 30% for 2012. In principle, when concluding forward contracts, we hedge the volume and price of the required fuel at the time the contract is signed. This also applies to the purchase of emission certificates.

Investment programme for more growth and less CO₂. Now that the acquisition of Essent has been completed, our strategic focus lies on organic growth and achieving further CO₂ reductions. We are rolling out the biggest programme for spending capital on property, plant and equipment in RWE history in order to make progress in these areas. An average of €7 billion per annum has been set aside through to 2013 for this purpose. The following cornerstones demonstrate the points of focus we have chosen: More than half of the €28 billion total has been earmarked for organic growth and efficiency improvements, nearly two thirds of our capital expenditure will be dedicated to activities outside Germany, and roughly half will be spent on electricity generation projects.

We are already building eight large-scale power stations in Germany, the UK and the Netherlands. We intend to use them to replace old plants or gain market share (see pages 77 et seq.). The growth strategy we are pursuing in the field of nuclear energy is more long-term in nature. This is an area in which we want to gain a foothold with E.ON in the UK. Furthermore, we have teamed up with partners to plan the construction and operation of two nuclear power plant units in the south east of Romania. The final investment decision is scheduled to be taken in 2011. This year, we intend to take a decision on the construction of a gas-fired power station in Turkey. It would enable us to tap into a further attractive market: Just like the countries of Central and Eastern Europe, Turkey harbours more growth potential than our more mature markets over the long term, because its infrastructure is relatively old and its demand for electricity and gas is rising. In gas and oil production, we continue to work on achieving our goal of doubling output no later than 2015. We will spend roughly €4 billion to this end through to 2013, focusing on Norway, Egypt and the UK. A sum of a similar order has been earmarked for electricity and gas networks. Germany's incentive-based regulation offers us fairly stable framework conditions for the years ahead.

Still full steam ahead with renewables. We intend to grow by spending capital especially in the field of renewable energy. RWE Innogy largely develops proprietary projects. The company benefits from the fact that, in some cases, wind farm component prices are now 10% to 20% lower than before the economic crisis. We anticipate that RWE Innogy's operating result will post double-digit growth rates every year. By fiscal 2013, the company aims to have hit the €500 million mark. We will invest over €5 billion in total to this end.

Large-scale offshore projects currently take centre stage: The Greater Gabbard wind farm off the UK coast, in which we have a 50% stake, is already under construction and will have an installed capacity of 504 MW on completion in 2011. We intend to begin construction of the German Nordsee Ost offshore wind farm before year-end. It will have a total installed capacity of 295 MW and is expected to be commissioned in 2012. The 576 MW Gwynt y Môr wind farm off the coast of Wales, which is scheduled to be built between 2011 and 2014, is another large-scale project in its preparatory stages. It is pending the final investment decision. We will also enlarge our onshore wind turbine portfolio, especially in Italy and the UK. Biomass is another field in which we are active. We are building combined heat and power stations in Germany and Scotland and a biomass pellet production plant in the USA.

All eyes on climate protection. Avoiding CO₂ is one of our main strategic goals. Given that we are one of Europe's biggest power producers, we feel we shoulder special responsibility. The stable and strong cash flows from our current power plant business give us the financial clout we need to gradually reconfigure our generation portfolio under our own steam. This kind of change will not happen overnight. It will take more than a decade. But we will already make significant progress on this road in the next few years. We intend to take emission-reducing and financial measures to reduce our CO₂ risk to the level of an average competitor in our markets by no later than 2020 (see page 35). In view of the high share of our portfolio accounted for by lignite and hard coal-fired power plants, this is an ambitious target. Huge investments will be necessary in order to achieve this: About half of the growth and replacement investments amounting to just over €18 billion through 2013 will be accounted for by CO₂-free or low-CO₂ electricity production technologies. We have earmarked nearly 25% in additional funds for state-of-the-art coal power stations, which will be up to 30% more efficient than their predecessors. In addition, we are investing in CO₂-reduction projects outside Europe within the scope of the Kyoto Clean Development Mechanism and Joint Implementation. Our work also includes reviewing options for conducting virtual power plant swaps with other electricity generators and buying CO₂ certificates on the wholesale market for future periods early on.

However, we believe climate protection is not merely an environmental task. It is also an economic challenge. EU emissions trading is causing electricity generation costs to increase substantially. We had to spend more than €1 billion to buy CO₂ certificates in 2009 alone. From 2013 onwards, CO₂ regulation will become stricter and we will hardly be allocated any allowances for free. Against this backdrop, it is all the more important that we achieve our emissions goals.

Selective acquisition strategy. The takeover of Essent will be our biggest step in terms of growth via acquisition for the next few years. We are not ruling out further acquisitions, but if we make any, they will be of a significantly smaller order. We are exploring how we can expand our market share or establish footholds by acquiring stakes in established local energy companies, especially in the eastern and south eastern parts of Europe. However, we generally consider acquisitions only if our financial criteria are met. The major yardstick is the internal rate of return (IRR). It must at least correspond to the cost of capital, plus a value added. Our agenda also presently includes an important divestment: the sale of our long-distance gas network operator Thyssengas. We intend to initiate the disposal process this year.

Forecast for 2010. Significant earnings growth expected. Essent's integration will change our financial reporting for 2010: From 2010 onwards, we will state the company's proprietary trading under RWE Supply & Trading and its wind electricity generation under RWE Innogy. To ensure transparency, we will present the earnings contributions of Essent's aforementioned activities as separate items.

Our goal for 2010 is to clearly surpass last year's high level of earnings. The full-year consolidation of the Dutch energy utility Essent for the first time will have a positive impact. Last year, we only included Essent for a quarter. As regards generation, we expect the availability of our Biblis nuclear power plant to rise. Price-driven reductions in the cost of procuring fuel and CO₂ emission allowances should also have an earnings-improving effect. In contrast, RWE Supply & Trading will fall short of the unusually high earnings achieved in 2009. We will benefit from our efficiency-enhancement programme this year as well. Our target for 2010 is €700 million compared to 2006.

Outlook for 2010 € million	2009	2010 forecast vs. 2009
EBITDA	9,165	+5–10%
Operating result	7,090	Approx. +5%
Germany	4,780	Significantly above previous year
Power generation	3,428	Significantly above previous year
Sales and distribution networks	1,352	Above previous year
Netherlands/Belgium	180	Significantly above previous year
United Kingdom	247	Slightly above previous year
Central and Eastern Europe	1,055	Below previous year
Renewables	56	Significantly above previous year
Upstream gas & oil	203	Significantly above previous year
Trading/gas midstream	985	Significantly below previous year
Recurrent net income	3,532	Approx. +5%

We anticipate that EBITDA will rise by between 5% and 10% compared to 2009 (€9,165 million). The operating result (€7,090 million) is expected to post a gain of approximately 5%. Our forecast for recurrent net income (€3,532 million), the basis for determining the dividend, is also an increase of approximately 5%.

- Germany: The division's operating result for 2010 is anticipated to be significantly higher year on year.

Power generation: The earnings growth forecast for the Germany division will largely come from RWE Power. The Biblis nuclear power plant's two units, which were only online for a short period of time in 2009 due to maintenance, will make a much larger contribution to production this year. We have already sold forward nearly all our 2010 German generation. As mentioned earlier, the electricity price realised is lower than in 2009. However, this is likely to be more than compensated for by the fact that expenses incurred for fuel and CO₂ emission certificates have declined. We also expect power station maintenance to have a less negative effect.

The sales and distribution networks business area is predicted to close 2010 up year on year. We expect to see slight operating improvements in terms of both margins and volume in our electricity and gas sales activities. In addition, one-off charges in the gas business, which had a negative effect on last year's operating result, will not occur this year (see page 68). However, we anticipate that German electricity and gas grid regulation will have further negative effects, above all because fees charged by network operators at the beginning of network regulation were too high. The excess amounts must be refunded via appropriately reduced network fees from 2010 onwards. We intend to partially offset these additional burdens by reducing costs.

- The Netherlands/Belgium division will close the year significantly up on the last one, due to consolidations. Having included the Dutch energy utility Essent last year only on a one-quarter basis, the company will be considered for a full twelve months for the first time this year. As mentioned earlier, Essent's proprietary trading and wind power generation will be stated under RWE Supply & Trading and RWE Innogy from 2010 onwards.
- The United Kingdom division's operating result is expected to recover slightly in 2010, following the weak 2009 fiscal year. We anticipate to see added earnings contributed by the commissioning of our new gas-fired power station at Staythorpe. The four units are scheduled to go online in the second half of the year. However, our generation margins are likely to decline overall. We expect the purchase of CO₂ emission allowances to result in a higher expense than in 2009. In the supply business, RWE npower continues to feel the negative impact of the competition-induced electricity price reductions made last year. This is compounded by the persistently high expenses caused by government programmes obliging UK utilities to promote energy saving measures for residential customers and municipalities and to support low-income homes. In fiscal 2009, RWE npower took extensive cost-related measures positively affecting earnings by €120 million. The task at hand now is to safeguard the realised savings. RWE npower is working on additional efficiency measures on top of this.
- The Central and Eastern Europe division is unlikely to fully match the operating result recorded last year. Margins in the Czech gas supply business are expected to deteriorate. Furthermore, we will probably be unable to match the high operating result achieved in the Hungarian electricity business last year. However, we anticipate that we will benefit from higher income from our Czech gas network companies and the continuation of our efficiency-enhancement programme this year.
- The renewables division's operating result is expected to improve significantly due to the integration of Essent's wind farms and the continued expansion of the generation base. However, the ongoing investment projects are causing substantial run-up costs. The earnings increase will accelerate in the years ahead.
- The upstream gas & oil division anticipates to post strong earnings growth compared to the weak year of 2009. In the oil business, RWE Dea expects higher realised prices and production output. However, the rise in production will also lead to higher depreciation as well as production and operating costs.

- The trading/gas midstream division is currently expected to close the year with an operating result that is significantly lower than last year's unusually high figure. The planned margins in the energy trading business are unlikely to match the very high level achieved in 2009. However, we will again benefit from the fact that some of the good trading performance we displayed in preceding years will be reflected in the operating result with a time lag. The supply activities (gas midstream business) will also be down on the previous year's figure, which includes extraordinary income from the reversal of provisions. In addition, in some cases, gas sales prices have declined more than our procurement costs. This will have a negative effect on RWE Supply & Trading in 2010.

Dividend for fiscal 2010. Our dividend proposal for fiscal 2010 will be in line with our usual payout ratio of 50% to 60%. The basis for calculating the payout ratio is recurrent net income, which is adjusted for one-off effects and which we intend to increase by about 5% compared to last year. This offers prospects for growing our dividend.

Capital expenditure on property, plant and equipment set to rise substantially. We will spend much more capital on property, plant and equipment in 2010. The strongest growth is anticipated to occur in the Netherlands/Belgium segment, owing to Essent's full-year consolidation for the first time. The RWE Group's investing activity will focus on the construction of highly efficient fossil fuel-fired power plants and the significant expansion of our renewable generation capacity. Capital earmarked for this will continue to rise in 2010. Our upstream subsidiary RWE Dea will step up its spending on oil and gas production. Its regional areas of focus are Norway, Egypt and the UK. Funds set aside for our electricity and gas networks as well as gas storage are also set to rise in 2010. In total, the RWE Group's capital expenditure on property, plant and equipment is likely to reach around €7 billion in 2010. This would be nearly 20% more than in 2009.

Leverage factor: cap compliance despite higher net debt. Our net debt, which amounted to €25.8 billion at the end of 2009, is expected to continue to increase this financial year. We anticipate a rise of up to €4 billion, which will largely be caused by our comprehensive investment programme. Our leverage factor, which reflects the ratio of net debt to EBITDA, will therefore probably be slightly higher than in 2009 (2.8), but it should not exceed 3.0.

Headcount: marginal growth expected. We anticipate that our workforce will expand further this financial year. Nearly all divisions are creating jobs as they implement their investment programmes.

Research and development: budget raised. Our research and development (R&D) expenditure will grow further. As before, we are concentrating on measures to improve the efficiency and reduce the emissions of our electricity generation activities. More than half of our R&D budget has been set aside for this. Detailed information on our major R&D projects is provided on pages 92 et seqq.

Earnings forecast through to 2012. In February of 2009, we presented an outlook on our medium-term earnings trend through to 2012. The reference year was 2008. We had not yet considered Essent in our assumptions. This outlook continues to apply, with the exception of our forecast for recurrent net income:

- Our forecast had our operating result growing by an average of 5% to 10% a year compared to 2008. We currently expect to arrive at the lower end of this range. Reasons for this are delays in large-scale power plant and upstream projects as well as more conservative assumptions concerning realisable gas and electricity margins.
- We had anticipated that recurrent net income, the basis for determining the dividend, would rise by an average of approximately 10% per annum. For the aforementioned reasons, we now expect it to grow by an average of approximately 5% per year.

This prognosis is based on the assumption that the electricity price realised in Germany for 2012 will amount to at least €60 per MWh. Furthermore, we estimate that a barrel of Brent crude will cost a minimum of US\$80, gas will sell for at least €25 per MWh, and emission allowances will trade at a maximum of €20 per metric ton of carbon dioxide.

We expect Essent to increase its operating result by some 10% every year through to 2012. This forecast considers all of Essent's activities, including the proprietary trading and wind energy businesses, which will be assigned to other divisions in our reporting from 2010 onwards. The basis is the pro-forma operating result that Essent achieved for the full twelve months of 2009. It totals approximately €500 million.

Operating result in 2013 higher than in 2009. We anticipate seeing very negative effects on our operating result in fiscal 2013 due to tighter European emission trading scheme framework conditions. Starting on January 1, 2013, power producers like RWE will have to buy almost all the CO₂ certificates they need. Nevertheless, we expect our overall development for that financial year to be positive. Our forecast has all three earnings figures (EBITDA, the operating result and recurrent net income) exceeding their 2009 levels. The fundamental assumptions regarding commodity prices correspond to the ones for the period through to 2012, with the exception of the price of CO₂, which we expect will range from €20 to €30 per metric ton for 2013.

Dividend trend through to 2013. Our payout ratio of 50% to 60% of recurrent net income continues to apply. In light of the high earnings level expected, we stand a good chance of increasing the dividend payments. Our goal is to at least match the previous year's dividend for each fiscal year from 2010 to 2013. This will ensure that our shareholders are paid an attractive dividend.

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

2.0 OUR RESPONSIBILITY

Environmental expenditure
in 2009

€2.2 billion

Trainees employed
by RWE

3,100

Wind instead of hot air. We intend to expand our renewable electricity generation capacity to 4.5 gigawatts in the next few years. Wind will play an important role. In December 2009, we commissioned the Rhyl Flats wind farm off the coast of Wales. Its 90 megawatts in installed capacity make it the largest renewable power station in Wales. The farm's 25 wind turbines supply 61,000 households with electricity.

2.1 SUPERVISORY BOARD REPORT

Dear Shareholders,

In fiscal 2009, the Supervisory Board fulfilled all of the duties imposed on it by German law and the company's Articles of Incorporation. We regularly advised the Executive Board on running the company and monitored business management measures. In so doing, we were consulted on all decisions of fundamental importance to RWE. The Executive Board informed the Supervisory Board of all the material aspects of business developments, major events and transactions, as well as of the current earnings situation, exposure to risk and risk management regularly, extensively and in a timely manner, both in writing and verbally.

In the year under review, the Supervisory Board convened four ordinary meetings and one extraordinary meeting. None of the Supervisory Board members attended less than half of the meetings. The average participation rate was 95%. The Supervisory Board passed the resolutions required of it by law or the Articles of Incorporation. We took our decisions on the basis of reports and draft resolutions submitted by the Executive Board. We were informed of projects and transactions of special importance or urgency in a timely manner between meetings. When necessary, we were asked for approval by circular or in committee meetings. Furthermore, as Chairman of the Supervisory Board, I was constantly in touch with the Executive Board in order to immediately discuss events of material importance to the RWE Group's situation and development.

Main points of debate. One of the central topics of debate in fiscal 2009 was the Group's organisational structure, which had to be brought more in line with the company's current strategic orientation. In addition, we dealt in depth and in several sessions with the acquisition of the shares in the Dutch-based Essent N.V. and the changes to the acquisition structure that became necessary during the process. The acquisition was completed in the third quarter. Furthermore, we concerned ourselves with the sale of all the remaining shares in American Water still held by RWE. The Supervisory Board formed a separate committee for the resolutions necessary in this context. This special committee passed the resolutions required to place the shares on the New York Stock Exchange at its meeting on March 3, 2009 and by circular. As all of the placements were successful, in the meantime, the stake has been divested completely.

Moreover, we concerned ourselves at length with the successful bidding process carried out by our joint venture with E.ON for the acquisition of two plots of land for nuclear power plant new builds in the UK and passed the resolutions necessary for this purpose. Furthermore, the Supervisory Board received regular updates on the status of large-scale power plant new-build projects. In view of the increasing significance of renewable energy to RWE, consultative sessions also addressed major RWE Innogy projects. All of the measures and transactions mentioned here have been commented on in detail in the annual report (see pages 49 et seqq.).



Dr. Manfred Schneider
Chairman of the
Supervisory Board of RWE AG

The Supervisory Board also set aside time to discuss the framework conditions of energy policy. Among other things, we discussed the EU Climate Package and its impact on the company's strategy with the Executive Board.

The Executive Board regularly informed us of the revenue and earnings, measures to reduce costs, and price developments on the energy markets. In our session on December 10, 2009, we adopted the Executive Board's planning for 2010 and the forecast for 2011 and 2012. We received detailed commentary in cases where there were deviations from plans and goals established previously.

In this Supervisory Board meeting, we also dealt with the most recent amendments to the German Corporate Governance Code (see page 121). A considerable amount of time was also dedicated to the German Act on the Appropriateness of Management Board Compensation (VorstAG) which came into force in August 2009. We adapted our rules of procedure to the changed framework conditions. The Supervisory Board passed all resolutions required to make any necessary adjustments to the compensation system for the Executive Board at its meeting on February 23, 2010.

Furthermore, the Supervisory Board subjected its work to an efficiency review and discussed its results. Any need for change will be considered in the Supervisory Board's future work.

Committees. The Supervisory Board has five committees. Their members are listed on page 211. These committees are charged with preparing issues and resolutions of the Supervisory Board meetings. In certain cases, they exert decision-making powers conferred on them by the Supervisory Board. The Supervisory Board is regularly informed of the work done by the committees by their chairmen.

The **Executive Committee** convened two ordinary and one extraordinary meeting in the 2009 financial year. Among other things, it did preparatory work for the Supervisory Board debates, especially concerning the 2009 financial statements of RWE Aktiengesellschaft and the Group, as well as the budget for fiscal 2010. In cases where issues were urgent and their treatment could not be postponed until the next Supervisory Board meeting, the Executive Committee passed the required resolutions of approval.

The **Audit Committee** convened five times in 2009. It discussed the quarterly reports, the financial statements for the first half and the annual financial statements at length and prepared the award of the audit contract to the independent auditor. This involved obtaining a statement of independence from the auditor. In addition, the Audit Committee monitored the auditor's qualifications. Special attention was paid to the Group's risk management and the internal controlling system, particularly at RWE Supply & Trading. Delays in the implementation of power plant new-build projects were also a subject of discussion, as were the IT strategy and network security as well as the economic development of RWE Innogy. The Audit Committee concerned itself in detail with compliance, with due regard to the progress and results of the 2008 compliance audit. Another point of focus were the audit results of the Internal Audit Department and its audit schedule.

The half-year and quarterly reports were discussed at length with the Executive Board and the independent auditor. The independent auditor was present at all of the meetings, participated in some of the debates, and reported on the audit and/or the audit-like review of the quarterly reports, the half-year financial statements and the annual financial statements.

The **Personnel Affairs Committee** held three meetings. Debates primarily addressed the compensation system and the amount of remuneration as well as the German Act on the Appropriateness of Management Board Compensation (VorstAG). Furthermore, the Committee prepared the Supervisory Board's personnel-related decisions.

In the financial year that just ended, there was no reason to convene the **Mediation Committee**, which complies with Sec. 27, Para. 3 of the German Co-Determination Act (MitbestG).

The **Nomination Committee** was in session twice to work on the proposals for candidates to succeed Mr. Van Miert, Mr. Holl and Dr. Fischer.

Financial statements for fiscal 2009. The financial statements of RWE Aktiengesellschaft, which were prepared by the Executive Board in compliance with the German Commercial Code (HGB), the financial statements of the Group, which were prepared in compliance with International Financial Reporting Standards (IFRSs), the combined review of operations for RWE Aktiengesellschaft and the Group, and the accounts were scrutinised by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and were issued an unqualified auditor's opinion. The auditors were elected

by the Annual General Meeting on April 22, 2009 and commissioned by the Supervisory Board to audit the financial statements of RWE AG and the Group. Documents supporting the annual financial statements, the annual report and the auditor's audit report were submitted to all the members of the Supervisory Board in good time. The Executive Board also commented orally on the documents in the Supervisory Board's balance sheet meeting of February 23, 2010. The responsible independent auditors reported at this meeting on the material results of the audit and were available to answer questions. The Audit Committee had concerned itself in depth with the financial statements of RWE Aktiengesellschaft and the Group, as well as audit reports, during its meeting on February 22, 2010, with the auditor present. It recommended that the Supervisory Board approve the financial statements as well as the appropriation of profits proposed by the Executive Board.

The Supervisory Board thoroughly reviewed the financial statements of RWE Aktiengesellschaft and the Group, the combined review of operations for RWE Aktiengesellschaft and the Group, and the proposed appropriation of distributable profit. No objections were raised as a result of this review. As recommended by the Audit Committee, the Supervisory Board approved the auditor's results of the audit of both financial statements, and adopted the financial statements of RWE Aktiengesellschaft and the Group for the period ended December 31, 2009. The 2009 annual financial statements are thus adopted. The Supervisory Board concurs with the appropriation of profits proposed by the Executive Board, which anticipates a dividend payment of €3.50 per share.

Changes in personnel on the Supervisory and Executive Boards. Professor Karel Van Miert, who had been a member of the Supervisory Board since June 7, 2001, passed away on June 22, 2009. In his work, Professor Van Miert drew on his extensive expertise and many years of political experience. We will honour his memory. On July 16, 2009, the Essen District Court appointed Dr. Dieter Zetsche his successor on the Supervisory Board.

My predecessor, Dr. Thomas R. Fischer, relinquished his position as Chairman of the Supervisory Board effective as of the end of the day on April 30, 2009. I was elected his successor in an extraordinary meeting on May 1, 2009. Dr. Fischer retired from the Supervisory Board as of January 31, 2010. In line with the proposal received from the Nomination Committee, the Executive Board filed a request with the Essen District Court to appoint Dr. Wolfgang Schüssel to the Supervisory Board as Dr. Fischer's successor. Heinz-Eberhard Holl also retired from his position as shareholder representative on the Supervisory Board with effect from January 31, 2010. On December 29, 2009, Frithjof Kühn was appointed his successor by the Essen District Court as of February 1, 2010.

Karl-Heinz Römer retired from his position as employee representative on the Supervisory Board with effect from the end of the day of September 30, 2009. Hans Peter Lafos was appointed his successor by court decree on October 28, 2009.

We thank Dr. Fischer as well as Messrs. Holl and Römer for their dedicated and constructive work for the benefit of the company.

At its meeting on February 24, 2009, the Supervisory Board appointed Dr. Rolf Martin Schmitz to the Executive Board of RWE Aktiengesellschaft as of no later than July 1, 2009. Dr. Schmitz took office with effect from May 1, 2009.

On behalf of the Supervisory Board, I thank the RWE Executive Board and all the Group's employees for the work they did in the financial year that just came to a close. Their dedication and expertise made a major contribution to the company's commercial success.

On behalf of the Supervisory Board



Dr. Manfred Schneider
Chairman

Essen, February 23, 2010

2.2 CORPORATE GOVERNANCE

Responsible and transparent corporate governance is one of the cornerstones of sustained success. Our guiding principle is always the most up-to-date version of the German Corporate Governance Code which was introduced in 2002. We issued an unconditional statement of compliance for the eighth straight time in February 2010.

Comprehensive implementation of the Code. “Corporate governance” defines the responsible and transparent management and monitoring of a company focused on long-term commercial success. RWE uses this as a yardstick. We use the recommendations of the German Corporate Governance Code (hereinafter referred to as the “Code”) as the main benchmark for this. The Code aims to increase the confidence placed by domestic and international investors, customers, employees and the public in German listed companies. It is prepared by the Government Commission of the German Corporate Governance Code, which submitted the first version of the Code in February 2002. Since then, the Commission has reviewed the Code every year against the backdrop of domestic and international developments and adapted it whenever necessary.

The Government Commission revised the Code again in 2009, adopting the current version on June 18. The amendments aimed to take into account the change in the legal framework—especially the provisions of the German Act on the Appropriateness of Management Board Compensation (VorstAG, hereinafter referred to as the “Act”)—and to improve the prerequisites for the professional work of supervisory boards. Some of the amendments to the Code go above and beyond the Act. Companies are now recommended to establish a deductible for directors’ and officers’ liability insurances (D&O insurances) for supervisory board members. It should correspond to the deductible for management board members established by the Act, which is now legally prescribed, and must amount to at least 10% of the damage and at least one-and-a-half times the member’s annual compensation. In addition, the new recommendation was followed, namely to take account of both positive and negative developments in determining the variable components of executive board compensation. If a supervisory board commissions an external expert to assess the appropriateness of remuneration, the management board or the company must ensure that the expert is independent. Another new recommendation envisages supervisory boards taking diversity into account when composing a management board.

RWE complies with all the amendments made to the law and the Code. The Supervisory Board reviewed the structure of the Executive Board compensation for compatibility with the Act, based on the suggestions made by the Personnel Affairs Committee. We have made the necessary adjustments in compliance with statutory regulations. Our D&O insurance for members of the Executive and Supervisory Boards already included an appropriate deductible. We will adapt it to the new rules included in the Act and the Code in due course. Dr. Dieter Zetsche, Frithjof Kühn and Dr. Wolfgang Schüssel were proposed for the by-elections to the Supervisory Board of RWE AG by the Nomination Committee. The independence and diversity criteria were taken into account, in compliance with the Code’s new recommendation.

We therefore continue to comply with all of the recommendations of the current version of the Code. With just a few exceptions, we consider the suggestions included therein. In February 2010, RWE issued an unqualified statement of compliance for the eighth time in a row.

Our listed Group company Lechwerke AG is also putting the Code into practice, taking account of the fact that it is a part of the Group. Deviations from the Code's recommendations have been disclosed in Lechwerke AG's statement of compliance.

Transparency of directors' dealings and potential conflicts of interest. Transparency is a core element of good corporate governance. It is necessary especially in cases where transactions concluded by the Executive Board may lead to conflicts of interest. We would like to highlight the following aspects of RWE's corporate governance practice:

- Material transactions concluded between RWE or a Group company and an Executive Board member or related party were in line with prevailing market standards. No conflicts of interest of members of the Executive Board going above and beyond such transactions were notified. No contracts were concluded between RWE AG and members of the Supervisory Board. No conflicts of interest of Supervisory Board members were notified.
- Executive Board members and one member of the Supervisory Board purchased RWE shares in the year under review. No sales were notified to us. We published information on transactions notified to us in accordance with Sec. 15a of the German Stock Corporation Act (WpHG) throughout Europe. The following is a breakdown of the transactions we were notified of:

Transaction date	Name	Reason for mandatory disclosure/function	Type of financial instrument	Transaction (purchase/sale)	Price per share in €	Number of shares	Total volume in €
Mar 20, 2009	Dr. Leonhard Birnbaum	Exec. Board member	RWE common share	Purchase	49.03662	1,013	49,674.10
Mar 21, 2009	Alwin Fitting	Exec. Board member	RWE common share	Purchase	49.03662	2,013	98,710.72
Mar 22, 2009	Dr. Ulrich Jobs	Exec. Board member	RWE common share	Purchase	49.03662	1,013	49,674.10
Mar 23, 2009	Dr. Rolf Pohlig	Exec. Board member	RWE common share	Purchase	49.03662	2,013	98,710.72
May 15, 2009	Dr. Rolf Martin Schmitz	Exec. Board member	RWE common share	Purchase	56.05300	2,013	112,834.69
Aug 20, 2009	Carl-Ludwig von Boehm-Bezing	Sup. Board member	RWE common share	Purchase	61.08000	400	24,432.00
Aug 27, 2009	Dr. Ulrich Jobs	Exec. Board member	RWE common share	Purchase	65.49600	1,100	72,045.60

The RWE shares and related financial instruments directly or indirectly held by members of the Executive and Supervisory Boards account for less than 1% of the shares issued by RWE.

We publish further information on our corporate governance practices on the internet at www.rwe.com/investorrelations. This web page also provides access to our Articles of Incorporation, the bylaws of the Supervisory Board and the Executive Board, RWE's code of conduct, all the corporate governance reports and statements of compliance as well as the corporate governance declaration in accordance with Sec. 289a of the German Commercial Code (HGB).

Statement of compliance in accordance with Sec. 161 of the German Stock Corporation Act. After an orderly audit, the Executive and Supervisory Boards of RWE AG issued the following declaration of compliance:

RWE Aktiengesellschaft complies with all of the recommendations of the Government Commission of the German Corporate Governance Code issued in the August 5, 2009 version of the Code. Likewise, from the last statement of compliance on February 24, 2009 to August 5, 2009, RWE Aktiengesellschaft has complied with all of the recommendations of the version of the Code issued on August 8, 2008, and since August 6, 2009, has complied with all of the recommendations of the August 5, 2009, version of the Code.

RWE Aktiengesellschaft

On behalf of the Supervisory Board

On behalf of the Executive Board

Dr. Manfred Schneider

Dr. Jürgen Großmann Dr. Rolf Pohlig

Essen, February 23, 2010

2.3 COMPENSATION REPORT

For us, transparent reporting on Executive and Supervisory Board compensation is one of the core elements of good corporate governance. On the following pages, we have provided information on the principles of RWE AG's compensation system as well as on its structure and the payments. The 2009 Compensation Report takes into account all statutory regulations and fully complies with the recommendations of the German Corporate Governance Code. It is part of the combined review of operations and the corporate governance report.

Executive Board compensation

Compensation structure. The compensation structure and amount of compensation of Executive Board members are determined by the Supervisory Board and reviewed on a regular basis. The existing compensation system ensures that Executive Board members are compensated in a manner commensurate with their activities and responsibilities and is in line with common practice within the Group and on the external market. It takes into account not only their personal performance, but also the company's business situation, its performance and prospects for the future.

In light of the German Act on the Appropriateness of Management Board Compensation (VorstAG) which came into force on August 5, 2009, the Supervisory Board reviewed the compensation and will adapt it as necessary. Most importantly, the compensation structure will be brought more in line with sustainable business development. Once it has been updated, the Supervisory Board will present the compensation system to the Annual General Meeting for approval. The compensation system valid for the year under review is presented in the following passages.

Short-term compensation components. The total cash compensation consists of a non-performance-based, fixed component and a variable, performance-related component. If the degree to which targets have been achieved is 100%, the total cash compensation breaks down into 40% for the fixed component and 60% for the variable component. The variable component consists of a company bonus, accounting for 70%, and an individual bonus, accounting for 30%. The company bonus is based on the Group's value added. If the figure budgeted for the fiscal year in question is achieved, the degree to which the target has been achieved is 100%. The degree to which the target has been achieved as regards the company bonus can amount to between 50% and 150%. The personal bonus depends on the degree to which the goals agreed between the Chairman of the Supervisory Board and each Executive Board member at the beginning of the financial year have been achieved. The maximum degree to which this target can be achieved is 120%.

Above and beyond this, Executive Board members receive non-cash compensation and other compensation, consisting primarily of sums reflecting the use of company cars according to German fiscal guidelines and accident insurance premiums.

Compensation also includes payment for exercising Supervisory Board mandates held by Executive Board members at affiliates. All this income is deducted from the variable compensation and therefore does not increase the total compensation.

The short-term compensation components paid to members of the Executive Board for fiscal 2009 were as follows:

Short-term Executive Board compensation in 2009	Non-performance-based compensation		Performance-based compensation		Non-cash and other remuneration		Payment for exercise of mandates ¹		Other payments		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
€ '000												
Dr. Jürgen Großmann ²	2,700	2,700	4,431	4,315	24	47	7	20	2,000	2,000	9,162	9,082
Dr. Leonhard Birnbaum	680	170	1,259	307	22	5	0	0	0	0	1,961	482
Alwin Fitting	680	680	1,246	1,174	16	17	13	52	0	0	1,955	1,923
Dr. Ulrich Jobs	760	680	1,282	1,084	23	23	125	148	0	0	2,190	1,935
Dr. Rolf Pohlig	760	700	1,340	1,232	31	33	67	40	0	0	2,198	2,005
Dr. Rolf Martin Schmitz (since May 1, 2009)	453	0	742	0	12	0	97	0	0	0	1,304	0
Total	6,033	4,930	10,300	8,112	128	125	309	260	2,000	2,000	18,770	15,427

1 Income from the exercise of mandates is part of variable compensation.

2 Dr. Jürgen Großmann receives an annual €2,000,000 instead of a pension commitment.

Long-term incentive compensation. With the exception of the Chairman of the Executive Board, Dr. Jürgen Großmann, performance shares were awarded to members of the Executive Board as part of the Beat 2005 long-term incentive plan ("Beat" for short). Performance shares are granted on condition that the Executive Board members invest in RWE shares a sum which is equal to one-third of the value of the performance shares granted after taxes. The shares must be held for the respective Beat tranche's entire three-year waiting period. Any necessary notifications of directors' dealings were published.

The Beat programme supplements the compensation system with a long-term incentive component by rewarding the sustainable contribution made by executives to the company's success. The company's performance is measured using Total Shareholder Return (TSR) of RWE shares, which covers both the development of the share price and reinvested dividends. The payout factor is determined by comparing RWE's TSR with the TSR of other companies in the Dow Jones STOXX Utilities Index.

Executives entitled to participate in Beat receive a conditional allocation of performance shares every year. A performance share allocated in the fiscal year consists of the conditional right to receive a payout in cash following a waiting period of three years. However, a payout only takes place if, on conclusion of the waiting period, the RWE share's performance is better than the performance of 25% of the companies in the peer group, measured in terms of their index weighting as of the inception of the programme. Consequently, the decisive factor is not only RWE's position among the companies in the peer group, but also which of the companies RWE outperforms.

Payment in the fiscal year corresponds to the average RWE share price during the last 20 trading days prior to the expiry of the programme, the number of conditionally allocated performance shares, and the payout factor. Payment for Executive Board members is limited to one-and-a-half times the value of the performance shares at grant.

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

Long-term incentive share-based payment	Beat: 2009 tranche	
	No.	Fair value upon grant € '000
Dr. Leonhard Birnbaum	62,867	750
Alwin Fitting	62,867	750
Dr. Ulrich Jobs	62,867	750
Dr. Rolf Pohlig	62,867	750
Dr. Rolf Martin Schmitz	62,867	750
Total	314,335	3,750

In the year under review, the long-term incentive 2006 Beat tranche was paid out as follows:

Long-term incentive share-based payment	Beat: 2006 tranche
	payout € '000
Alwin Fitting	1,500
Dr. Ulrich Jobs	297
Total	1,797

Executive Board members still hold performance shares from the Beat programme's 2007 and 2008 tranches from Executive Board activity in previous years. These allocations are not part of total compensation for the 2009 financial year. Instead, they are part of total compensation for fiscal 2007 and 2008 and, as such, are presented in the compensation reports for these two prior years.

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

Allocation to expenses for long-term incentive share-based payments 2007/2008/2009 tranches	2009 € '000	2008 € '000
Dr. Leonhard Birnbaum ¹	433	71
Alwin Fitting	941	1,640
Dr. Ulrich Jobs	941	663
Dr. Rolf Pohlig	941	477
Dr. Rolf Martin Schmitz	319	0
Total	3,575	2,851

1 The allocation to expenses in 2008 was made for the period prior to his appointment to the Executive Board.

Total compensation. In total, the Executive Board received €18,770,000 in short-term compensation components in fiscal 2009. In addition to this, long-term compensation components from the 2009 tranche of the Beat programme amounting to €3,750,000 were allocated. Total compensation of the Executive Board for fiscal 2009 thus amounted to €22,520,000.

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

Pension commitments. The members of the Executive Board—with the exception of its Chairman, Dr. Großmann—received pension commitments (direct commitments), which grant them or their surviving dependants entitlement to a life-long pension and surviving dependants' benefits. These benefits are due in the event of retirement upon reaching the age of 60 (retirement age), permanent disability, death and early termination or non-extension of the employment contract by the company. The amount of qualifying income and the level of benefits determined by the duration of service are taken as a basis for each member's individual pension and surviving dependants' benefits. Profit participation and other fringe benefits are not factored into the pension. The ceiling for pension benefits for members of the Executive Board is 60% of the last qualifying income on the day before they reach the retirement age. The widow's pension amounts to 60% of her husband's pension, the orphan's pension amounts to 20% of the widow's pension. Vested old-age pension benefits do not expire. The amount of the old-age pension and the surviving dependants' benefits are reviewed every three years, taking account of all major circumstances, with due regard to changes in the cost of living. Due to earlier provisions, there are some differences in the pension commitments in terms of the calculation of the level of benefits, the crediting of other pensions and benefits, and the adjustment mode selected for pensions and surviving dependants' benefits.

In the event of an early termination or non-extension of an employment contract, Executive Board members shall only receive payment if the termination or non-extension was occasioned by the company and effected without due cause. In such cases, they start receiving pension payments when they leave the company, but no earlier than on completion of their 55th year of age. In the event of a non-extension or early termination of an employment contract, only 50% of income earned through other activities until the end of the Executive Board member's 60th year of age or the beginning of the member's occupational disability is taken into account in determining the pension payments.

The service cost of pension commitments in fiscal 2009 totalled €439,000. At the end of the year under review, the present value of the defined benefit obligation was €14,203,000. The following is a breakdown of service costs and the present value of pension benefits, taking into account both age and years of service.

Pensions	Age	Predicted annual pension on reaching the company age limit (60 years) ¹		Service cost		Defined benefit obligation	
		€ '000		€ '000		€ '000	
		2009	2008	2009	2008	2009	2008
Dr. Leonhard Birnbaum	43	245	245	85	0	635	402
Alwin Fitting	56	283	283	136	140	3,935	2,696
Dr. Ulrich Jobs	56	274	245	155	101	3,761	2,784
Dr. Rolf Pohlig	57	274	252	63	64	2,159	1,549
Dr. Rolf Martin Schmitz ²	52	370	0	0	0	3,713	0
				439	305	14,203	7,431

1 Based on compensation qualifying for pensions as of December 31, 2009.

2 Dr. Schmitz's expected pension includes pension benefit entitlements from former employers. €1,152,000 in provisions were transferred to RWE to cover this.

As regards Executive Board members, vested pension benefits from earlier employment and years of service for previous employers which have been recognised, are credited to the company's pension payments by contractual arrangement.

Change of control. Executive Board members have a special right of termination in the event that the company loses its independence as the result of control being taken over by shareholders or third parties. In such cases, they have the right to retire from the Executive Board within six months of the time at which the change of control becomes known and to request that their employment contract be terminated in combination with a one-off payment. To the extent necessary to ensure the company's survival, however, the Supervisory Board can demand that the Executive Board member remain in office until the end of the six-month period.

A change of control as defined by this provision occurs when a shareholder or a group of shareholders acting jointly, or third parties acting jointly, acquire at least 30% of the voting rights in a company, or if any of the aforementioned can exert a controlling influence on the company in another manner. A controlling influence may also exist if one or several jointly acting shareholders or third parties hold more than half of the voting stock represented at three consecutive Annual General Meetings. The aforementioned provisions do not apply if the change of control puts the control of the company in the hands of individual or jointly acting cities or communities or companies which are majority-owned by an entity under public law in the Federal Republic of Germany.

On termination of their employment contracts, Executive Board members receive a one-off payment in the amount of the compensation due until the end of the duration of the contract originally agreed, which shall not be higher than three times their total contractual annual compensation and shall not be less than twice their total contractual annual compensation.

As regards benefits, effective as of the end of the employment contract's agreed duration, Executive Board members are treated as if the company had not extended their employment contracts at that time, without there being a material reason in the sense of Section 626 of the German Civil Code (BGB).

The Chairman of the Executive Board, Dr. Jürgen Großmann, was granted a special right of termination before the amendment to the German Corporate Governance Code with effect from June 6, 2008. On exercise of his contractually secured special right of termination, Dr. Großmann shall receive a one-time payment that covers all of the remuneration due until the expiry of his employment contract, including the amount contractually agreed instead of a pension commitment.

In the event of a change of control, all the performance shares granted to the Executive Board and entitled executives shall expire. Instead, a compensatory payment shall be made, which shall be determined when the takeover offer is made. The amount shall be in line with the price paid for RWE shares at the time of the takeover. This shall then be multiplied by the final number of performance shares. Performance shares shall also expire in the event of a merger with another company. In this case, the compensatory payment shall be calculated based on the expected value of the performance shares at the time of the merger. This expected value shall be multiplied by the number of performance shares granted, pro-rated up to the date of the merger.

Severance cap. If an Executive Board mandate is otherwise terminated early without due cause, Executive Board members shall receive a severance payment of no more than two total annual compensations and no more than the compensation due until the end of the employment contract. Total annual compensation is the sum resulting from the fixed component and the value of payment in kind at the time of the termination as well as the company bonus and the personal bonus of the previous financial year. This provision applies to all new employment contracts and contract extensions and for the first time to the conclusion of Dr. Birnbaum's employment contract.

Supervisory Board compensation

The compensation of the Supervisory Board is set forth in the Articles of Incorporation and is determined by the Annual General Meeting. Supervisory Board members receive a fixed compensation of €40,000 per fiscal year for their services after each fiscal year. The compensation increases by €225 for every €0.01 by which the dividend exceeds €0.10 per common share. The Chairperson of the Supervisory Board receives three times and the Deputy Chairperson receives twice the aforementioned amount. If a committee has been active at least once in a fiscal year, committee members receive one-and-a-half times the compensation and the committee chairperson receives twice the compensation. If a member of the Supervisory Board holds several offices on the Supervisory Board of RWE AG concurrently, he or she receives compensation only for the highest-paid position. Out-of-pocket expenses are refunded.

Supervisory Board compensation	2009 base compensation		2009 committee compensation		Total	
	Fixed	Variable	Fixed	Variable	2009	2008
€ '000						
Dr. Thomas R. Fischer, Chairman until April 30, 2009	66	127	0	0	193	417
Dr. Manfred Schneider, Chairman since May 1, 2009	100	192	0	0	292	209
Frank Bsirske, Deputy Chairman	80	154	0	0	234	278
Dr. Paul Achleitner	40	77	20	38	175	209
Werner Bischoff	40	77	20	38	175	209
Carl-Ludwig von Boehm-Bezing	40	77	40	77	234	278
Heinz Büchel	40	77	20	38	175	209
Dieter Faust	40	77	20	38	175	209
Andreas Henrich	40	77	0	0	117	104
Heinz-Eberhard Holl	40	77	20	38	175	209
Hans-Peter Lafos (since Oct 28, 2009)	7	14	0	0	21	0
Dr. Gerhard Langemeyer	40	77	20	38	175	209
Dagmar Mühlenfeld	40	77	20	38	175	209
Dr. Wolfgang Reiniger	40	77	0	0	117	139
Günter Reppien	40	77	20	38	175	209
Karl-Heinz Römer (until Sep 30, 2009)	30	57	0	0	87	139
Dagmar Schmeer	40	77	20	38	175	143
Dr.-Ing. Ekkehard D. Schulz	40	77	20	38	175	209
Uwe Tigges	40	77	20	38	175	209
Prof. Karel Van Miert (until June 22, 2009)	19	36	0	0	55	139
Manfred Weber	40	77	0	0	117	11
Dr. Dieter Zetsche (since July 16, 2009)	19	35	0	0	54	0
Total	921	1,770	260	495	3,446	3,947

In total, the emoluments of the Supervisory Board amounted to €3,446,000 in fiscal 2009. Additionally, certain Supervisory Board members were paid compensation totalling €296,000 for exercising mandates at subsidiaries.

2.4 WORKFORCE

The demands placed on modern personnel policy are high: find and recruit talent, develop employees, offer them flexibility, and retain them long-term. Another task became a major item on RWE's agenda in fiscal 2009: the integration of Essent staff. Only if we succeed in this will we be able to achieve the goals we set ourselves when we acquired the Dutch-based energy utility.

Integration of Dutch utility Essent. Combining two companies always brings about great change for their employees, especially when they come from different countries. This is why we did not leave anything to chance when we acquired Essent. Immediately after announcing the transaction in January of 2009, we prepared plans for integration, which we started to implement directly after the deal closed on September 30, 2009. One of the most urgent tasks we faced was to appoint suitable candidates to executive positions at Essent. We have accomplished this for the top three management levels. Most of these executives had already been working for Essent. In addition, we had to integrate the personnel of RWE's existing Dutch sales company into Essent's organisational structure. We also made good progress in this regard. However, the biggest challenge is to integrate Essent and its employees into the RWE Group both in organisational and cultural terms. Essent has already adopted existing RWE standards for personnel-related issues such as talent management, executive compensation and personnel controlling. Essent managers already attend groupwide events and training sessions on a regular basis. Furthermore, employees share ideas and experiences with the other RWE companies.

Pooling of executive support services, continued education and advanced training in the RWE Group. In 2008, we initiated a comprehensive analysis of our major business processes. Our goal was to identify functions and processes which we could make more efficient and cost-effective. Based on the results of this analysis, we decided to centralise executive support services. This was done with effect from September 1, 2009. The new unit is called Group Executive Services and is the point of contact for all RWE companies seeking advice on contract drafting, compensation and payroll accounting. Human resource development, which will be handled by the newly established Development Centre in co-operation with the Group companies' personnel departments, was also centralised. It provides customised development as well as continued education and advanced training measures, and is also in charge of the groupwide executive programmes. By taking this step, we are improving the efficiency and focus of our employee development operations in a more cost-effective way.

Succession planning. Every entrepreneur wants to make sure their business is in order before handing it over. What is a matter of course for medium-sized enterprises also applies to big companies like RWE. Every year, we identify employees who have the potential to succeed any one of around 350 executives at the upper management levels. In addition, we set up candidate pools for specific fields of activity. The basis for this is the regular assessment of those of our employees who have

leadership skills. The executive boards of RWE AG and the Group companies nominate successor candidates across all companies for key management positions at the Group's annual succession conferences. Last fiscal year, we filled more than 90 % of the management positions that had become vacant with suitable internal candidates.

No corners cut in training despite economic crisis. We ensure that the Group can continue to meet its need for qualified young professionals through our apprenticeships. In addition to the curriculum, our training programmes offer a variety of ways to gain further qualifications. Young people can participate in challenging projects or complete part of their apprenticeships in one of RWE's Group companies outside Germany. We also enable and promote the combination of apprenticeships with a course of study in a variety of fields. RWE is currently training just under 3,100 adolescents for more than 30 occupations. Despite the economic crisis, this matches the numbers achieved in preceding years. In 2009, about 1,000 young people embarked on a training programme with us. We offer three times as many apprenticeships as required to cover our own needs.

Employee shares still in high demand. We want the company's success to pay off for our employees as well. Part of their compensation reflects that. In addition, we issue employee shares, enabling our employees in Germany to take a share in the company under affordable conditions. Last year, 21,900 staff members subscribed a total of 406,000 shares. The programme was thus taken advantage of by 52% of the workforce entitled to take part in it. Our employees currently own about 1 % of RWE's subscribed capital.

Accident rate declines for the eighth straight year. We want our employees to return to their homes just as healthy as when they leave for work. To live up to this ambition, we work on continuously improving occupational safety and health protection within the RWE Group. By 2012, we intend to have passed an important milestone en route to achieving "zero accident" status, reducing the number of work-related accidents for every million working hours to less than 3.0. In fiscal 2009, the ratio was 4.3, declining for the eighth year in a row. These figures cover all accidents that occur when staff members are doing their work or are on business trips and that result in more than one day of missed work. The number of severe accidents decreased, dropping from 48 (2006) to eight (2009). This is a sign of RWE's growing safety culture. To make even more progress in this area, we launched the groupwide "Sicher voRWEg" campaign in early 2008. Its objective is to spread the principles of occupational safety and health protection throughout the Group and to make routine operational processes safer. We held over 150 workshops so that executive board members, managing directors, managers and expert personnel could become more familiar with the issue. Furthermore, a number of measures were initiated to improve occupational safety. We are working on involving all our employees as well as those of our partner companies who are working for us in the programme. We also took a major organisational step: As of September 1, 2009, we established the "Occupational Medicine/Occupational Health Care Management" and "Occupational Safety" departments as groupwide centres of competence.

2.5 SUSTAINABILITY

There is no alternative to sustainable business development, especially for power utilities such as RWE. Our business model has been designed for the long term. When we invest in power plants and networks, our plans cover decades. We depend on public acceptance to ensure that these projects are successful. Listening to the issues and expectations of the public and, wherever possible, aligning our goals with their views is a core element of our business model.

Ten fields of action oriented towards sustainability. Our corporate responsibility (CR) strategy focuses on ten fields of action, including such topics as climate protection, energy efficiency, security of supply and demographic change (see below). These areas contain the major challenges to managing a company reliably and with a long-term orientation. We set up a comprehensive CR management system in order to implement our strategy. The departments of the Group companies executing our CR strategy are responsible for these activities. Co-ordination is handled by corporate headquarters. We intend to make CR a fixture in all business processes. As illustrated by the following commentary, we made good progress towards this goal. More detailed information is provided in our sustainability report, which will be released in April 2010. The publication is called "Our Responsibility. Report 2009" and can be accessed online at www.rwe.com/responsibility. This internet page contains further information on our goals and measures in the field of sustainability.

(1) Climate protection. By investing billions of euros in modernising our power plant portfolio and expanding our renewable energy base, we are making an important contribution to conserving natural resources and protecting the climate. We aim to substantially reduce the CO₂ intensity of our power plant portfolio. By taking physical and financial measures, we aim to reduce our CO₂ exposure to that of the average competitor in our markets by no later than 2020. We assume that the emission factor in the markets in which we are active will generally be 0.45 metric tons of CO₂ per MWh of electricity generated by 2020. Last year, RWE emitted 0.80 metric tons per MWh.

(2) Energy efficiency. We associate goals such as climate protection and resource conservation not only with the production of energy, but also with its use. Efficiency is crucial here as well. We have pooled the work we do to help our customers save energy in RWE Effizienz GmbH, which was established on July 1, 2009. These activities range from LPG for cars (Liquefied Petroleum Gas) and smart meters to the "house of the future." Furthermore, the company set up a German internet portal at www.energiewelt.de, which includes a number of pointers and informs readers of subsidy programmes and manufacturer offerings. Another of RWE Effizienz GmbH's mainstays is the promotion of electric vehicles. Even today, with the current energy mix, electric cars are already more gentle on the climate than cars powered by conventional internal combustion engines. They enable travel using completely CO₂-free energy. In September of 2008, we launched a joint-venture project to promote electric vehicles in co-operation with Daimler. We plan to put 100 electric Smart cars on the roads of Berlin, with RWE setting up the necessary infrastructure. We are rolling out similar projects in other major German cities and in Warsaw, Poland. In order to build a nationwide network of public

and private charging stations, we joined forces with the German automobile assistance club ADAC, car park operator APCOA, car rental company SIXT and Siemens. By the end of 2009, we had already commissioned over 100 charging stations in Germany. We also aim to reduce the emissions of our own vehicle fleet. Our plan is to lower its CO₂ emissions by 20% by 2012. To this end, we introduced a "Green Company Car Policy" in 2009, for which we received the environmental "Green Fleet Award."

(3) Security of supply. Our customers rely on the energy they need being available around the clock now and in the future. An important lever for improving security of supply is the increase of cross-border transmission capacity. We have already reported on the Nabucco gas pipeline project that we participate in (see page 52). Furthermore, we plan to build a new German/Dutch high-voltage connection in co-operation with TenneT TSO. The interconnector is to increase transmission capacity between the two countries from 3,800 MW at present to a maximum of 5,800 MW. Last year, we completed our preparations for the approval procedure.

(4) Pricing. More and more, public debate deals with energy costs. Our customers expect us to have fair prices and are increasingly willing to switch providers. By offering innovative products tailored to the needs of homes and commercial operations, we succeeded in 2009 in defending our position in the market, despite an increase in competition. Our "ProKlima" product is very popular, guaranteeing a fixed tariff over three years. Residential customers are thus given planning security and flexibility as they can cancel the agreement on an annual basis. What also sets ProKlima apart is that all the electricity sold through it is generated by hydroelectric and nuclear power plants and is therefore nearly CO₂-free. By the end of 2009, more than 400,000 customers had already opted for this product.

(5) Social responsibility. As we are an energy utility, we have strong links with the communities at our sites, some of which have been in existence for many years. It is therefore a matter of course for us to champion social issues around our sites. For example, RWE is a main sponsor of the "European Capital of Culture RUHR.2010." At the beginning of 2009, the RWE Foundation began work, which pools our charitable activities and, among other things, continues the work done by the former RWE Youth Foundation. It is endowed with a capital stock of €56 million and mainly promotes the education, culture, and social integration of young people. Through our "RWE Companius" initiative, we support the strong effort put in by RWE employees for social causes. Since 2009, RWE Companius has been set up throughout the Group. Last year, we spent €2.3 million to promote 2,289 projects.

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

(7) Supply chain. Safeguarding human rights, humane working conditions and the fight against corruption may be a matter of course for us, but does the same hold true for our suppliers? Our sense of responsibility is not limited to the confines of our plant premises. By implementing a supply chain management system, we want to ensure that our business relationships with external partners adhere to our groupwide code of conduct. According to the code, we are forbidden from maintaining business relationships with suppliers who are publicly known to infringe the fundamental ethical principles set forth by the UN "Global Compact" initiative. We use groupwide database systems to manage our suppliers within the scope of standard purchasing. We have been systematically reviewing the procurement of fuel, especially hard coal, since 2007. The risk that suppliers may neglect fundamental environmental and social standards is usually much lower in the procurement of plants and complex components, because they almost exclusively come from OECD member states.

(8) Innovation. We can only achieve our goals in the fields of climate protection, energy efficiency and security of supply if we have access to cutting-edge technology. This is why research and development (R&D) is so important to us. Last year, our R&D costs amounted to €110 million. The chapter called "Innovation" on pages 92 et seqq. provides detailed information on our activities in this field.

(9) Occupational health and safety. We also aim to accomplish a lot in this area: Our aim is to reduce the number of work-related lost time incidents to 3.0 for every million work hours by 2012. In 2009, the accident rate was 4.3, recording a drop for the eighth year in a row. We have reported on our targets and measures for improving occupational safety and health on page 132.

(10) Environmental protection. Environmentally friendly behaviour is a fundamental precondition for achieving public acceptance and for obtaining operating permits for our plants and networks. In 2009, once again, RWE companies did not commit any material regulatory violations. In addition, we earmarked substantial funds for environmental protection. More than half of this was spent on climate protection. These funds were primarily used to modernise our power plants and expand our renewable electricity generation base. A substantial share of our environmental expenditure was dedicated to clean air and above all the operation of flue gas desulphurisation units. Action we take to protect nature and conserve landscapes mainly encompass the recultivation of lignite mining sites.

Environmental expenditure € million	Cost		Capital expenditure		Total	
	2009	2008	2009	2008	2009	2008
Clean air	242	265	103	88	345	353
Nature and landscape protection	75	79	12	15	87	94
Water protection	105	192	22	15	127	207
Waste disposal	172	168	-	8	172	176
Noise abatement	5	12	5	2	10	14
Brownfield sites, soil contamination	5	5	1	-	6	5
Climate protection	162	98	1,320	1,168	1,482	1,266
Total	766	819	1,463	1,296	2,229	2,115

RWE again qualifies for two acclaimed sustainability indices. Last year, RWE received two major awards in the field of sustainable business management and climate protection. We were included in the "Carbon Disclosure Leadership Index" for the third time, having been included in 2006 and 2008. This honour is in recognition of our comprehensive reporting on our CO₂ emissions and climate-protection strategy. The index is put together by the "Carbon Disclosure Project" (CDP) investor group. Furthermore, RWE was included in the Dow Jones Sustainability Index (DJSI) for a further year. We are the only German utility to have been included in the DJSI without interruption since its inception in 1999. The Dow Jones Sustainability indices are established and published by SAM in co-operation with Dow Jones Indexes and STOXX Limited. They are widely recognised as the world's prime index group for corporate performance in the field of sustainability.

Sustainability indicators. Any strategy is only as good as its implementation, and this is evidenced by figures. The following is an overview of performance indicators, the development of which we ascribe significant importance. They are divided into categories, i.e. environment, society and corporate governance. The selection of indicators is in line with the recommendations of the Society of Investment Professionals in Germany (DVFA).

Field	Performance indicator		2009	2008	2007
Environment	RWE power plant portfolio¹				
	NO _x emissions ²	g/kWh	0.67	0.67	0.76
	SO ₂ emissions ²	g/kWh	0.32	0.39	0.57
	Particulate emissions ²	g/kWh	0.023	0.028	0.034
	Ash ²	thousand mt	5,637	6,406	6,687
	Gypsum ²	thousand mt	1,322	1,533	1,671
	Primary energy consumption	billion kWh	358.8	396.0	411.7
	Water consumption ^{2,3}	m ³ /MWh	1.74	1.49	1.69
	Scope 1 CO ₂ emissions ⁴	million mt	133.7	145.0	152.5
	Specific CO ₂ emissions	mt/MWh	0.795	0.749	0.861
	Total power plant portfolio⁵				
	Scope 1 CO ₂ emissions ⁴	million mt	149.1	172.1	187.1
	Specific CO ₂ emissions	mt/MWh	0.796	0.768	0.866
	Scope 3 CO ₂ emissions ⁶	million mt	138.5	135.4	134.9
	Capital expenditure of the renewables division	€ million	733	1,102	- ⁷
	Share of the Group's electricity generation accounted for by renewables	%	3.5 ⁸	2.4	2.4
	Society	Employees ⁹		70,726	65,908
Share of women in the company		%	26.1	25.6	25.2
Share of women in executive positions ¹⁰		%	9.0	8.9	8.9
Fluctuation rate		%	8.7	8.8	9.1
Training days per employee (Germany)			4.8	4.6	4.2
Health ratio		%	95.4	95.4	95.6
Lost-time incident frequency		LTIF ¹¹	4.3	5.3	6.1
Fatal work-related accidents ¹²			5	12	9
Corporate governance	Share of the RWE Group's revenue earned in countries with a high or very high risk of corruption ¹³	%	12.7	12.9	11.8
	R&D costs	€ million	110	105	74

1 Power plants under RWE ownership.

2 Figures for 2009 exclude the Netherlands/Belgium and Hungary.

3 Difference between power plant water withdrawals and returns to rivers and other surface waters; excluding power plants with sea water cooling.

4 Scope 1: direct emissions from in-house sources.

5 Including power stations not under RWE ownership, but that we can deploy at our discretion on the basis of long-term agreements.

6 Scope 3: CO₂ emissions of electricity purchases (net) and of gas sales.

7 RWE Innogy was established in February 2008.

8 Electricity generation based on wind (2.2 TWh), hydro (3.4 TWh) and biomass (0.9 TWh).

9 Converted to full-time positions.

10 Figures for 2009 exclude Essent.

11 Sum of all accidents for every million hours worked. Excluding employees of third-party companies.

12 Including employees of third-party companies.

13 Countries rated lower than six on a scale of zero to ten in the Corruption Perceptions Index by the anti-corruption organisation Transparency International, with ten corresponding to the lowest risk of corruption.

3.0 RESPONSIBILITY STATEMENT

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

Essen, 12 February 2010

The Executive Board

Grottelmann

Birnbaum

Fitting

Jobs

Pohlig

Schmitz

4.0 CONSOLIDATED FINANCIAL STATEMENTS

Operating result
up 4% to

€7,090 million

Earnings per share
rise by more than 40% to

€6.70

Leading energy trader in Europe. With some 1,000 employees at four locations, RWE Supply & Trading is responsible for all of the RWE Group's energy trading and gas procurement activities on the European wholesale markets. Above and beyond this, our traders also ensure that we market our electricity and gas production as effectively as possible.

4.1 INCOME STATEMENT

€ million	Note	2009	2008
Revenue (including natural gas tax/electricity tax)	(1)	47,741	48,950
Natural gas tax/electricity tax	(1)	1,550	1,450
Revenue	(1)	46,191	47,500
Changes in finished goods and work in progress		44	112
Other own work capitalised		210	92
Other operating income	(2)	1,610	933
Cost of materials	(3)	29,838	32,686
Staff costs	(4)	4,610	4,415
Depreciation, amortisation, and impairment losses	(5)	2,357	2,246
Other operating expenses	(6)	3,924	3,403
Income from operating activities of continuing operations		7,326	5,887
Income from investments accounted for using the equity method	(7)	131	372
Other income from investments	(7)	131	82
Financial income	(8)	1,699	1,862
Finance costs	(8)	3,689	3,337
Income from continuing operations before tax		5,598	4,866
Taxes on income	(9)	1,858	1,423
Income from continuing operations		3,740	3,443
Income from discontinued operations		91	-567
Income		3,831	2,876
of which: minority interest		260	318
of which: net income/income attributable to RWE AG shareholders		3,571	2,558
Basic and diluted earnings per common and preferred share in €	(29)	6.70	4.75
of which: from continuing operations in €		(6.58)	(5.96)
of which: from discontinued operations in €		(0.12)	(-1.21)

4.2 STATEMENT OF RECOGNISED INCOME AND EXPENSES¹

€ million	Note	2009	2008
Income		3,831	2,876
Currency translation adjustment		8	-70
Fair valuation of financial instruments available for sale	(30)	383	-230
Fair valuation of financial instruments used for hedging purposes	(30)	122	555
Other comprehensive income of investments accounted for using the equity method (pro rata)		36	
Actuarial gains and losses of defined benefit pension plans and similar obligations	(25)	-788	-859
Other comprehensive income		-239	-604
Total comprehensive income		3,592	2,272
of which: attributable to RWE AG shareholders		(3,442)	(1,851)
of which: attributable to minority interests		(150)	(421)

1 Figures stated after taxes.

4.3 BALANCE SHEET

Assets € million	Note	Dec 31, 2009	Dec 31, 2008
Non-current assets			
Intangible assets	(10)	17,320	11,202
Property, plant and equipment	(11)	28,627	21,762
Investment property	(12)	182	180
Investments accounted for using the equity method	(13)	3,736	3,268
Other non-current financial assets	(14)	709	681
Financial receivables	(15)	1,118	1,314
Other receivables and other assets	(16)	2,488	1,192
Income tax assets	(17)	507	555
Deferred taxes	(18)	1,876	1,609
		56,563	41,763
Current assets			
Inventories	(19)	3,115	2,540
Financial receivables	(15)	3,422	4,419
Trade accounts receivable	(20)	9,530	10,415
Other receivables and other assets	(16)	13,784	16,106
Income tax assets		660	493
Marketable securities	(21)	3,290	7,735
Cash and cash equivalents	(22)	3,074	1,249
Assets held for sale			8,710
		36,875	51,667
		93,438	93,430
Equity and Liabilities € million			
Equity			
RWE AG shareholders' interest	(23)	12,792	11,587
Minority interest		925	1,553
		13,717	13,140
Non-current liabilities			
Provisions	(25)	22,315	21,072
Financial liabilities ¹	(26)	17,019	11,154
Other liabilities	(28)	3,972	2,984
Deferred taxes	(18)	2,327	1,583
		45,633	36,793
Current liabilities			
Provisions	(25)	5,829	5,685
Financial liabilities	(26)	3,127	2,329
Trade accounts payable	(27)	9,697	11,031
Income tax liabilities		218	112
Other liabilities	(28)	15,217	17,626
Liabilities held for sale			6,714
		34,088	43,497
		93,438	93,430

1 Of which interest-bearing: €16,802 million (previous year: €10,983 million).

4.4 CASH FLOW STATEMENT

€ million	Note (33)	2009	2008
Income		3,831	2,876
Depreciation, amortisation, impairment losses/write-backs		2,464	2,381
Changes in provisions		-10	794
Changes in deferred taxes		97	778
Income from disposal of non-current assets and marketable securities		69	196
Other non-cash income/expenses		-357	141
Changes in working capital		-795	1,687
Cash flows from operating activities of continuing operations		5,299	8,853
Cash flows from operating activities of discontinued operations		11	473
Cash flows from operating activities		5,310	9,326
Intangible assets/property, plant and equipment/investment property			
Capital expenditure		-5,913	-4,454
Proceeds from disposal of assets		103	106
Acquisitions and investments			
Capital expenditure		-8,801	-1,155
Proceeds from disposal of assets/divestitures		2,328	1,071
Changes in marketable securities and cash investments		4,427	2,179
Cash flows from investing activities of continuing operations (before transfer to contractual trust arrangements)		-7,856	-2,253
Transfer to contractual trust arrangements		-470	-1,331
Cash flows from investing activities of continuing operations (after transfer to contractual trust arrangements)		-8,326	-3,584
Cash flows from investing activities of discontinued operations		-78	-767
Cash flows from investing activities		-8,404	-4,351
Net change in equity (incl. minority interest)		186	-2,497
Dividends paid to RWE AG shareholders and minority interests		-2,592	-2,005
Issuance of financial debt		11,592	6,641
Repayment of financial debt		-4,347	-8,046
Cash flows from financing activities of continuing operations		4,839	-5,907
Cash flows from financing activities of discontinued operations		65	290
Cash flows from financing activities		4,904	-5,617
Net cash change in cash and cash equivalents		1,810	-642
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents		13	-35
Net cash change in cash and cash equivalents from discontinued operations		2	4
Net change in cash and cash equivalents		1,825	-673
Cash and cash equivalents at beginning of the reporting period		1,249	1,922
Cash and cash equivalents at end of the reporting period		3,074	1,249

4.5 STATEMENT OF CHANGES IN EQUITY

Statement of Changes in Equity € million	Subscribed capital of RWE AG	Additional paid-in capital of RWE AG	Retained earnings and distributable profit	Own shares	Accumulated other comprehensive income			RWE AG shareholders' interest	Minority interest	Total
					Currency translation adjustments	Fair value measurement of financial instruments				
						Available for sale	Used for hedging purposes			
Note (23)										
Balance at Jan 1, 2008	1,440	1,288	11,077		277	-18	-139	13,925	734	14,659
Capital paid in									3	3
Settlement of conciliation proceedings		-130	130							
Share buybacks				-2,500				-2,500		-2,500
Dividends paid ¹			-1,689					-1,689	-190	-1,879
Income			2,558					2,558	318	2,876
Other comprehensive income			-876		-165	-256	590	-707	103	-604
Total comprehensive income			1,682		-165	-256	590	1,851	421	2,272
Other changes									585	585
Balance at Dec 31, 2008	1,440	1,158	11,200	-2,500	112	-274	451	11,587	1,553	13,140
Capital paid in									10	10
Sales of own shares			-52	228				176		176
Dividends paid ¹			-2,401					-2,401	-121	-2,522
Income			3,571					3,571	260	3,831
Other comprehensive income			-769		115	403	122	-129	-110	-239
Total comprehensive income			2,802		115	403	122	3,442	150	3,592
Other changes			-12					-12	-667	-679
Balance at Dec 31, 2009	1,440	1,158	11,537	-2,272	227	129	573	12,792	925	13,717

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

4.6 NOTES

Basis of presentation

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

The consolidated financial statements for the period ended December 31, 2009 were approved for publication on February 12, 2010 by the Executive Board of RWE AG. The statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable in the EU, as well as in accordance with the supplementary accounting regulations applicable pursuant to Sec. 315a, Para. 1 of the German Commercial Code (HGB). The previous year's figures were calculated according to the same principles.

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

Several balance sheet and income statement items have been combined in the interests of clarity. These items are stated and explained separately in the notes to the financial statements. The income statement is structured according to the nature of expense method.

The consolidated financial statements have been prepared in euros. Unless specified otherwise, all amounts are stated in millions of euros (€ million).

These consolidated financial statements were prepared for the 2009 fiscal year (January 1 to December 31).

The Executive Board of RWE AG is responsible for the completeness and accuracy of the consolidated financial statements and the review of operations of the Group, which is combined with the review of operations of RWE AG.

Internal control systems, the use of uniform directives throughout the Group, and our programmes for basic and advanced staff training ensure that the consolidated financial statements and combined review of operations are adequately prepared. Compliance with legal regulations and the internal guidelines as well as the reliability and viability of the control systems are continuously monitored throughout the Group.

In line with the requirements of the German Corporate Control and Transparency Act (KonTraG), the Group's risk management system enables the Executive Board to identify risks at an early stage and initiate countermeasures, if necessary.

The consolidated financial statements, the combined review of operations and the report of the independent auditors are discussed in detail by the Audit Committee and at the Supervisory Board's meeting on financial statements with the independent auditors present. The results of the Supervisory Board's examination are presented in the report of the Supervisory Board (pages 116 to 120 of this annual report).

Scope of consolidation

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

Investments in subsidiaries, joint ventures or associates which are of secondary importance from a Group perspective are accounted for in accordance with IAS 39. Subsidiaries which are not included in the scope of consolidation account for less than 1% of the Group's revenue, income and debt. Subsidiaries with negative income or equity are generally fully consolidated.

A collective listing of the Group's investments in accordance with Sec. 313, Para. 2, Nos. 1 to 4 and Para. 3 of the German Commercial Code (HGB) will be published in the electronic Federal Gazette (Bundesanzeiger). Material consolidated in-

vestments, investments accounted for using the equity method, and other investments are listed on pages 204 to 206 of this annual report.

In the year under review, 69 companies domiciled in Germany and 98 outside of Germany were consolidated for the first time. Thirteen companies outside of Germany are no longer included in the scope of consolidation. Nineteen companies (of which twelve in Germany) were merged. Thirty-four associates (of which eight in Germany) were accounted for using the equity method for the first time. In respect of companies outside of Germany which were accounted for using the equity method in the previous year, one company was sold and one company was fully consolidated. First-time consolidation and deconsolidation generally take place when control is transferred.

Scope of consolidation	Germany	Foreign countries	Total	Total
	Dec 31, 2009	Dec 31, 2009	Dec 31, 2009	Dec 31, 2008
Fully consolidated companies	209	244	453	318
Investments accounted for using the equity method	74	52	126	94

Corporate acquisitions. The following share acquisitions were significant:

On September 30, 2009, RWE acquired 100% of the Dutch-based power utility Essent N.V.'s voting stock in exchange for a payment totalling €7,794 million (of which €220 million was contingent), including €13 million in other transaction costs. This resulted in recognition of the following assets and liabilities:

Balance-sheet items of the Essent Group	IFRS carrying amounts prior to first-time consolidation	IFRS carrying amounts (fair value) upon first-time consolidation
€ million		
Non-current assets	3,913	6,738
Current assets	5,514	5,706
Non-current liabilities	1,089	2,300
Current liabilities	5,525	5,783
Net assets	2,813	4,361
Minority interest		-2
Acquisition cost		7,794
Goodwill		3,435

Within the framework of allocating the purchase price, reserves mainly relate to non-current assets, of which €1,612 million were assigned to intangible assets and €716 million to property, plant and equipment.

The goodwill of €3,435 million mainly stems from non-capitalisable intangible assets related to planned projects and from other anticipated future economic benefits and synergy effects.

Since first-time consolidation, the Essent Group has contributed €1,208 million to Group revenue and €74 million to Group income.

The 51% stake in Stadtwerke Bremen, which was acquired as a part of the acquisition of Essent with the intent to sell, has been sold in the meantime.

Due to the transaction's complex structure and size, certain accounting aspects of this business acquisition have not yet been finalised.

In another transaction, on May 7, 2009, the stake held in the Spanish wind farm operator Danta de Energías, S. A., Spain was increased. RWE Innogy acquired 49.32% for €48 million, bringing our current ownership interest in Danta de Energías to 98.65%.

Furthermore, in the segment Sales and distribution networks, €143 million was paid to acquire 100% of the shares in FAVORIT Fernwärme GmbH on June 30, 2009.

In addition to the Essent Group, acquisitions resulted in recognition of the following assets and liabilities:

Balance-sheet items of the other acquired companies	IFRS carrying amounts prior to first-time consolidation	IFRS carrying amounts (fair value) upon first-time consolidation
€ million		
Non-current assets	108	262
Current assets	48	48
Non-current liabilities	96	143
Current liabilities	40	40
Net assets	20	127
Minority interest		-6
Previous value of shareholding		-15
Revaluation of previous shareholding		-34
		72
Acquisition cost		191
Goodwill		119

The goodwill of €119 million stems mainly from anticipated future economic benefits.

Since the first-time consolidation, the acquired companies have contributed €55 million to Group revenue and €4 million to Group income.

If all business combinations in fiscal 2009 had been completed as of January 1 of the year, Group income and Group revenue would have amounted to approximately €4.0 billion and €50.6 billion, respectively.

With regard to investments accounted for using the equity method, the following acquisitions took place in fiscal 2009:

- Enovos International S.A., Luxembourg, acquisition of 19.8%, €188 million in acquisition costs
- C-Power N.V., Belgium, acquisition of 26.73%, €44 million in acquisition costs

The acquisition price of companies consolidated for the first time was mainly paid in cash or cash equivalents.

Discontinued Operations.

Since initiation of the sale of American Water Works Company Inc., Wilmington/Delaware, USA, this company has been stated as a discontinued operation. Following the sale of the first share tranche in 2008, the remaining 96.74 million shares were sold in three more tranches in fiscal 2009, at a price of US\$17.25, US\$19.25 and US\$21.63 per share. Following sale of the first tranche during the second quarter of 2009, the investment was deconsolidated and stated as an associated company until its final sale in accordance with IFRS 5, reported as an "asset held for sale". As in the previous year, all earnings and expense components for American Water are shown in "Income from discontinued operations."

Key figures for the activities of American Water during the period of full consolidation are presented in the following table:

Key figures for American Water € million	Jan-Mar 2009	Jan-Dec 2008
Revenue	426	1,589
Expenses/income	-323	-1,167
Ordinary income from discontinued operations before tax	103	422
Taxes on income	-39	-168
Income	64	254
Fair value adjustments	-39	-821
Income from discontinued operations	25	-567

Moreover, after deconsolidation and loss of the voting majority in American Water, sales proceeds of €42 million, fair value adjustments of -€2 million and income from investments of €26 were reported in income from discontinued operations.

As of December 31, 2008, €8,432 million in non-current assets, €278 million in current assets, €5,824 million in non-current liabilities, and €890 million in current liabilities were attributable to American Water.

In the year under review, another significant event was the disposal of the shares in Cegedel S.A., Luxembourg, an investment accounted for using the equity method, which was merged with other companies to form the new entity Enovos International S.A., Luxembourg.

Changes in the scope of consolidation (excluding "Assets and liabilities held for sale") resulted in the recognition of €10,437 million in non-current assets (including deferred taxes), €4,409 million in current assets (excluding cash and cash equivalents), €589 million in cash and cash equivalents and €12,202 million in non-current and current liabilities.

The total sales price for divested subsidiaries (excluding American Water) amounted to €222 million (previous year: €0 million), which was paid in cash or cash equivalents.

Effects of changes in the scope of consolidation have been stated in the notes insofar as they are of particular importance.

Consolidation principles

The financial statements of German and foreign companies included in the scope of the Group's financial statements are prepared using uniform accounting policies. On principle, subsidiaries whose fiscal years do not end on the Group's balance-sheet date (December 31) prepare interim financial statements as of this date.

Business combinations are reported according to the purchase method. Pursuant to this method, capital consolidation takes place by offsetting the purchase price against the acquired subsidiaries' revalued prorated net assets at the time of acquisition. Subsidiaries' identifiable assets, liabilities and contingent liabilities are measured at full fair value, regardless of the amount of the minority interest. Intangible assets are reported separately from goodwill if they are separable from the company or if they stem from a contractual or other right. In accordance with IFRS 3, no new restructuring provisions are recognised within the scope of the purchase price allocation. Acquisition costs not allocated to assets, liabilities, or contingent liabilities are capitalised as goodwill. Negative goodwill from first-time consolidation is included in income.

Capitalised goodwill is not amortised: it is tested for impairment once every year, or more frequently if there are indications of impairment. In the event of deconsolidation, residual carrying amounts of capitalised goodwill are taken into account when calculating income from disposals. If shares in a subsidiary are sold without losing the ability to control the subsidiary, the residual carrying amount of capitalised goodwill is derecognised proportionally with an effect on income.

Expenses and income as well as receivables and payables between consolidated companies are eliminated. Intra-group profits and losses are eliminated.

These consolidation principles also apply to investments accounted for using the equity method. In these cases, however, goodwill is not reported separately: it is included in the recognised value of the investment. Such goodwill is not amortised either. If impairment losses on the equity value become necessary, we report such under income from investments accounted for using the equity method. The financial statements of investments accounted for using the equity method are also prepared using uniform accounting policies.

Foreign currency translation

In their individual financial statements, the companies measure non-monetary foreign currency transactions at the balance-sheet date using the exchange rate in effect on the date they were initially recognised. Monetary items are converted using the exchange rate valid on the balance-sheet date. Exchange rate gains and losses from the measurement of monetary balance-sheet items in foreign currency occurring up to the balance-sheet date are recognised in the income statement under other operating income or expenses.

Functional foreign currency translation is applied when converting the financial statements of companies outside of the euro area. As the principal foreign enterprises included in the consolidated financial statements conduct their business acti-

vities independently in their national currencies, their balance-sheet items are translated into euros in the consolidated financial statements using the average exchange rate prevailing on the balance-sheet date. This also applies for goodwill, which is viewed as an asset of the economically autonomous foreign entity. Differences to previous-year translations are reported in other comprehensive income without an effect on income. Expense and income items are translated using annual average exchange rates. When translating the adjusted equity of foreign companies accounted for using the equity method, the same procedure is followed.

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

Exchange rates in €	Average		Year-end	
	2009	2008	Dec 31, 2009	Dec 31, 2008
1 US dollar	0.72	0.68	0.69	0.72
1 pound sterling	1.12	1.25	1.13	1.05
100 Czech korunas	3.77	3.99	3.78	3.72
100 Hungarian forints	0.35	0.40	0.37	0.38
1 Polish zloty	0.23	0.28	0.24	0.24

Accounting policies

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

Software for commercial and technical applications is amortised over three to five years. "Operating rights" refer to the entirety of the permits and approvals required for the operation of a power plant. Such rights are generally amortised over the economic life of the power plant, using the straight-line method. Easement agreements in the electricity and gas business, and other easement rights, generally have useful lives of up to 20 years. Concessions in the water business generally have terms of up to 25 years. Capitalised customer relations are amortised over a useful life of up to ten years. Useful lives and methods of amortisation are reviewed on an annual basis.

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

Development costs are capitalised if a newly developed product or process can be clearly defined, is technically feasible and it is the company's intention to either use the product or process itself or market it. Furthermore, asset recognition requires that there be a sufficient level of certainty that the development costs lead to future cash inflows. Capitalised development costs are amortised over the time period during which the products are expected to be sold. Research expenditures are recognised as expenses in the period in which they are incurred.

An impairment loss is recognised for an intangible asset, if the recoverable amount of the asset is less than its carrying amount. A special regulation applies for cases when the asset is part of a cash-generating unit. Such units are defined as the smallest identifiable group of assets which generates cash inflows; these inflows must be largely independent of cash inflows from other assets or groups of assets. If the asset is a

part of a cash-generating unit, the impairment loss is calculated based on the recoverable amount of this unit. If goodwill was allocated to a cash-generating unit and the carrying amount of the unit exceeds the recoverable amount, the allocated goodwill is initially written down by the difference. Impairment losses which must be recognised in addition to this are taken into account by reducing the carrying amount of the other assets of the cash-generating unit on a prorated basis. If the reason for an impairment loss recognised in prior years has ceased to exist, a write-back is performed. The increased carrying amount resulting from the write-back may not, however, exceed the amortised cost. Impairment losses on goodwill are not reversed.

Property, plant and equipment is stated at depreciated cost. Since the beginning of 2009, borrowing costs are capitalised as part of the asset's cost, if they are incurred directly in connection with the acquisition or production of an asset for which a considerable period of time is required to prepare the asset for use or sale ("qualified asset"). If necessary, the cost of property, plant and equipment may contain the estimated expenses for the decommissioning of plants or site restoration. Maintenance and repair costs are recognised as expenses.

Exploratory wells are accounted for at cost, according to the successful efforts method, i.e. expenses for exploration activities are only capitalised for successful projects, for example, when wells lead to the discovery of crude oil or natural gas. Seismology and geology expenditures are recognised as expenses. Within the framework of the unit-of-production method, capitalised exploration assets are not depreciated or amortised in the exploration phase, but rather after production begins. Exploration assets are tested for impairment as soon as facts and information indicate that the carrying value exceeds the recoverable amount.

With the exception of land and leasehold rights, as a rule, property, plant and equipment is depreciated using the straight-line method, unless in exceptional cases another depreciation method is better suited to the usage pattern.

The depreciation of RWE's typical property, plant and equipment is calculated according to the following useful lives, which apply throughout the Group:

Useful life in years	
Buildings	12 – 80
Technical plants	
Thermal power plants	15 – 40
Wind turbines	up to 20
Electricity grids	20 – 45
Water main networks	20 – 75
Gas and water storage facilities	20 – 70
Gas distribution facilities	14 – 30
Mining facilities	4 – 25
Mining developments	33 – 35
Wells in Upstream gas & oil	up to 19

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

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

Investment property consists of all real property held to earn rental income or for long-term capital appreciation rather than for use in production or for administrative purposes. This property is measured at depreciated cost. Transaction costs are also included in the initial measurement. Depreciable investment property is depreciated over 12 to 80 years using the straight-line method. Fair values of investment property are stated in the Notes and are determined using internationally accepted valuation methods such as the discounted cash flow method or are derived from the current market prices of comparable real estate.

Impairment losses for investment property are also recognised according to the principles described for intangible assets. Accordingly, if the reason for an impairment loss recognised in

prior years has ceased to exist, write-backs are performed. In such cases, however, the increased carrying amount may not exceed the depreciated cost.

Investments accounted for using the equity method are initially accounted for at cost and thereafter based on the carrying amount of their prorated net assets. The carrying amounts are increased or reduced annually by prorated profits or losses, dividends and all other changes in equity. Goodwill is not reported separately: it is included in the recognised value of the investment. Goodwill is not amortised. An impairment loss is recognised for investments accounted for using the equity method, if the recoverable amount is less than the carrying amount.

Other financial assets are comprised of shares in non-consolidated subsidiaries and in joint ventures/associates not accounted for using the equity method, as well as other investments and non-current marketable securities; these assets are nearly exclusively shown in the category "Available for sale". This category includes financial instruments which are neither loans or receivables, nor financial investments held to maturity, and which are not measured at fair value through profit or loss. Initially and in the following periods, they are measured at fair value as long as such can be determined reliably. They are initially valued on their settlement date. Unrealised gains and losses are stated as other comprehensive income, with due consideration of any deferred taxes. Gains or losses are recognised in the income statement upon sale of the financial instruments. If there are objective, material indications of a reduction in the value of an asset, an impairment loss is recognised with an effect on income. Indications of impairment can include significant financial difficulties of the debtor, default or delinquency on payments of interest or principal, or the disappearance of an active market for a financial asset as a result of problems in the financial system.

Receivables are comprised of **financial receivables**, **trade accounts receivable** and **other receivables**. With the exception of financial derivatives, **receivables and other assets** are stated at amortised cost. Allowances for doubtful accounts are based on the actual default risk. As a rule, the amounts of receivables are corrected through the use of an allowance account, in accordance with internal Group guidelines. Prepayments received from customers for consumption which is yet to be metered and billed are netted out against trade accounts receivable of the utilities.

Loans reported under financial receivables are stated at amortised cost. Loans with interest rates common in the market are shown on the balance sheet at nominal value; as a rule, however, non-interest or low-interest loans are disclosed at their present value discounted using an interest rate commensurate with the risks involved.

CO₂ emission allowances are accounted for as intangible assets and reported under other assets. Allowances which are purchased and allowances allocated free of charge are both stated at cost and are not amortised.

Deferred taxes result from temporary differences in the carrying amount in the separate IFRS financial statements and the tax base, and from consolidation procedures. Deferred tax assets also include tax reduction claims resulting from the expected utilisation of existing loss carryforwards in subsequent years. Deferred taxes are capitalised when it is sufficiently certain that they can be used. The amount of deferred taxes is assessed based on the tax rates applicable or expected to be applicable in the specific country at the time of realisation, with due consideration of the tax regulations valid or adopted as of the balance-sheet date. The tax rate used to calculate deferred taxes in Germany is 30.9%, as in the previous year. This is derived from the 15% corporate tax rate effective since 2008, the 5.5% solidarity surcharge, and the Group's average local trade tax rate in Germany. Deferred tax assets and deferred tax liabilities are netted out for each company and/or tax group.

Inventories are assets which are held for sale in the ordinary course of business (finished goods and goods for resale), which are in the process of production (work in progress – goods and services) or which are consumed in the production process or in the rendering of services (raw materials including nuclear fuel assemblies and excavated earth for lignite mining).

Insofar as inventories are not acquired primarily for the purpose of realising a profit on a short-term resale transaction, they are carried at the lower of cost or the net realisable value. Production costs reflect the full costs directly related to production and are determined based on the normal capacity. In addition to directly allocable costs, production costs include ade-

quate portions of required materials and production overheads, including production-related depreciation. Borrowing costs, however, are not capitalised as part of the cost. The valuation is generally based on average values. The usage of excavated earth for lignite mining is calculated using the FIFO method.

If the net realisable value of inventories written down in earlier periods has increased, the reversal of the write-down is recognised as a reduction of the cost of materials.

Nuclear fuel assemblies are stated at depreciated cost. Depreciation is determined by operation and capacity, based on consumption and the reactor's useful life.

Inventories which are acquired primarily for the purpose of realising a profit on a short-term resale transaction are stated at their net realisable value less distribution costs. Changes in value are recognised with an effect on income.

Securities classified as current **marketable securities** essentially consist of marketable securities held in special funds as well as fixed-interest securities which have a maturity of more than three months and less than one year from the date of acquisition. All of these securities are classified as "Available for sale" and are stated at fair value. The transaction costs directly associated with the acquisition of the financial asset are included in the initial measurement. These securities are initially measured on their settlement date. Unrealised gains and losses are included in other comprehensive income, with due consideration of any deferred taxes. Gains or losses are recognised in the income statement at the time of sale. If there are objective, material indications of a reduction in value, an impairment loss is recognised with an effect on income.

Financial assets are derecognised when the contractual rights to cash flows from the asset expire or if the entity transfers the financial asset. The latter applies when substantially all the risks and rewards of ownership of the asset are transferred, or the entity no longer has control of the asset.

Cash and cash equivalents consist of cash on hand, demand deposits and current fixed-interest securities with a maturity of three months or less from the date of acquisition.

Assets are stated under “**Assets held for sale**” if they can be sold in their present condition and their sale is highly probable. Such assets may be certain non-current assets, asset groups (“disposal groups”) or operations (“discontinued operations”). Liabilities intended to be sold in a transaction together with assets are a part of a disposal group or discontinued operations, and are reported separately under “**Liabilities held for sale**”.

Non-current assets held for sale are no longer depreciated or amortised. They are recognised at fair value less costs to sell, as long as this amount is lower than the carrying amount.

Gains or losses on the valuation of specific assets held for sale and of disposal groups are stated under income from continuing operations until final completion of the sale.

The item “Income from discontinued operations” in the income statement includes income from operating activities as well as gains or losses resulting from recognition at fair value or from the disposal of activities.

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

Provisions are recognised for all legal or constructive obligations to third parties which exist on the balance-sheet date and relate to past events, and with regard to which it is probable that an outflow of resources will be required, and the amount of which can be reliably estimated. Provisions are carried at the individually most likely outcome and are not offset against reimbursement claims. If the provision to be measured involves a large number of items, the obligation is estimated by weighting all possible outcomes by their probability of occurrence (“expected value” method).

All non-current provisions are recognised at their prospective settlement amount, which is discounted as of the balance-sheet date. In the determination of the settlement amount, any cost increases likely to occur up until the time of settlement are taken into account.

If necessary, the cost of property, plant and equipment may contain the estimated expenses for the decommissioning of plants or site restoration, for which decommissioning, restoration and similar provisions are recognised. If changes in the discount rate or changes in the estimated timing or amount of the payments result in changes in these provisions, the carrying amount of the respective asset is adjusted by the same amount. If the decrease in the provision exceeds the carrying amount of the underlying asset, the excess is recognised immediately through profit or loss. Releases of provisions are credited to the expense account on which the provision was originally recognised.

Provisions for pensions and similar obligations are recognised for defined benefit plans. These are obligations of the company to pay future and ongoing post-employment benefits to entitled current and former employees and their surviving dependents. In particular, the obligations refer to retirement pensions. Individual commitments are generally calculated according to the employees’ length of service and compensation.

Provisions for defined benefit plans are based on the actuarial present value of the respective obligation. This is measured using the projected unit credit method. This benefit/years-of-service method not only takes into account the pension benefits and benefit entitlements known as of the balance-sheet date, but also anticipated future increases in salaries and pension benefits. The calculation is based on actuarial reports, taking into account appropriate biometric parameters (for Germany, in particular the “Richttafeln 2005G” by Klaus Heubeck). The provision derives from the balance of actuarial present value of the obligations and the fair value of the plan assets. The service cost is disclosed in staff costs. The interest cost and expected return on plan assets are included in the financial result.

Actuarial gains and losses are fully recognised in the fiscal year in which they occur. They are reported as a component of other comprehensive income outside of profit or loss in a consolidated statement of recognised income and expenses and immediately assigned to retained earnings. They remain outside profit or loss in subsequent periods as well.

In the case of defined contribution plans, the enterprise's obligation is limited to the amount it contributes to the plan. The contributions to the plan are recognised as expenses and disclosed under staff costs.

Waste management provisions in the nuclear energy sector are based on obligations under public law, in particular the German Atomic Energy Act, and on restrictions stipulated in operating licenses. These provisions are measured using estimates, which are based on and defined in contracts, on information from internal and external specialists and expert opinions, as well as on data from the German Federal Office for Radiation Protection (BfS).

Provisions for mining damage are recognised to cover land reclamation obligations and obligations to restore mining damage that has already occurred or been caused. Such risks and obligations are those that exist as of the balance-sheet date or are identifiable when the balance sheet is being prepared. The provisions must be recognised due to obligations under public law, such as the German Federal Mining Act, and formulated, above all, in operating schedules and water law permits. Provisions are generally recognised based on the increase in the obligation, e.g. in line with lignite production. Such provisions are measured at full expected cost or according to estimated compensation payments.

Furthermore, provisions are made owing to obligations under public law to dismantle production facilities and fill wells. The amount of these provisions is determined on the basis of total cost estimates, which reflect past experience and the comparative rates determined by the German Association of Oil and Natural Gas Production Industry. An analogous approach is taken for foreign subsidiaries.

A provision is recognised to cover the obligation to deliver CO₂ emission allowances to the respective authorities; this provision is measured at the book value of the CO₂ allowances

capitalised for this purpose. If a portion of the obligation is not covered with the available allowances, the provision for this portion is measured using the market price of the allowances on the reporting date.

Liabilities consist of **financial liabilities**, **trade accounts payable** and **other liabilities**. Upon initial recognition, liabilities are stated at fair value including transaction costs. Liabilities from finance lease agreements are measured at the lower of fair value of the leased asset or present value of minimum lease payments. In the periods thereafter, liabilities (except for financial derivatives) are carried at amortised cost.

Deferred income and prepayments from customers are recognised as liabilities under other liabilities. Deferred income includes advances and contributions in aid of construction and building connection that are carried as liabilities by the utilities and which are generally amortised and included in income over the useful life of the corresponding asset. As a rule, this item also includes taxable and non-taxable government grants for capital expenditure on non-current assets, which are recognised as other operating income in line with the assets' depreciation.

Certain minority interests are also presented under other liabilities. Specifically, this pertains to purchase price obligations from put options on minority interests that are recognised in accordance with IAS 32.

Derivative financial instruments are recognised as assets or liabilities. All derivative financial instruments are measured at fair value regardless of their purpose. Changes in this value are recognised with an effect on income, unless the instruments are used for hedge accounting purposes. In such cases, recognition of changes in the fair value depends on the type of hedging transaction.

Fair value hedges are used to hedge assets or liabilities carried on the balance sheet against the risk of a change in their fair value. Hedges of unrecognised firm commitments are also recognised as fair value hedges. For fair value hedges, changes in the fair value of the hedging instrument or the fair value of the respective underlying transactions are recognised in the income statement. This means that gains and losses from the fair valuation of the hedging instrument are allocated to the

same line items of the income statement as those of the underlying hedged transaction. In this regard, changes in the fair value of the underlying transaction must pertain to the hedged portion of the overall risk. In the event that unrecognised firm commitments are hedged, changes in the fair value of the firm commitments with regard to the hedged risk result in the recognition of an asset or liability with an effect on income.

Cash flow hedges are used to hedge the risk of variability in cash flows related to an asset or liability carried on the balance sheet or related to a highly probable forecast transaction. If a cash flow hedge exists, unrealised gains and losses from the hedging instrument are initially stated as other comprehensive income. Such gains or losses are disclosed in the income statement when the hedged underlying transaction has an effect on income. If forecast transactions are hedged and such transactions lead to the recognition of a financial asset or financial liability in subsequent periods, the amounts that were recognised in equity until this point in time are recognised in the income statement in the period during which the asset or liability affects the income statement. If the transactions result in the recognition of non-financial assets or liabilities, the amounts recognised in equity without an effect on income are included in the initial cost of the asset or liability.

The purpose of hedges of a net investment in a foreign entity is to hedge the currency risk from investments with foreign functional currencies. Unrealised gains and losses from hedges are recognised in other comprehensive income until disposal.

IAS 39 stipulates the conditions for the recognition of hedging relationships. Amongst other things, the hedging relationship must be documented in detail and be effective. According to IAS 39, a hedging relationship is "effective" when the changes in the fair value of the hedging instrument are within 80 to 125%, both prospectively and retrospectively, of the opposite change in the fair value of the hedged item. Only the effective portion of a hedge is recognised in accordance with these rules. The ineffective portion is recognised immediately in the income statement with an effect on income.

Contracts that were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with the company's expected purchase, sale or usage

requirements (own-use contracts) are not accounted for as derivative financial instruments, but rather as executory contracts. If the contracts contain embedded derivatives, the derivatives are accounted separately from the host contract, if the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract. Written options to buy or sell a non-financial item which can be settled in cash are not own-use contracts.

Contingent liabilities are possible obligations to third parties or existing obligations, which are not recognised because it is not probable that an outflow of economic benefits will be required to settle the obligations or the amount of which cannot be measured reliably. Contingent liabilities are only recognised on the balance sheet, if they were assumed within the framework of a business combination. The amounts disclosed in the notes correspond to the exposure at the balance-sheet date.

Management judgments in the application of accounting policies. Management judgments are required in the application of accounting policies. In particular, this pertains to the following items:

- With regard to certain contracts a decision must be made as to whether they are to be treated as derivatives or as so-called own-use contracts, and be accounted for as executory contracts.
- Financial assets must be allocated to the categories "Held to maturity investments", "Loans and receivables", "Financial assets available for sale", and "Financial assets at fair value through profit or loss".
- With regard to "Financial assets available for sale" a decision must be made as to if and when reductions in value are to be recognised as impairments with an impact on income.
- With regard to assets held for sale, it must be determined if they can be sold in their current condition and if the sale of such is highly probable. If both conditions apply, the assets and any related liabilities must be reported and measured as "Assets held for sale" or "Liabilities held for sale", respectively.

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

Management estimates and judgments. Preparation of consolidated financial statements pursuant to IFRS requires assumptions and estimates to be made, which have an impact on the recognised value of the assets and liabilities carried on the balance sheet, on income and expenses and on the disclosure of contingent liabilities.

Amongst other things, these assumptions and estimates relate to the accounting and measurement of provisions. With regard to pension provisions and similar obligations, the discount rate and the expected return on the plan assets are important estimates. The discount rate for pension obligations is determined on the basis of yields on senior, fixed-rate corporate bonds on the financial markets as of the balance-sheet date. Due to the financial market crisis, the yield spreads of corporate bonds compared to government bonds have increased. The range of yields on high-quality corporate bonds observed on the market has also widened, and these yields are used as the basis for determining the discount rate. In Germany, an increase or decrease of one percentage point in the discount rate would result in a reduction of €1,287 million (previous year: €1,057 million) or an increase of €1,638 million (previous year: €1,269 million), respectively, in the present value of the obligations of our pension plans. For the Group companies in the UK, identical changes in the discount rate would reduce or increase pension obligations by €529 million (previous year: €367 million) or €653 million (previous year: €451 million), respectively. However, as the commitments stemming from company pension plans are primarily covered by funds and the value of most fund assets typically exhibits negative correlation with the market yields of fixed-interest securities, the pension provisions – as determined taking into account the existing fund assets – only depend on the prevailing level of market interest rates to a limited degree.

For the accounting of business combinations, the identifiable assets, liabilities and contingent liabilities are recognised at fair value as of the date of acquisition. In this regard, the most important estimates relate to the determination of the fair value of these items as of the acquisition date: fair value is calculated either on the basis of the independent reports of external valuation experts or internally, using suitable valuation

techniques. Amongst other things, special attention is paid to the anticipated future cash flows and determination of the discount rate.

The impairment test for goodwill is based on certain assumptions pertaining to the future, which are regularly adjusted. Based on current knowledge, there are not expected to be any changes in these assumptions which would cause the recoverable amounts to fall below the carrying amounts of the cash-generating units in fiscal 2010.

Deferred tax assets are recognised if realisation of future tax benefits is probable. Actual future income for tax purposes and hence the actual realisability of deferred tax assets, however, may deviate from the estimation made when the deferred taxes are capitalised.

Further information on the assumptions and estimates upon which these consolidated financial statements are based can be found in the explanations of the individual items.

All assumptions and estimates are based on the circumstances and forecasts prevailing on the balance-sheet date. Furthermore, as of the balance-sheet date realistic assessments of overall economic conditions in the sectors and regions in which the Group conducts operations are taken into consideration with regard to the prospective development of business. Actual amounts may deviate from the estimated amounts if the overall conditions develop differently than expected. In such cases, the assumptions, and, if necessary, the carrying amounts of the affected assets and liabilities are adjusted.

As of the date of preparation of the consolidated financial statements it is not presumed that there will be a material change in the assumptions and estimates.

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

Within capital management, this strategic approach involves the use of a debt target to actively manage the balance sheet. The target is based on net debt (net financial debt including all material non-current provisions, less the surplus of plan assets over benefit obligations) and a debt factor which is derived from this (net debt divided by EBITDA). The debt factor is not to exceed 3.0, and thus complies with a solid rating. At the end of the period under review, this factor was 2.8 (previous year: 2.1).

The RWE Group considers maintaining a solid credit rating, and thus ensuring its financial flexibility to be very important. The credit rating is influenced by a number of qualitative and

quantitative factors. These include aspects such as profitability and the amount of cash flows as well as market conditions, competition, and the political framework.

At present, the two leading rating agencies, Moody's and Standard & Poor's, assign the ratings A2 and A, both with a negative outlook, to the bonds issued by RWE AG and by RWE Finance B.V. with a guarantee by RWE AG. RWE thus continues to have investment-grade ratings and remains committed to retaining the current rating level. RWE's short-term credit ratings are P-1 and A-1. The review of operations also contains information on the assessment of RWE's creditworthiness by the rating agencies.

Changes in accounting policies

The International Accounting Standards Board (IASB) has approved a number of changes to the existing International Financial Accounting Standards (IFRSs) and adopted several new IFRSs, which became effective as of January 1, 2009. The RWE Group is applying the following IFRSs in the reporting period for the first time:

Amendments to IFRS 7 (2009) "Improving Disclosures about Financial Instruments" stipulates extended disclosure in the notes concerning financial instruments. In particular, a so-called "fair value hierarchy" must be presented, showing whether fair values of financial instruments are determined based on published market prices or currently unobservable internal company data. Furthermore, disclosure requirements for liquidity risks arising from financial instruments have been extended. Their first-time application resulted in additional disclosure in the notes to the RWE Group's consolidated financial statements.

IAS 1 (2007) "Presentation of Financial Statements" contains new regulations on the presentation of financial statements. Above all, future non-owner changes in equity are to be strictly separated from owner changes in equity, and disclosure on other comprehensive income is to be extended. The application of IAS 1 (2007) resulted in changes in the presentation of the RWE Group's consolidated financial statements and in extended disclosure in the notes.

IAS 23 (2007) "Borrowing Costs": By revising IAS 23, the IASB abolished the option for the treatment of borrowing costs directly incurred in connection with the acquisition, construction or production of qualified assets. These borrowing costs must now be capitalised as part of the asset's cost.

The following standards and interpretations, which are to be applied for the first time in the fiscal year, have no material impact on the RWE Group's consolidated financial statements:

- Amendments to IFRS 1 and IAS 27 (2008) – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to IFRS 2 (2008) – Vesting Conditions and Cancellations
- Amendments to IAS 32 and IAS 1 (2008) – Puttable Financial Instruments and Obligations Arising on Liquidation
- Improvements to IFRSs (2008)
- Amendments to IFRIC 9 and IAS 39 (2009) – Embedded Derivatives
- IFRIC 13 – Customer Loyalty Programmes

New accounting policies

The IASB and International Financial Reporting Interpretations Committee (IFRIC) have adopted further standards and interpretations, which were not yet mandatory in fiscal 2009. These IFRSs can only be applied if they are endorsed by the EU, which is still pending in some cases.

The impact of the following standards on the RWE Group's consolidated financial statements is currently being reviewed.

"Improvements to IFRSs" (2009): The IASB issued another collection of amendments as part of its "Annual Improvement Process." It includes a number of minor IFRS changes, seeking to specify the rules and eliminate inconsistencies. Most of the amendments become effective for fiscal years starting on or after January 1, 2010.

IFRS 3 (2008) "Business Combinations" contains amended regulations on the accounting of business combinations. Compared to the original version of IFRS 3, these changes relate to the scope of application and the treatment of successive share purchases. Furthermore, IFRS 3 (2008) offers companies an option: non-controlling interests can be measured at fair value or at the proportionate share of net assets. Depending on which option a company exercises, any goodwill is recognised in full or only in proportion to the majority owner's interest. IFRS 3 (2008) becomes effective for the first time for fiscal years starting on or after July 1, 2009.

IFRS 9 "Financial Instruments" replaces the previous regulations of IAS 39 in respect of the classification and measurement of financial instruments. IFRS 9 (2009) becomes effective for the first time for fiscal years starting on or after January 1, 2013.

IAS 24 (2009) "Related Party Disclosures" essentially simplifies reporting on related parties which are controlled or significantly influenced by the state. IAS 24 (2009) becomes effective for the first time for fiscal years starting on or after January 1, 2011.

IAS 27 (2008) "Consolidated and Separate Financial Statements": In particular, by revising IAS 27, the IASB changed the regulations for the treatment of transactions with non-controlling interests of a group. Transactions which result in a parent company changing its ownership interest in a subsidiary without a loss of control are to be accounted for as equity transactions without an effect on profit or loss. Regulations for treatment in the event of a loss of control over a subsidiary were also changed: The standard regulates how deconsolidation gains or losses are to be calculated and how residual ownership interest in the former subsidiary is to be measured following a partial sale. This amendment of IAS 27 becomes effective for the first time for fiscal years starting on or after July 1, 2009.

Amendment to IAS 32 (2009) "Classification of Rights Issues" pertains to the issuer's accounting treatment of specific foreign-currency subscription rights, options and warrants. In the future, these instruments must be classified as equity. The new rule becomes effective for the first time for fiscal years starting on or after February 1, 2010.

The following standards and interpretations, which are not yet applicable in fiscal 2009, are not expected to have any material impact on the RWE Group's consolidated financial statements:

- IFRS 1 (restructured in 2008) – First-time Adoption of International Financial Reporting Standards
- Amendment to IFRS 1 (2009) – Additional Exemptions for First-time Adopters
- Amendment to IFRS 1 (2010) – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- Amendment to IFRS 2 (2009) – Group Cash-settled Share-based Payment Transactions
- Amendment to IAS 39 (2009) – Eligible Hedged Items
- IFRIC 12 – Service Concession Arrangements
- Amendment to IFRIC 14 (2009) – Prepayments of a Minimum Funding Requirement
- IFRIC 15 – Agreements for the Construction of Real Estate
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 – Distributions of Non-cash Assets to Owners
- IFRIC 18 – Transfers of Assets from Customers
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

Notes to the Income Statement

(1) Revenue

As a rule, revenue is recorded when the services or goods have been delivered and the risks have been transferred to the customer.

To improve the presentation of business development, we report revenue generated by energy trading operations as net figures, reflecting realised gross margins. By contrast, we state electricity, gas, coal and oil transactions that are subject to physical settlement as gross figures. Energy trading revenue is mainly generated by RWE Supply & Trading and by Essent. In

fiscal 2009, gross revenue (including energy trading) totalled €98,013 million (previous year: €85,043 million).

A breakdown of revenue by division (including natural gas tax/electricity tax) and geographical region is contained in the segment reporting on pages 195 to 198. Revenue increased by a net total of €1,558 million as a result of first-time consolidations and deconsolidations.

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

(2) Other operating income

Other operating income € million	2009	2008
Release of provisions	826	133
Cost allocations/refunds	95	62
Disposal and write-back of current assets excluding marketable securities	22	37
Disposal and write-back of non-current assets including income from deconsolidation	135	231
Income from derivative financial instruments		134
Compensation for damage/insurance benefits	35	29
Rent and lease	27	28
Miscellaneous	470	279
	1,610	933

Income from the disposal of non-current financial assets and loans is disclosed under income from investments if it relates to investments; otherwise it is recorded as part of the financial result as is the income from the disposal of current marketable securities.

An increase of €131 million in other operating income is attributable to changes in the scope of consolidation.

(3) Cost of materials

Cost of materials € million	2009	2008
Cost of raw materials and of goods for resale	26,170	28,660
Cost of purchased services	3,668	4,026
	29,838	32,686

The cost of raw materials also includes expenses for the use and disposal of spent nuclear fuel assemblies.

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

A total of €50,272 million in energy trading revenue (previous year: €36,093 million) was netted out against cost of materials. Changes in the scope of consolidation resulted in an increase of €996 million in the cost of materials.

(4) Staff costs

Staff costs € million	2009	2008
Wages and salaries	3,761	3,633
Cost of social security, pensions and other benefits	849	782
Staff costs	4,610	4,415

The cost of pension benefits was €107 million (previous year: €151 million), consisting of €143 million in current service cost (previous year: €164 million), and past service cost of -€36 million (previous year: -€13 million).

Converted to full-time positions, the RWE Group's average personnel headcount (excluding American Water) amounted to 68,828 (previous year: 65,254). Part-time and fixed-term employment relationships are included in accordance with the ratio of the part-time work or the duration of the employment to the annual employment time. Of the total average personnel headcount, 54,107 were staff covered by collective or other agreements (previous year: 51,930) and 14,721 were staff who were not covered by collective agreements (previous year: 13,324). In addition, on average the Group employed 2,756 trainees (previous year: 2,688).

An increase of €111 million in staff costs is attributable to changes in the scope of consolidation.

(5) Depreciation, amortisation, and impairment losses

Depreciation and impairment losses on property, plant and equipment amounted to €1,900 million (previous year: €1,796 million) and to €8 million (previous year: €7 million) on investment property. Intangible assets were written down by €449 million (previous year: €443 million), of which €272 million (previous year: €288 million) pertained to customer relationships in connection with acquisitions. Exploration activities resulted in depreciation, amortisation and impairment losses of €1 million (previous year: €1 million) on property, plant and equipment and intangible assets.

Impairment losses were recognised in the reporting period. These impairment losses amounted to €14 million (previous year: €24 million) on property, plant and equipment, and to €0 million (previous year: €1 million) on investment property. Impairment losses of €5 million (previous year: €1 million) were recorded on intangible assets (without goodwill).

Depreciation, amortisation and impairment losses increased by €88 million as a result of changes in the scope of consolidation.

(6) Other operating expenses

Other operating expenses	2009	2008
€ million		
Maintenance and renewal obligations	829	641
Additions to provisions	104	14
Concessions, licenses and other contractual obligations	540	495
Structural and adaptation measures	71	74
Legal and other consulting and data processing services	327	261
Disposal of current assets and decreases in values (excluding decreases in the value of inventories and marketable securities)	242	298
Disposal of non-current assets including expenses from deconsolidation	127	147
Insurance, commissions, freight and similar distribution costs	252	219
General administration	192	197
Advertising	236	238
Expenses from derivative financial instruments	159	83
Lease payments for plant and grids as well as rents	100	82
Postage and monetary transactions	82	87
Fees and membership dues	48	70
Exchange rate losses	17	11
Other taxes (primarily on property)	49	39
Miscellaneous	549	447
	3,924	3,403

Exploration activities resulted in other operating expenses of €76 million (previous year: €102 million).

An increase of €213 million in other operating expenses is attributable to changes in the scope of consolidation.

(7) Income from investments

Income from investments includes all income and expenses which have arisen in relation to operating investments. It is

comprised of income from investments accounted for using the equity method and other income from investments.

Income from investments € million	2009	2008
Income from investments accounted for using the equity method	131	372
of which: amortisation/impairment losses on investments accounted for using the equity method	(-111)	(-17)
Income from non-consolidated subsidiaries	29	1
of which: amortisation/impairment losses on non-consolidated subsidiaries	(-2)	(-6)
Income from other investments	51	48
of which: impairment of shares in other investments	(-2)	
Income from the disposal of investments	97	28
Expenses from the disposal of investments	64	1
Income from loans to investments	53	41
Expenses from loans to investments	35	35
Other income from investments	131	82
	262	454

Income from investments includes impairment losses on other financial assets in the amount of €4 million (previous year: €6 million) and impairment losses on loans to investments amounting to €16 million (previous year: €35 million).

In light of the difficult conditions on the LNG market, an impairment of €105 million (previous year: €0 million) was recognised on Excelerate Energy LP, USA, an investment accounted for using the equity method. The recoverable amount of the investment in the segment Trading/gas midstream corresponds to its value in use.

(8) Financial result

Financial result € million	2009	2008
Interest and similar income	589	807
Other financial income	1,110	1,055
Financial income	1,699	1,862
Interest and similar expenses	1,224	965
Interest accretion to		
Provisions for pensions and similar obligations	176	97
Provisions for nuclear waste management as well as to mining provisions	567	582
Other provisions	214	59
Other finance costs	1,508	1,634
Finance costs	3,689	3,337
	-1,990	-1,475

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

Net interest essentially includes interest income from interest-bearing securities and loans, expenses and income relating to marketable securities, and interest expenses.

Net interest € million	2009	2008
Interest and similar income	589	807
Interest and similar expenses	1,224	965
	-635	-158

Interest accretion to provisions contains the reversal allocable to the current year of the discounting of non-current provisions from the annual update of the present value calculation. It is reduced by the projected income on plan assets for the coverage of pension obligations.

Net interest stems from financial assets and liabilities, which are allocated to the following categories:

Interest result by category € million	2009	2008
Loans and receivables	357	465
Financial assets available for sale	232	342
Financial liabilities carried at (amortised) cost	-1,224	-965
	-635	-158

The financial result also contains all other financial income and finance costs which cannot be allocated to net interest or to interest accretion to provisions. Other financial income includes €292 million in gains realised from the disposal of marketable securities (previous year: €232 million).

Other finance costs include €51 million (previous year: €152 million) in write-downs of marketable securities due to decreases in their fair value and €441 million (previous year: €436 million) in realised losses from the disposal of marketable securities.

(9) Taxes on income

Taxes on income € million	2009	2008
Current taxes on income	1,761	655
Deferred taxes	97	768
	1,858	1,423

€5 million of the deferred taxes are related to temporary differences (previous year: €379 million).

Current taxes on income contain €130 million in net tax expenses (previous year: income of €332 million) relating to prior periods.

Due to the utilisation of tax loss carryforwards unrecognised in prior years, current taxes on income were reduced by €4 million (previous year: €24 million).

During the period under review, equity increased by €251 million (previous year: €43 million) by offsetting deferred taxes with other comprehensive income, as follows:

Income taxes recognised in other comprehensive income € million	2009	2008
Fair valuation of financial instruments available for sale	-9	-29
Fair valuation of financial instruments used for hedging purposes	-58	-290
Actuarial gains and losses of defined benefit pension plans and similar obligations	318	362
Income	251	43

The income tax expense is derived from the theoretical tax expense. A tax rate of 30.9% (previous year: 30.9%) was applied to income from continuing operations before tax.

Tax reconciliation	2009	2008
€ million		
Income from continuing operations before tax	5,598	4,866
Theoretical tax expense	1,729	1,503
Differences from foreign tax rates	-169	-112
Tax effects on		
Tax-free domestic dividend income	-95	-88
Tax-free foreign dividend income	-32	-28
Other tax-free income	-14	-48
Expenses not deductible for tax purposes	72	137
Accounting for associates using the equity method (including impairment losses on associates' goodwill)	69	-11
Unutilisable loss carryforwards and/or utilisation of unrecognised loss carryforwards and write-downs on loss carryforwards	55	77
Income on the disposal of investments	-36	21
Other	279	-28
Effective tax expense	1,858	1,423
Effective tax rate in %	33.2	29.2

Notes to the Balance Sheet

(10) Intangible assets

Intangible assets	Development costs	Concessions, patent rights, licenses and similar rights	Customer relationships and similar assets	Goodwill	Pre-payments	Total
€ million						
Cost						
Balance at Jan 1, 2009	316	1,999	2,164	9,152	4	13,635
Additions/disposals due to changes in the scope of consolidation	55	1,297	470	3,871	-2	5,691
Additions	104	499			1	604
Currency translation adjustments	19	19	156	235	-1	428
Disposals	19	80				99
Balance at Dec 31, 2009	475	3,734	2,790	13,258	2	20,259
Accumulated amortisation/impairment losses						
Balance at Jan 1, 2009	169	898	1,360	6		2,433
Additions/disposals due to changes in the scope of consolidation	-1	-22	12			-11
Amortisation/impairment losses in the reporting period	48	129	272			449
Currency translation adjustments	9	7	98			114
Disposals	2	44				46
Balance at Dec 31, 2009	223	968	1,742	6		2,939
Carrying amounts						
Balance at Dec 31, 2009	252	2,766	1,048	13,252	2	17,320
Cost						
Balance at Jan 1, 2008	279	1,568	2,802	9,714	5	14,368
Additions/disposals due to changes in the scope of consolidation	3	343	5	332	-18	665
Additions	105	264			20	389
Transfers		2			-2	
Currency translation adjustments	-68	-65	-642	-894	-1	-1,670
Disposals	3	113	1			117
Balance at Dec 31, 2008	316	1,999	2,164	9,152	4	13,635
Accumulated amortisation/impairment losses						
Balance at Jan 1, 2008	158	877	1,445	6		2,486
Additions/disposals due to changes in the scope of consolidation	1	1	4			6
Amortisation/impairment losses in the reporting period	47	108	288			443
Currency translation adjustments	-35	-23	-376			-434
Disposals	2	65	1			68
Balance at Dec 31, 2008	169	898	1,360	6		2,433
Carrying amounts						
Balance at Dec 31, 2008	147	1,101	804	9,146	4	11,202

Expenses for research and development totalled €110 million in the reporting period (previous year: €105 million). Development costs of €104 million were capitalised (previous year: €105 million).

Of the additions/disposals due to changes in the scope of consolidation, €5,307 million was related to the Essent Group.

Intangible assets in exploration activities with a carrying amount of €415 million were recorded in the reporting period (previous year: €320 million).

In accordance with the new structure resulting from reorganisation, which is presented in segment reporting, goodwill breaks down as follows:

Goodwill ¹ € million	Dec 31, 2009	Dec 31, 2008
Germany	3,937	3,578
Power generation	404	404
Sales and distribution networks	3,533	3,174
Netherlands/Belgium	3,504	
United Kingdom	2,877	2,636
Central and Eastern Europe	1,956	1,933
Renewables	441	389
Upstream gas & oil	26	30
Trading/gas midstream	434	434
Others	77	146
	13,252	9,146

1 Prior-year figures adjusted.

In the reporting period, goodwill increased by €3,871 million (previous year: €332 million), of which €3,435 million resulted from the acquisition of Essent.

Goodwill is allocated to cash-generating units at the segment level to carry out impairment tests. The impairment test involves determining the recoverable amount of the cash-generating units, which corresponds to the maximum of the fair value less costs to sell or the value in use. The fair value reflects the best estimate of the sum that an independent third party would pay to purchase the cash-generating unit as of the balance-sheet date. Value in use is the present value of the future cash flows which are expected to be generated with a cash-generating unit. As of the balance-sheet date, both the fair value less costs to sell and the value in use of the cash-generating units were above their carrying amounts.

Fair value is assessed from an external perspective and value in use from a company-internal perspective. Both variables are determined using a business valuation model, taking into account planned future cash flows. These cash flows, in turn, are based on the business plan prepared for a period of three years, as approved by the Executive Board and valid at the time of the impairment test. The cash flow plans are based on experience as well as on expected market trends in the future. If available, market transactions in the same sector or third-party valuations are taken as a basis for determining fair value.

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

The key planning assumptions for the business segments active in Europe's electricity and gas markets are estimates relating to the development of wholesale prices for electricity, crude oil, natural gas, coal and CO₂ emission allowances, and retail prices for electricity and gas, as well as to the development of market shares and regulatory framework conditions.

The discount rates used for business valuations are determined on the basis of market data and range from 6.5 to 9.0% for cash-generating units after tax (previous year: 6.1 to 9.8%). Before tax, the interest rates used range from 8.8 to 15.6% (previous year: 8.1 to 17.3%).

RWE extrapolates future cash flows going beyond the detailed planning horizon based on constant growth rates of 0.0 to 1.0% (previous year: 0.0 to 0.5%). These figures are derived from experience and future expectations for the individual divisions and do not exceed the long-term average growth rates in the markets in which the companies are active. In calculating cash flow growth rates, the capital expenditures required to achieve the assumed cash flow growth are subtracted.

(11) Property, plant and equipment

Property, plant and equipment	Land, land rights and buildings incl. buildings on third-party land	Technical plant and machinery	Other equipment, factory and office equipment	Pre-payments	Plants under construction	Total
€ million						
Cost						
Balance at Jan 1, 2009	6,612	58,519	1,942	1,024	2,953	71,050
Additions/disposals due to changes in the scope of consolidation	89	2,291	36	-1	789	3,204
Additions	164	1,951	161	859	2,317	5,452
Transfers	129	1,360	28	-13	-1,535	-31
Currency translation adjustments	26	376	22		93	517
Disposals	61	493	110		24	688
Balance at Dec 31, 2009	6,959	64,004	2,079	1,869	4,593	79,504
Accumulated depreciation/impairment losses						
Balance at Jan 1, 2009	3,441	44,342	1,501	1	3	49,288
Additions/disposals due to changes in the scope of consolidation	10	14	-1	-1		22
Depreciation/impairment losses in the reporting period	167	1,582	149		2	1,900
Transfers	-14					-14
Currency translation adjustments	8	209	16			233
Disposals	35	400	106			541
Write-backs	11					11
Balance at Dec 31, 2009	3,566	45,747	1,559		5	50,877
Carrying amounts						
Balance at Dec 31, 2009	3,393	18,257	520	1,869	4,588	28,627

Cost						
Balance at Jan 1, 2008	6,680	57,701	1,955	837	1,715	68,888
Additions/disposals due to changes in the scope of consolidation	48	87	30	17	-14	168
Additions	137	1,454	149	178	2,286	4,204
Transfers	14	674	25	-8	-767	-62
Currency translation adjustments	-153	-911	-81		-255	-1,400
Disposals	114	486	136		12	748
Balance at Dec 31, 2008	6,612	58,519	1,942	1,024	2,953	71,050
Accumulated depreciation/impairment losses						
Balance at Jan 1, 2008	3,397	43,862	1,560	1	30	48,850
Additions/disposals due to changes in the scope of consolidation	6	-166	-4		3	-161
Depreciation/impairment losses in the reporting period	164	1,503	129			1,796
Transfers	-6	1	2			-3
Currency translation adjustments	-54	-453	-57		-1	-565
Disposals	62	399	129			590
Write-backs	4	6			29	39
Balance at Dec 31, 2008	3,441	44,342	1,501	1	3	49,288
Carrying amounts						
Balance at Dec 31, 2008	3,171	14,177	441	1,023	2,950	21,762

Of the additions/disposals due to changes in the scope of consolidation, €2,947 million was related to the Essent Group.

The carrying amount of property, plant, and equipment for exploration activities was €354 million (previous year: €292 million).

Property, plant and equipment were subject to restrictions in the amount of €367 million (previous year: €99 million) in the

form of land charges and chattel mortgages. Of the carrying amount of property, plant and equipment, €74 million (previous year: €76 million) was attributable to assets leased under finance leases. These assets were principally comprised of technical plant and equipment with a total value of €64 million (previous year: €66 million). Disposal of property, plant and equipment resulted from the sale and decommissioning of plants.

(12) Investment property

Investment property	
€ million	
Cost	
Balance at Jan 1, 2009	366
Additions/disposals due to changes in the scope of consolidation	-1
Additions	
Transfers	31
Currency adjustments	1
Disposals	19
Balance at Dec 31, 2009	378
Accumulated depreciation/impairment losses	
Balance at Jan 1, 2009	186
Depreciation/impairment losses in the reporting period	8
Transfers	14
Disposals	12
Balance at Dec 31, 2009	196
Carrying amounts	
Balance at Dec 31, 2009	182

As of December 31, 2009, the fair value of investment property amounted to €254 million (previous year: €285 million). The fair value of investment property is derived from the current market prices of comparable real estate or determined using internationally accepted valuation methods such as the discounted cash flow method. €80 million of the fair value

Investment property	
€ million	
Cost	
Balance at Jan 1, 2008	333
Additions/disposals due to changes in the scope of consolidation	
Additions	4
Transfers	35
Currency adjustments	
Disposals	6
Balance at Dec 31, 2008	366
Accumulated depreciation/impairment losses	
Balance at Jan 1, 2008	180
Depreciation/impairment losses in the reporting period	7
Transfers	3
Disposals	4
Balance at Dec 31, 2008	186
Carrying amounts	
Balance at Dec 31, 2008	180

(previous year: €81 million) is based on valuations by independent appraisers. Rental income in the reporting period amounted to €23 million (previous year: €22 million). Direct operating expenses totalled €11 million (previous year: €9 million).

(13) Investments accounted for using the equity method

The following summaries present the key items from the balance sheets and income statements of companies accounted for using the equity method:

Investments accounted for using the equity method	Dec 31, 2009		Dec 31, 2008	
	Total	Of which: joint ventures	Total	Of which: joint ventures
€ million				
Equity				
Assets	24,312	3,739	19,637	2,954
Liabilities	13,997	2,573	11,613	1,610
	10,315	1,166	8,024	1,344
Adjustment to RWE interest and equity method	-6,579	-583	-4,756	-672
	3,736	583	3,268	672

Income from investments accounted for using the equity method	2009		2008	
	Total	Of which: joint ventures	Total	Of which: joint ventures
€ million				
Revenue	18,882	253	14,525	115
Income	1,277	-185	1,665	-104
Adjustment to RWE interest and equity method	-1,146	23	-1,293	52
	131	-162	372	-52

As of December 31, 2009, the fair value of investments accounted for using the equity method for which quoted market prices exist amounted to €2 million (previous year: €2 million).

€3,457 million (previous year: €2,802 million) of the assets and €1,569 million (previous year: €1,019 million) of the liabilities of joint ventures were non-current.

(14) Other non-current financial assets

Other non-current financial assets	Dec 31,	Dec 31,
€ million	2009	2008
Non-consolidated subsidiaries	170	57
Other investments	386	307
Non-current securities	153	317
	709	681

Non-current securities primarily consist of fixed-interest marketable securities and shares of public companies. Long-term securities amounting to €95 million (previous year: €75 million) were deposited in a trust account for RWE AG and its subsidiar-

ies to cover credit balances stemming from the block model for pre-retirement part-time work, pursuant to sec. 8a of the Pre-Retirement Part-Time Work Act (AltTZG).

(15) Financial receivables

Financial receivables € million	Dec 31, 2009		Dec 31, 2008	
	Non-current	Current	Non-current	Current
Loans to non-consolidated subsidiaries and investments	806	487	643	258
Collateral for trading activities		2,022		3,562
Other financial receivables				
Accrued interest		127		131
Miscellaneous other financial receivables	312	786	671	468
	1,118	3,422	1,314	4,419

As of the balance-sheet date, financial receivables from associates amounted to €1,470 million (previous year: €1,107 million).

over-the-counter (OTC) transactions. These guarantees are designed to ensure that the obligations from the transactions are discharged even if the development of prices is not favourable.

RWE Group companies were required to deposit collateral for the trading activities stated above for exchange-based and

(16) Other receivables and other assets

Other receivables and other assets € million	Dec 31, 2009		Dec 31, 2008	
	Non-current	Current	Non-current	Current
Derivatives	1,769	10,433	911	13,569
Surplus of plan assets over benefit obligations	79			
Prepayments for items other than inventories		714		297
CO ₂ emission allowances		1,117		1,216
Prepaid expenses		162		128
Miscellaneous other assets	640	1,358	281	896
	2,488	13,784	1,192	16,106

With the exception of derivatives, the financial instruments reported under other receivables and other assets are measured at amortised cost. Derivative financial instruments are stated at fair value.

The carrying values of exchange-traded derivatives with netting agreements are offset.

Changes in the scope of consolidation increased other receivables and other assets by €3,836 million.

(17) Income tax assets

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

(18) Deferred taxes

Deferred tax assets and liabilities principally relate to measurements deviating from the tax bases. €2,473 million and €2,603 million of the gross deferred tax assets and liabilities, respectively, will be realised within twelve months (previous year: €3,159 million and €3,141 million).

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

Deferred taxes € million	Dec 31, 2009		Dec 31, 2008	
	Assets	Liabilities	Assets	Liabilities
Non-current assets	517	2,678	345	1,880
Current assets	381	2,009	459	2,288
Exceptional tax items		267		284
Non-current liabilities				
Provisions for pensions	581	114	290	53
Other non-current provisions	1,752	168	1,603	161
Current liabilities	2,092	594	2,700	853
	5,323	5,830	5,397	5,519
Tax loss carryforwards	56		148	
Gross total	5,379	5,830	5,545	5,519
Netting	-3,503	-3,503	-3,936	-3,936
Net total	1,876	2,327	1,609	1,583

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

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

Tax reduction claims from loss carryforwards € million	Dec 31, 2009	Dec 31, 2008
Corporate income tax (or comparable foreign income tax)	47	41
Trade tax	9	107
	56	148

Realisation of these tax carryforwards is guaranteed with sufficient certainty. At the end of the reporting period, corporate income tax loss carryforwards and trade tax loss carryforwards for which no deferred tax claims have been recognised amounted to €372 million and €187 million, respectively (previous year: €399 million and €424 million). €79 million of these income tax loss carryforwards apply to the next two years.

The other loss carryforwards can essentially be used for an unlimited period.

In the year under review, deferred tax expenses of €63 million (previous year: deferred tax income of €180 million) arising from the translation of foreign financial statements were offset against equity.

(19) Inventories

Inventories € million	Dec 31, 2009	Dec 31, 2008
Raw materials, incl. nuclear fuel assemblies and earth excavated for lignite mining	2,125	1,613
Work in progress-goods	27	23
Work in progress-services	82	47
Finished goods and goods for resale	857	839
Prepayments	24	18
	3,115	2,540

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

The carrying amount of inventories acquired for resale purposes amounted to €245 million (previous year: €99 million).

Changes in the scope of consolidation resulted in an increase of €231 million in inventories.

(20) Trade accounts receivable

As of the balance-sheet date, trade accounts receivable from associates amounted to €292 million (previous year: €222 million).

Trade accounts receivable increased by €1,040 million due to changes in the scope of consolidation.

(21) Marketable securities

The total value of current marketable securities was €3,290 million (previous year: €7,735 million), consisting of fixed-interest marketable securities of €2,642 million (previous year: €7,147 million) with a maturity of more than three months from the date of acquisition, and stocks and profit-participation certificates of €648 million (previous year: €588 million). Mar-

ketable securities are stated at fair value. As of December 31, 2009, the average return on fixed-interest securities was 2.1 % (previous year: 3.9 %). Securities in the amount of €649 million (previous year: €714 million) were deposited with a clearing bank as collateral.

(22) Cash and cash equivalents

Cash and cash equivalents € million	Dec 31, 2009	Dec 31, 2008
Cash	2,113	994
Marketable securities and other cash investments (maturity less than three months from the date of acquisition)	961	255
	3,074	1,249

Demand deposits are only kept for short-term cash positions at banks with a minimum rating of A-/A3 by one of the renowned rating agencies, Moody's or Standard & Poor's. As in the previous year, interest rates are maintained at market levels.

(23) Equity

A breakdown of equity is shown on page 144.

Subscribed capital is structured as follows:

Subscribed capital	Dec 31, 2009		Dec 31, 2008		Dec 31, 2009	Dec 31, 2008
	Number of shares		Number of shares		Carrying amount	Carrying amount
	in '000	in %	in '000	in %	€ million	€ million
Common shares	523,405	93.1	523,405	93.1	1,340	1,340
Preferred shares	39,000	6.9	39,000	6.9	100	100
	562,405	100.0	562,405	100.0	1,440	1,440

Common and preferred shares are no-par-value bearer share certificates. Preferred shares have no voting rights. Under certain conditions, preferred shares are entitled to payment of a preference dividend of €0.13 per preferred share, upon allocation of the company's profits.

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

Pursuant to a resolution passed by the Annual General Meeting on April 22, 2009, the Company was authorised to purchase shares of any class in RWE totalling up to 10% of the Company's share capital until October 21, 2010. Share buybacks may also be conducted by exercising put or call options.

Pursuant to a resolution passed by the Annual General Meeting on April 22, 2009, the Executive Board was authorised to withdraw the Company's shares without requiring an additional resolution by the Annual General Meeting or – under certain conditions and waiver of shareholders' subscription rights – to sell them to third parties.

Pursuant to a resolution passed by the Annual General Meeting on April 22, 2009, the Executive Board was further authorised to issue option or convertible bonds until April 21, 2014. The total nominal value of the bonds is limited to €6,000 million. Shareholders' subscription rights may be waived under certain conditions. The Annual General Meeting decided to establish €144 million in conditional capital divided into 56 million bearer common shares, in order to redeem the bonds. Shares from the authorised capital are to be deducted from the shares from the conditional capital, insofar as they are both issued with a waiver of shareholders' subscription rights. Accordingly, the share capital may not be increased by more than 20% by the issue of new shares.

On December 31, 2009, RWE AG held 28,846,473 no-par-value common shares in RWE AG. The acquisition costs of own shares amounting to €2,272 million were deducted from the carrying amount of equity. They account for €73,846,970.88 of the company's share capital (5.13% of subscribed capital).

Accumulated other comprehensive income reflects changes in the fair values of financial instruments available for sale, cash flow hedges and hedges of the net investment in foreign entities, as well as changes stemming from foreign currency translation adjustments from foreign financial statements.

Dividend proposal

We propose to the Annual General Meeting that RWE AG's distributable profit for fiscal 2009 be appropriated as follows:

Distribution of a dividend of €3.50 per individual, dividend-bearing share:

Dividend	€1,867,454,844.50
Profit carryforward	€52,782.63
Distributable profit	€1,867,507,627.13

The dividend proposal takes into account the non-dividend-bearing shares held by the company as of December 31, 2009. The number of dividend-bearing shares may decline before the Annual General Meeting if further shares are purchased. Conversely, the number of dividend-bearing shares may rise if own shares are sold before the Annual General Meeting. In either of these cases, based on an unchanged dividend per dividend-bearing share, an adjusted proposal for the appropriation of the distributable profit will be made to the Annual General Meeting, according to which the total amount payable to the shareholders will be reduced by the partial amount that would be payable for the own shares additionally purchased between January 1, 2010 and the date of the proposal for the appropriation of distributable profit, and will be increased by the partial amount that would be payable for the own shares sold between January 1, 2010 and the date of the proposal for the appropriation of distributable profit. The profit carry-forward will rise or fall by these partial amounts.

Based on a resolution of RWE AG's Annual General Meeting on April 22, 2009, the dividend for fiscal 2008 amounted to €4.50 per dividend-bearing common and preferred share. The dividend payment to shareholders of RWE AG totalled €2,401 million.

Minority interest

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

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

Additionally, the carrying amount of assets and liabilities allocable to the American Water shares sold in 2008 is stated as part of the minority interest in the previous year. These shares were derecognised due to the deconsolidation of American Water during the period under review.

(24) Share-based payment

In the year under review, the groupwide share-based payment systems for executives of RWE AG and subordinate affiliates consisted of the following: the Long-Term Incentive Plan (LTIP) and Beat. If the persons holding stock options are not employed by RWE AG, the expenses associated with the exercise of the options are borne by the respective Group company.

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

1 Long-Term Incentive Plan.

	Beat			
	2006 tranche	2007 tranche	2008 tranche	2009 tranche
Grant date	Jan 1, 2006	Jan 1, 2007	Jan 1, 2008	Jan 1, 2009
Number of conditionally granted performance shares	2,444,191	1,468,132	1,668,836	3,251,625
Term	3 years	3 years	3 years	3 years
Pay-out conditions	Automatic pay-out if following a waiting period of three years an outperformance of at least 25 % compared to the Dow Jones STOXX Utilities Index peer group has been achieved, measured in terms of their index weighting as of the inception of the programme. Measurement of outperformance is carried out using Total Shareholder Return (TSR), which takes into account both the development of the share price and reinvested dividends.			
Determination of payment	<ol style="list-style-type: none"> 1. Determination of the index weighting of the peer group companies which exhibit a lower TSR than RWE at the end of the term. 2. Performance factor is calculated by squaring this percentage rate and multiplying it by 1.25. 3. Total number of performance shares which can be paid out is calculated by multiplying the performance shares conditionally granted by the performance factor. 4. Payment corresponds to the final number of performance shares valued at the average RWE share price during the last 20 trading days prior to expiration of the programme (with a ceiling of two times the value of the performance shares as of the grant date). 			
Change in corporate control/merger	<ul style="list-style-type: none"> ▪ If during the waiting period there is a change in corporate control, a compensation payment is made. This is calculated by multiplying the price paid in the acquisition of the RWE shares by the final number of performance shares. The latter shall be determined as per the regulations of the compensation plan with regard to the time when the bid for corporate control is submitted. ▪ In the event of merger with another company, compensation shall be calculated on the basis of the expected value of the performance shares at the time of the merger multiplied by the prorated number of performance shares corresponding to the ratio between the total waiting period and the waiting period until the merger takes place. 			
Form of settlement	Cash settlement			

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

LTIP	2004 tranche
Outstanding at the start of the fiscal year	12,000
Exercised	-12,000
Outstanding at the end of the fiscal year	0
Exercisable at the end of the fiscal year	0

The average weighted share price as of the exercise date amounted to €59.71 for the options from LTIP exercised in the previous fiscal year.

Beat. The fair value of the performance shares conditionally granted in the Beat programme amounted to €11.93 per share as of the grant date for the 2009 tranche, €22.25 per share for the 2008 tranche, and €24.99 per share for the 2007 tranche. These values were calculated externally using a standard multi-variate Black-Scholes model via Monte Carlo simulations on the basis of one million scenarios each. In the calculations, due consideration was taken of the maximum payment stipulated in

the programme's conditions for each conditionally granted performance share, the discount rates for the remaining term, the volatilities and the expected dividends of RWE AG and of peer companies.

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

Beat	2006 tranche	2007 tranche	2008 tranche	2009 tranche
Outstanding at the start of the fiscal year	2,373,355	1,451,304	1,664,239	0
Granted				3,251,625
Change in grant/expired		-4,201	-2,203	-7,984
Paid out	-2,373,355			
Outstanding at the end of the fiscal year	0	1,447,103	1,662,036	3,243,641
Payable at the end of the fiscal year	0	1,447,103	0	0

The remaining contractual term amounted to one year for the 2008 tranche and two years for the 2009 tranche. The contractual term for the 2007 tranche ended upon completion of the year under review. In accordance with the plan regulations, the payment amount is €19.64 per performance share.

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

RWE Npower plc/RWE Supply & Trading GmbH/ RWE IT UK Ltd./RWE Npower Renewables Ltd.	Sharesave Scheme
Awards/tranches	2005 – 2009
Number of options granted per tranche	247,119 – 390,756
Term	3 years
Vesting conditions	Waiting period: 3 years
Exercise price	£ 27.33 – 50.24
Form of settlement	Existing shares

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

RWE Npower plc/RWE Supply & Trading GmbH/ RWE IT UK Ltd./RWE Npower Renewables Ltd.	Sharesave Scheme
Outstanding at the start of the fiscal year	888,232
Granted	268,619
Exercised	-351,221
Expired	-59,958
Outstanding at the end of the fiscal year	745,672
Exercisable at the end of the fiscal year	36,098

The total expense for the groupwide share-based payment systems amounted to €46 million (previous year: €71 million) in fiscal 2009. Of this amount, €0 million was attributable to equity-settled share-based payment transactions of RWE AG, as in the previous year. As of the balance-sheet date, provisions in the amount of €79 million have been recognised for cash-

settled share-based payment programmes (previous year: €110 million). The intrinsic value of the cash-settled share-based payment transactions exercisable or payable as of the balance-sheet date amounted to €28 million (previous year: €77 million).

(25) Provisions

Provisions € million	Dec 31, 2009			Dec 31, 2008		
	Non-current	Current	Total	Non-current	Current	Total
Provisions for pensions and similar obligations	3,281		3,281	2,738		2,738
Provisions for taxes	2,796	316	3,112	2,684	281	2,965
Provisions for nuclear waste management	9,250	241	9,491	9,262	203	9,465
Provisions for mining damage	2,618	94	2,712	2,759	107	2,866
	17,945	651	18,596	17,443	591	18,034
Other provisions						
Staff-related obligations (excluding restructuring)	793	850	1,643	725	850	1,575
Restructuring obligations	386	142	528	381	134	515
Purchase and sales obligations	1,210	887	2,097	867	869	1,736
Uncertain obligations in the electricity business	449	389	838	304	453	757
Environmental protection obligations	127	26	153	94	29	123
Interest payment obligations	564	24	588	548	16	564
Obligations to deliver CO ₂ emission allowances/ certificates for renewable energies		1,242	1,242		1,396	1,396
Miscellaneous other provisions	841	1,618	2,459	710	1,347	2,057
	4,370	5,178	9,548	3,629	5,094	8,723
	22,315	5,829	28,144	21,072	5,685	26,757

Provisions for pensions and similar obligations. The company pension plan consists of defined contribution and defined benefit plans. In the Netherlands, RWE participates in a benefit plan, with payments for this plan made to a Dutch pension fund. This benefit plan is composed of commitments by various employers. This fund does not provide the individual employers information allowing for the pro-rata allocation of commitments, plan assets and service cost. In RWE's consolidated financial statements, the contributions are recognised analogously to a defined contribution plan. In the reporting period, €24 million (previous year: €10 million) was paid into defined contribution plans.

In 2009, €470 million (previous year: €1,398 million) in assets was transferred to the trust RWE Pensionstreuhand e.V. to externally finance further parts of the corporate pension plan via contractual trust arrangements (CTA). Since the transferred assets are classified as plan assets as defined by IAS 19, provisions for pensions and similar obligations were netted out against the transferred assets as of December 31, 2009. As a result, provisions for pensions and similar obligations declined accordingly.

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

Calculation assumptions in %	Dec 31, 2009		Dec 31, 2008	
	Germany	Foreign ¹	Germany	Foreign ¹
Discount rate	5.25	5.70	6.00	6.50
Compensation increase	2.75	5.20	2.75	4.20
Pension increase	1.00 – 1.50	3.50	1.00 – 1.50	2.70
Expected return on the plan assets	5.75	5.25	6.00	5.70

1 Pertains to benefit commitments to employees of the RWE Group in the UK.

The expected return on plan assets was determined depending on the specific asset categories. The expected return on equity investments reflects the long-term average performance observed for the industries and geographical markets involved, taking into account the current composition of the equity portfolio. For fixed-interest securities, the expected return was derived from appropriately selected trading prices and indices, in

accordance with accepted methods. The expected return on real estate was calculated on the basis of marketing possibilities determined by contractual obligations and local market conditions.

Provisions for pensions are broken down as follows:

Provisions for pensions and similar obligations (funded and unfunded plans) € million	Dec 31, 2009	Dec 31, 2008
Present value of funded benefit obligations	14,588	11,872
Fair value of plan assets	13,139	11,030
Net balance for funded plans	1,449	842
Capitalised surplus of plan assets over benefit obligations	79	
Provision recognised for funded plans	1,528	842
Provision recognised for unfunded plans	1,753	1,896
	3,281	2,738

Disregarding taxes, as of December 31, 2009, cumulative actuarial gains and losses amounted to –€6,287 million (Dec 31, 2008: –€5,181 million).

Development of plan assets € million	Fair value	
	2009	2008
Balance at Jan 1	11,030	12,675
Expected return on plan assets	660	735
Employer contributions to funded plans	826	1,455
Employee contributions to funded plans	13	19
Benefits paid by funded plans	-786	-716
Actuarial gains (losses) of funded plans	1,162	-2,107
Currency translation adjustments	234	-1,032
Changes in the scope of consolidation		1
Balance at Dec 31	13,139	11,030

The actual return on plan assets amounted to €1,822 million (previous year: -€1,372 million).

Composition of plan assets (fair value) € million	Dec 31, 2009			Dec 31, 2008		
	Germany ¹	Foreign ²	Total	Germany ¹	Foreign ²	Total
Equity capital instruments	3,042	270	3,312	1,605	318	1,923
Interest-bearing instruments	5,208	3,052	8,260	5,417	2,278	7,695
Real estate	78	80	158	97	127	224
Alternative investments	742	360	1,102	568	458	1,026
Other ³	135	172	307	106	56	162
	9,205	3,934	13,139	7,793	3,237	11,030

- 1 Plan assets in Germany primarily pertain to assets of RWE AG and of various Group companies which are managed by RWE Pensionstreuhand e.V. as a trust, as well as to assets of RWE Pensionsfonds AG.
- 2 Foreign plan assets pertain to the assets of a UK pension fund for covering benefit commitments to employees of the RWE Group in the UK.
- 3 Includes reinsurance claims against insurance companies and other fund assets of provident funds.

Composition of plan assets (targeted investment structure) in %	Dec 31, 2009		Dec 31, 2008	
	Germany ¹	Foreign ²	Germany ¹	Foreign ²
Equity capital instruments	28.4	6.9	28.6	9.8
Interest-bearing instruments	59.3	77.6	58.9	70.3
Real estate	2.3	2.0	2.5	3.9
Alternative investments	10.0	9.1	10.0	14.1
Other ³		4.4		1.9
	100.0	100.0	100.0	100.0

- 1 Plan assets in Germany primarily pertain to assets of RWE AG and of various Group companies which are managed by RWE Pensionstreuhand e.V. as a trust, as well as to assets of RWE Pensionsfonds AG.
- 2 Foreign plan assets pertain to the assets of a UK pension fund for covering benefit commitments to employees of the RWE Group in the UK.
- 3 Does not include reinsurance claims against insurance companies and other fund assets of provident funds, as such do not fall under the scope of portfolio management as a whole.

Development of pension claims € million	Present value	
	2009	2008
Balance at Jan 1	13,768	15,733
Current service cost	143	164
Interest cost	836	832
Contributions by employees	13	19
Actuarial gains (losses)	2,268	-1,022
Benefits paid	-908	-911
Past service cost	-36	-13
Currency translation adjustments	252	-1,039
Changes in the scope of consolidation	5	5
Balance at Dec 31	16,341	13,768

Past service costs in fiscal 2008 and 2009 mainly resulted from plan curtailments.

Expenses for pension provisions € million	2009	2008
Service cost	143	164
Interest cost	836	832
Expected return on plan assets	-660	-735
Amortisation of past service cost	-36	-13
	283	248

Since 2005, the present value of pension claims, the fair value of plan assets and the net amount of funded and unfunded pension plans have developed as follows:

€ million	2009	2008	2007	2006	2005
Present value of pension claims	16,341	13,768	15,733	17,955	20,642
Fair value of plan assets	13,139	11,030	12,675	6,119	7,692
Net amount of funded and unfunded pension plans (balance)	3,202	2,738	3,058	11,836	12,950

For the reporting period and the previous years, the following experience adjustments were made to the present values of the pension claims and the fair values of the plan assets:

Experience adjustments € million	2009	2008	2007	2006	2005
Present value of pension claims	-451	-40	367	38	-61
Fair value of plan assets	1,162	-2,107	-494	-69	550

Experience adjustments to the present values of pension claims are part of the actuarial gains or losses on the pension claims for the year in question. Experience adjustments to the fair values of plan assets are to be equated with the actuarial gains or losses arising on the plan assets for the year in question.

Payments for defined benefit plans are expected to amount to €247 million in fiscal 2010.

Roll-forward of provisions	Balance at Jan 1, 2009	Additions	Unused amounts released	Interest accretion/ change in discount rate	Changes in the scope of conso- lidation, currency adjust- ments, transfers	Amounts used	Balance at Dec 31, 2009
€ million							
Provisions for pensions	2,738	107		176	1,208 ¹	-948	3,281
Provisions for taxes	2,965	767	-33		-278	-309	3,112
Provisions for nuclear waste management	9,465	122	-388	446		-154	9,491
Provisions for mining damage	2,866	165	-394	121	12	-58	2,712
	18,034	1,161	-815	743	942	-1,469	18,596
Other provisions							
Staff-related obligations (excluding restructuring)	1,575	720	-54	29	43	-670	1,643
Restructuring obligations	515	83	-35	51	38	-124	528
Purchase and sales obligations	1,736	1,000	-309	56	8	-394	2,097
Uncertain obligations in the electricity business	757	94	-41	18	92	-82	838
Environmental protection obligations	123	6	-7	3	40	-12	153
Interest payment obligations	564	169	-1		-105	-39	588
Obligations to deliver CO ₂ emission allow- ances/certificates for renewable energies	1,396	1,244	-1		25	-1,422	1,242
Miscellaneous other provisions	2,057	593	-294	57	306	-260	2,459
	8,723	3,909	-742	214	447	-3,003	9,548
Provisions	26,757	5,070	-1,557	957	1,389	-4,472	28,144
of which: changes in the scope of consolidation							(645)

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

The vast majority of **provisions for nuclear waste management** are recognised as non-current provisions, and their settlement amount is discounted to the balance-sheet date. From the current perspective, the majority of utilisation is anticipated to occur in the years 2020 to 2050. As in the previous year, an interest rate of 5.0% was used as the discount rate. Volume-based increases in the provisions are measured at their present value. In the reporting period, they amounted to €122 million (previous year: €80 million). By releasing €388 million from provisions (previous year: additions of €71 million), we have taken into account that waste disposal costs are expected to be lower, according to current estimates. Additions to provisions for nuclear waste management primarily consist of an interest accretion of €446 million (previous year: €447 million). €796 million in prepayments, primarily to foreign reprocessing companies and to the German Federal Office for Radiation Protection (BfS) for the construction of final storage facilities, were deducted from these provisions (previous year: €737 million).

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

Provisions for nuclear waste management € million	Dec 31, 2009	Dec 31, 2008
Provisions for nuclear obligations, not yet contractually defined	7,557	7,574
Provisions for nuclear obligations, contractually defined	1,934	1,891
	9,491	9,465

In respect of the disposal of spent nuclear fuel assemblies, the provisions for obligations which are not yet contractually defined cover the estimated long-term costs of direct final storage of fuel assemblies, which is currently the only possible disposal method in Germany, as well as the costs for the disposal of radioactive waste from reprocessing. The latter essentially consist of costs for transport from centralised storage facilities and the plants' intermediate storage facilities to reprocessing plants and final storage as well as conditioning for final storage and containers. These estimates are mainly based on studies by internal and external experts, in particular by GNS Gesellschaft für Nuklear-Service mbH in Essen, Germany. With regard to the decommissioning of nuclear power plants, the costs for the post-operational phase and dismantling are taken into consideration, on the basis of data from external expert opinions prepared by NIS Ingenieurgesellschaft mbH, Alzenau, Germany, which are generally accepted throughout the industry and are updated continuously. Finally,

this item also covers all of the costs of final storage for all radioactive waste, based on data provided by BfS.

Provisions for contractually defined nuclear obligations are related to all nuclear obligations for the disposal of fuel assemblies and radioactive waste as well as for the decommissioning of nuclear power plants, insofar as the value of said obligations is specified in contracts under civil law. They include the anticipated residual costs of reprocessing, return (transport, containers) and intermediate storage of the resulting radioactive waste, as well as the additional costs of the utilisation of uranium and plutonium from reprocessing activities. These costs are based on existing contracts with foreign reprocessing companies and with GNS. Moreover, these provisions also take into account the costs for transport and intermediate storage of spent fuel assemblies within the framework of final direct storage. The power plants' intermediate storage facilities are licensed for an operational period of 40 years. These facilities commenced operations between 2002 and 2006. Furthermore, the amounts are also stated for the conditioning and intermediate storage of radioactive operational waste, which is primarily performed by GNS.

With due consideration of the German Atomic Energy Act (AtG), in particular to Sec. 9a of AtG, the provision for nuclear waste management breaks down as follows:

Provisions for nuclear waste management € million	Dec 31, 2009	Dec 31, 2008
Decommissioning of nuclear facilities	4,626	4,585
Disposal of nuclear fuel assemblies	4,303	4,351
Disposal of radioactive operational waste	562	529
	9,491	9,465

Provisions for mining damage also consist primarily of non-current provisions. They are recognised at the settlement amount discounted to the balance-sheet date. As in the previous year, we use a discount rate of 5.0%. In the reporting period, additions to provisions for mining damage amounted to €165 million (previous year: €104 million). Of this, an increase of €84 million (previous year: €42 million) was capitalised under property, plant and equipment. The interest accretion of the additions to provisions for mining damage amounted to €121 million (previous year: €135 million).

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

(26) Financial liabilities

Financial liabilities € million	Dec 31, 2009		Dec 31, 2008	
	Non-current	Current	Non-current	Current
Bonds payable (incl. other notes payable)	15,904	640	10,041	165
Commercial paper		238		846
Bank debt	411	514	481	306
Other financial liabilities				
Collateral for trading activities		945		541
Miscellaneous other liabilities	704	790	632	471
	17,019	3,127	11,154	2,329

Financial liabilities to associates totalled €186 million (previous year: €137 million).

€16,802 million of the non-current financial liabilities were interest-bearing liabilities (previous year: €10,983 million). Bank debt mainly stemmed from the former activities of acquired companies. Depending on the currency, term and conditions of the agreement, nominal interest ranged between 0.1 and 10.5 % (previous year: 1.5 and 11.8 %).

Changes in the scope of consolidation caused financial liabilities to increase by €5,349 million.

The outstanding bonds payable were issued by RWE AG or RWE Finance B.V. Depending on currency, term and time of issue, nominal interest is between 2.5 and 6.6 % (previous year: 4.6 and 6.6 %) for public bonds, and between 2.3 and 5.8 % (previous year: 2.3 and 7.0 %) for private placements.

The following overview shows the structure of the major bonds payable as of December 31, 2009:

Bonds payable Issuer	Outstanding amount	Carrying amount	Coupon in %	Maturity
RWE Finance B.V.	£500 million	€563 million	4.625	August 2010
RWE Finance B.V.	€1,500 million	€1,492 million	2.5	September 2011
RWE Finance B.V.	€1,808 million	€1,831 million	6.125	October 2012
RWE Finance B.V.	£630 million	€708 million	6.375	June 2013
RWE Finance B.V.	€1,000 million	€994 million	5.75	November 2013
RWE Finance B.V.	€530 million	€528 million	4.625	July 2014
RWE Finance B.V.	€2,000 million	€1,983 million	5.0	February 2015
RWE Finance B.V.	€850 million	€854 million	6.25	April 2016
RWE AG	€100 million	€100 million	Variable ¹	November 2017
RWE Finance B.V.	€980 million	€978 million	5.125	July 2018
RWE Finance B.V.	€1,000 million	€990 million	6.625	January 2019
RWE Finance B.V.	£570 million	€645 million	6.5	April 2021
RWE Finance B.V.	€1,000 million	€996 million	6.5	August 2021
RWE Finance B.V.	£500 million	€557 million	5.5	July 2022
RWE Finance B.V.	£488 million	€546 million	5.625	December 2023
RWE Finance B.V.	£760 million	€858 million	6.25	June 2030
RWE AG	€600 million	€594 million	5.75	February 2033
RWE Finance B.V.	£1,000 million	€1,108 million	6.125	July 2039
Other (incl. other notes payable)	Various	€219 million	Various	Various
Bonds payable (incl. other notes payable)		€16,544 million		

¹ Interest payment dates: May 15/Nov 15.

During the reporting period, commercial paper was occasionally issued on the European capital market. Up to €2.1 billion was raised within the framework of this programme (previous year: €0.8 billion). The interest rates on the instruments ranged between 0.8 and 3.1 % (previous year: 3.1 and 4.9 %).

Other financial liabilities primarily consist of finance lease liabilities. Lease agreements principally relate to capital goods in the electricity business.

Liabilities arising from finance lease agreements have the following maturities:

Liabilities from finance lease agreements	Maturities of minimum lease payments					
	Dec 31, 2009			Dec 31, 2008		
	Nominal value	Discount	Present value	Nominal value	Discount	Present value
€ million						
Due within 1 year	9		9	8		8
Due within 1 to 5 years	30	1	29	29	1	28
Due after 5 years	43	2	41	46	3	43
	82	3	79	83	4	79

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

€199 million (previous year: €82 million) of the financial liabilities are secured by mortgages, and €19 million (previous year: €69 million) by similar rights.

(27) Trade accounts payable

Accounts payable to associates amounted to €55 million (previous year: €108 million).

Exploration activities resulted in liabilities of €84 million (previous year: €116 million).

Changes in the scope of consolidation resulted in a €1,548 million increase in trade accounts payable.

(28) Other liabilities

Other liabilities	Dec 31, 2009		Dec 31, 2008	
	Non-current	Current	Non-current	Current
€ million				
Tax liabilities		988		697
Social security liabilities	55	56	33	56
Restructuring liabilities	129	61	169	82
Derivatives	1,360	9,852	663	13,114
Deferred income	1,911	268	2,012	308
Miscellaneous other liabilities	517	3,992	107	3,369
	3,972	15,217	2,984	17,626

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

Changes in the scope of consolidation increased other liabilities by €3,876 million.

Deferred income € million	Dec 31, 2009		Dec 31, 2008	
	Non-current	Current	Non-current	Current
Advances and contributions in aid of construction and building connection	1,709	168	1,811	166
Government grants for non-current assets				
Taxable	12	1	13	1
Non-taxable	1		1	
Other	189	99	187	141
	1,911	268	2,012	308

Miscellaneous other liabilities included €1,562 million (previous year: €1,294 million) in current redemption liabilities from put options on minority interests, which were recognised in accordance with IAS 32.

Other information

(29) Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income attributable to the shares by the average number of shares outstanding; own shares are not taken into account in this calculation. The earnings per share are the same for both common and preferred shares.

Earnings per share		2009	2008
Net income	€ million	3,571	2,558
Number of shares outstanding (weighted average)	thousands	533,132	538,364
Basic and diluted earnings per common and preferred share	€	6.70	4.75
Dividend per share	€	3.50 ¹	4.50

¹ Proposal for fiscal 2009.

(30) Reporting on financial instruments

Financial instruments are divided into non-derivative and derivative.

Non-derivative financial assets essentially include other non-current financial assets, accounts receivable, marketable securities and cash and cash equivalents. Financial instruments in the category "Available for sale" are recognised at fair value, and other non-derivative financial assets at amortised cost. On the liabilities side, non-derivative financial instruments principally include liabilities recorded at amortised cost. The balance of non-derivative financial instruments is disclosed in the balance sheet. The maximum default risk corresponds to the carrying

amount of the financial assets. If default risks associated with financial assets are identified, they are recognised through impairment.

Fair values are derived from the relevant stock market quotations or are measured using generally accepted valuation methods.

Derivatives: Prices on active markets (e.g. exchange prices) are drawn upon for the measurement of commodity derivatives. If no prices are available, for example because the market is not sufficiently liquid, the fair values are determined on the basis of generally accepted valuation methods. In doing so, prices on active markets are drawn upon as input parameters as much as possible. If such are not available, company-specific planning estimates are used in the measurement process. These estimates contain all of the market factors which other market participants would take into account in the course of price determination.

Forwards, futures, options and swaps involving commodities are generally recognised at their fair values as of the balance-sheet date, insofar as they fall under the scope of IAS 39. Exchange-traded products are measured using the published closing prices of the relevant exchange. Non-exchange traded products are measured using the broker quotations available to market participants or, if such quotations are not available, using generally accepted valuation methods. The fair value of certain long-term procurement or sales contracts is determined using recognised valuation models, on the basis of internal data if no market data are available.

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

Future payment flows from financial instruments used to hedge interest risks are discounted using the current market interest rates corresponding to the remaining maturity, in order to determine their fair value as of the balance-sheet date.

Other financial assets and securities: The fair value of financial instruments traded on active markets is the published exchange price. The fair value of non-traded debt and equity instruments is determined on the basis of discounting the expected payment flows. Current market interest rates corresponding to the remaining maturity are used for discounting.

The following overview presents the main parameters for the measurement of financial instruments recognised at fair value. In accordance with IFRS 7, the individual levels are defined as follows:

Level 1: Measurement using (unadjusted) prices of identical financial instruments quoted on active markets;

Level 2: Measurement on the basis of input parameters which are not the quoted prices from Level 1, but which can be observed directly or indirectly;

Level 3: Measurement on the basis of models using input parameters which cannot be observed on the market.

Fair value hierarchy	Total	Level 1	Level 2	Level 3
€ million				
Other financial assets	709	42	145	522
Derivatives (assets)	12,202		11,744	458
Securities	3,290	1,102	2,188	
Derivatives (liabilities)	11,212		10,941	271
Redemption liabilities on put options	1,562			1,562

The development of the fair values of Level 3 financial instruments is presented in the following table:

Development of Level 3 financial instruments	Balance at Jan 1, 2009	Changes in the scope of consolidation, currency adjustments, and other	Changes			Balance at Dec 31, 2009
			Recognised in profit or loss	Not recognised in profit or loss (OCI)	With a cash effect	
€ million						
Other financial assets	345		-1		178	522
Derivatives (assets)	363	456	-177	-35	-149	458
Derivatives (liabilities)	67	278	-18	-9	-47	271
Redemption liabilities on put options	1,294	268				1,562

Level 3 financial instruments recognised in profit or loss	Total	Of which: attributable to financial instruments held at the balance-sheet date
€ million		
Revenue	-115	-115
Cost of materials	-80	-80
Income from investments	-1	
	-196	-195

Impairments on financial assets which fall under the scope of IFRS 7 and are reported under the following balance-sheet items developed as follows:

Impairments on receivables 2009 € million	Other non-current financial assets	Financial receivables	Trade accounts receivable	Other receivables and other assets	Total
Balance at Jan 1, 2009	257	178	510	2	947
Impairments in the reporting period	19	27	143	2	191
Transfers	-149	157	-8		
Currency translation adjustments			19		19
Disposals	4	18	133		155
Balance at Dec 31, 2009	123	344	531	4	1,002

Impairments on receivables 2008 € million	Other non-current financial assets	Financial receivables	Trade accounts receivable	Other receivables and other assets	Total
Balance at Jan 1, 2008	114	265	448	3	830
Impairments in the reporting period	159	33	230		422
Transfers	-9				-9
Currency translation adjustments	-1		-69		-70
Disposals	6	120	99	1	226
Balance at Dec 31, 2008	257	178	510	2	947

As of the cut-off date, there were unimpaired, past due receivables falling under the scope of IFRS 7 in the following amounts:

Receivables, past due and not impaired	Gross amount as of Dec 31, 2009	Receivables, past due, impaired	Receivables not impaired, past due by:				
			up to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	over 120 days
€ million							
Financial receivables	4,883	48	11				5
Trade accounts receivable	10,060	921	724	77	49	40	154
Other receivables and other assets	13,215	5	1	1			1
	28,158	974	736	78	49	40	160

Receivables, past due and not impaired	Gross amount as of Dec 31, 2008	Receivables, past due, impaired	Receivables not impaired, past due by:				
			up to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	over 120 days
€ million							
Financial receivables	5,911	41					
Trade accounts receivable	10,925	696	847	86	48	42	229
Other receivables and other assets	14,775	4	1				1
	31,611	741	848	86	48	42	230

Financial assets and liabilities can be broken down into categories with the following carrying amounts:

Carrying amounts by category	Dec 31, 2009	Dec 31, 2008
€ million		
Financial assets recognised at fair value through profit or loss	9,502	12,889
of which: held for trading	(9,502)	(12,889)
Financial assets available for sale	3,998	8,416
Loans and receivables	18,150	17,687
Financial liabilities recognised at fair value through profit or loss	8,574	12,148
of which: held for trading	(8,574)	(12,148)
Financial liabilities carried at (amortised) cost	29,380	24,056

The carrying amounts of financial assets and liabilities within the scope of IFRS 7 basically correspond to their fair values. The only deviation is for bonds, commercial paper and other financial liabilities, where the carrying amount of €20,146

million (previous year: €11,503 million) deviates from the fair value of €21,605 million (previous year: €11,923 million).

The following net results from financial instruments as per IFRS 7 were recognised in the income statement:

Net gain/loss on financial instruments as per IFRS 7 € million	2009	2008
Financial assets and liabilities recognised at fair value through profit or loss	-17	1,188
of which: held for trading	(-17)	(1,188)
Financial assets available for sale	169	91
Loans and receivables	423	-575
Financial liabilities carried at (amortised) cost	-1,327	-837

The net result as per IFRS 7 essentially includes interest, dividends and results from the measurement of financial instruments at fair value.

In fiscal 2009, €193 million in changes in the value of financial assets available for sale were recognised in accumulated other comprehensive income without an effect on income (previous year: -€447 million). Above and beyond this, €190 million in changes in the value of financial instruments available for sale which had originally been recognised without an effect on income were realised as an expense (previous year: €217 million).

As a utility enterprise with international operations, the RWE Group is exposed to credit, liquidity and market risks in its ordinary business activity. In particular, market risks stem from changes in commodity prices, exchange rates, interest rates and share prices.

These risks are limited via systematic risk management. Among other things, risks are mitigated through hedges. RWE Group companies are also subjected to strict risk management. Binding internal directives define the range of action, responsibilities and controls.

Derivative financial instruments are used to hedge currency, commodity and interest rate risks from operations as well as risks from cash investments and financing transactions. The instruments most commonly used are foreign exchange forwards and options, interest rate swaps, interest rate currency swaps, and commodity forwards, options, futures and swaps. Additionally, derivatives may be used for proprietary trading purposes within defined limits.

Detailed information on the risks of the RWE Group and on the objectives and procedures of the risk management is presented in the chapter "Development of risks and opportunities" in the review of operations.

Hedge accounting pursuant to IAS 39 is applied primarily for hedges of currency risks from net investments in foreign entities with foreign functional currencies, for hedges of foreign-currency items and interest rate risks from non-current liabilities, as well as for hedging price risks from sales and purchase transactions.

Fair value hedges are mainly used to hedge fixed-interest loans and liabilities against market price risks. The objective of the hedge is to transform fixed-interest instruments into variable-rate instruments, thereby hedging their fair value. Instruments used are interest rate swaps and interest rate currency swaps. In the case of fair value hedges, both the derivative as well as the underlying transaction regarding the hedged risk are measured at fair value with an effect on income. As of the reporting date, the fair value of instruments used as fair value hedges amounted to €74 million (previous year: €50 million).

In the year under review, a loss of €27 million (previous year: €67 million) was recognised from adjustment of the carrying amounts of the underlying transactions, while a gain of €24 million (previous year: €65 million) stemming from changes in the fair value of the hedges was recognised. Both of these are reported in the financial result.

Cash flow hedges are primarily used to hedge against foreign currency and price risks from future sales and purchase transactions. Hedging instruments consist of foreign exchange for-

wards and options, and commodity forwards, options, futures and swaps. The effective portions of changes in the fair value of the hedge instruments are disclosed under other comprehensive income until the underlying transaction is realised. Ineffective changes in value are recognised in profit or loss. The hedge's contribution to income is transferred from other comprehensive income to the income statement when the underlying transaction is realised. As of the reporting date, the recognised fair value of instruments used as cash flow hedges amounted to -€269 million (previous year: -€409 million).

The future sales and purchase transactions hedged by cash flow hedges are expected to be realised in the following five years and recognised in profit or loss.

In the year under review, €1,214 million in changes in the fair values of instruments used for cash flow hedges (previous year: €1,794 million) were disclosed under accumulated other comprehensive income without an effect on income. These changes in value reflect the effective portion of the hedges.

An expense of €15 million was recognised with an effect on income in relation to the ineffective portions of cash flow hedges (previous year: €1 million).

Above and beyond this, €1,111 million in changes in the value of cash flow hedges which had originally been recognised without an effect on income were realised as income (previous year: €1,244 million) during the reporting period.

Furthermore, in the period under review the cost of non-financial assets was increased by €128 million (previous year: decreased by €270 million) by changes in the value of cash flow hedges reported in other comprehensive income and not recognised in profit or loss.

Hedges of net investment in a foreign entity are used to hedge the foreign currency risks of net investment in foreign entities with foreign functional currencies. We use bonds with various terms in the appropriate currencies and interest rate currency swaps as hedging instruments. Exchange rate changes on bonds used for hedging purposes and changes in the fair value of interest rate currency swaps are recognised under foreign currency translation adjustments in other comprehensive income. As of the reporting date, the negative fair value of the bonds amounted to €2,038 million (previous year: €1,900 million) and the positive fair value of the swaps amounted to €226 million (previous year: €313 million).

During the year under review, an expense of €4 million (previous year: €4 million) was recognised with an effect on income in relation to the ineffective portions of hedges of net investment in foreign entities.

Market risks stem from fluctuations in prices on financial markets. Changes in exchange rates, interest rates and share prices can have an influence on the Group's results. Due to the RWE Group's international profile, exchange rate management is a key issue. Sterling and US dollar are two important currencies for the RWE Group, as the company does business in the UK currency area and fuels are traded in these two currencies. Group companies are generally required to hedge all currency risks via RWE AG, which determines the net financial position for each currency and hedges it with external market partners if necessary.

Interest rate risks stem primarily from financial debt and the Group's interest-bearing investments. Negative changes in value caused by unexpected interest-rate movements are hedged with non-derivative and derivative financial instruments.

Opportunities and risks from changes in the values of securities are controlled by a professional fund management system. The Group's financial transactions are recorded using centralised risk management software and monitored by RWE AG. This enables the balancing of risks across the individual companies.

Group risk management has established directives for commodity operations. These regulations stipulate that derivatives may be used to hedge price risks, optimise power plant schedules and increase margins. Furthermore, commodity derivatives may be traded, subject to limits. These limits are defined by independent organisational units and monitored daily.

All derivative financial instruments are recognised as assets or liabilities and are measured at fair value. When interpreting their positive and negative fair values, it should be taken into account that, with the exception of proprietary trading in commodities, these financial instruments are generally matched with underlying transactions that carry offsetting risks.

Maturities of derivatives related to interest rates, currencies, equities, indices and commodities are based on the maturities of the underlying transactions and are thus primarily short-term and medium-term in nature. Maturities of up to 30 years have been agreed upon to hedge foreign currency risks of foreign investments.

The Value-at-Risk method is used to quantify the interest rate, foreign currency and share-price risks of financial instruments as well as commodity price risks, in line with the international banking standard. The maximum expected loss arising from changes in market prices is calculated on the basis of historical market volatility and is monitored continuously.

The following Value-at-Risk information relates exclusively to recognised financial instruments, in line with the rules of IFRS 7. Off-balance-sheet plan positions which are hedged and so-called own-use contracts in commodities may not be taken into account. As a result, an incomplete picture of the risk situation of the RWE Group is presented. Aggregation of the individual Value-at-Risk items into a single Value-at-Risk indicator is not expedient, primarily due to the lack of mutual dependencies.

Value at Risk for financial derivatives	Value at Risk	
	Dec 31, 2009	Dec 31, 2008
€ million		
Foreign currency derivatives	38.0	85.7
Forwards	9.9	23.5
Interest rate/currency derivatives	36.1	81.7
Interest rate derivatives	5.8	14.9

All Value-at-Risk figures are based on a confidence interval of 95% and a holding period of one day.

As of December 31, 2009, the Value at Risk for all foreign currency items to be taken into account pursuant to IFRS 7 amounted to €38.1 million (previous year: €80.4 million). In accordance with IFRS 7, underlying transactions which are the subject of a cash flow hedge were not taken into consideration in determining this position.

As of December 31, 2009, the interest rate Value at Risk from financial debts and related hedging transactions amounted to €164.5 million (previous year: €147.4 million). Taking into account the hedges, the Value at Risk from interest-bearing assets amounted to €9.3 million (previous year: €46.1 million).

Share price Value at Risk was €11.7 million as of December 31, 2009 (previous year: €27.3 million).

As of December 31, 2009, commodity price Value at Risk pursuant to IFRS 7 in the segment Trading/gas midstream amounted to €46.5 million (previous year: €80.4 million) and €31.3 million in the segment Netherlands/Belgium.

Credit risks. In our financial and trading operations, credit relationships mainly exist with banks and other trading partners with good creditworthiness. Credit risks associated with contractual partners are reviewed upon conclusion of the contract and constantly monitored. We also limit credit risk by the definition of limits for trading with contractual partners and by requiring cash collateral. Credit insurance and bank guarantees are also employed. Credit risk in trading operations is monitored on a daily basis, and on a weekly basis for financial operations.

We are exposed to credit risks in our retail business, because it is possible that customers will fail to meet their financial obligations. This risk is mitigated by regular analysis of the creditworthiness of our customer portfolio based on the RWE Group's credit risk directive. Moreover, collateral and bank guarantees are also used at times.

The maximum default risk is expressed by the carrying value of the receivables stated in the balance sheet. The default risks for derivatives correspond to their positive fair values. Additional credit risks can stem from financial guarantees for external creditors, with which the RWE Group secures the liabilities of third parties in the amount of €804 million (previous year: €482 million). Defaults in the year under review and the previous year were negligible.

Liquidity risks. As a rule, RWE AG centrally handles refinancing for RWE Group companies. In this regard, there is a risk that liquidity reserves will prove to be insufficient to meet financial obligations in a timely manner. In 2010, capital market debt with a nominal volume of approximately €0.6 billion and bank debt of €0.5 billion are due; additionally, short-term debt is also due.

As of December 31, 2009, liquidity needs are covered with cash and cash equivalents, and current marketable securities totaling €6,364 million. Above and beyond this, as of the balance-sheet date, RWE AG had a fully committed, unused syndicated credit line of €4 billion at its disposal. There are also unused reserves of €13.6 billion from the €30 billion debt issuance programme. Accordingly, liquidity risk is extremely low.

Financial liabilities falling under the scope of IFRS 7 are expected to result in the following (undiscounted) payments in the coming years:

Redemption and interest payments on financial liabilities	Carrying amount Dec 31, 2009	Redemption payments			Interest payments		
		2010	2011 to 2014	from 2015	2010	2011 to 2014	from 2015
€ million							
Bonds payable (incl. other notes payable)	16,544	640	5,599	10,376	919	3,072	5,271
Commercial paper	238	238					
Bank debt	925	596	177	156	12	42	21
Liabilities arising from finance lease agreements	79	9	30	43			
Other financial liabilities	1,415	893	236	332	18	58	50
Derivative financial liabilities	11,212	10,116	1,005	37	-18	-28	70
Collateral for trading activities	945	945					
Redemption liabilities on put options	1,562	1,562					
Miscellaneous other financial liabilities	11,351	10,444	873	89			

Redemption and interest payments on financial liabilities	Carrying amount Dec 31, 2008	Redemption payments			Interest payments		
		2009	2010 to 2013	from 2014	2009	2010 to 2013	from 2014
€ million							
Bonds payable (incl. other notes payable)	10,206	175	4,051	5,968	529	2,172	2,989
Commercial paper	846	846					
Bank debt	787	477	211	99	18	38	13
Liabilities arising from finance lease agreements	79	8	29	46			
Other financial liabilities	1,024	645	208	230	8	21	10
Derivative financial liabilities	13,777	19,599	6,311	11	13	-36	427
Collateral for trading activities	541	541					
Redemption liabilities on put options	1,294	1,294					
Miscellaneous other financial liabilities	12,553	12,615	42	63			

Above and beyond this, as of December 31, 2009, there were financial guarantees for external creditors amounting to €804 million (previous year: €482 million). In terms of their

maturity, the total amounts were each allocated to the first following year.

(31) Contingent liabilities and financial commitments

As of December 31, 2009, the Group had €5,192 million in capital commitments (previous year: €4,176 million). Moreover, commitments regarding acquisitions of investments existed in the amount of €2 million (previous year: €127 million).

Within the framework of the Essent acquisition, we undertook to acquire the shares in Energy Resources Holding B.V., Netherlands (formerly Essent Business Development B.V.) from the previous owners (put option), pending a positive decision by the courts.

Commitments from operating leases refer largely to long-term rental arrangements for power generation and supply plants as well as rent and lease contracts for storage and administration buildings. Minimum lease payments have the following maturity structure:

Operating Leasing	Nominal value	
	Dec 31, 2009	Dec 31, 2008
€ million		
Due within 1 year	101	58
Due within 1 to 5 years	256	167
Due after 5 years	185	162
	542	387

Essent group entities (and/or their predecessors) have transferred rights of use or similar rights with respect to generating assets to foreign investors and subsequently leased them back until January 2017. These transactions are referred to as cross-border leases (CBL). These CBLs are formally guaranteed by Essent. The contracts were concluded prior to Essent's acquisition by RWE and concern generating capacities with a book value of €139 million. The CBLs on these assets provide Essent with the option (in January 2017, subject to certain conditions) to buy back the transferred rights for a fixed price in the amount of approximately US\$920 million. Lease payments to the end of the term (totalling US\$413 million) and amounts payable upon any exercise of a purchase option are funded by any proceeds from financial instruments pledged to the respective CBL counterparties and/or other arrangements made by Essent group entities.

Furthermore, prior to its acquisition by RWE, Essent has issued guarantees which relate to payment and performance obligations from CBL-transactions of various former subsidiaries, which today are controlled by ENEXIS B.V., Netherlands (formerly Essent Netwerk B.V.) ("ENEXIS").

Under its CBLs and the CBL-related guarantees, Essent is liable for any payment obligations exceeding the proceeds from the pledged financial instruments and/or other relevant arrangements—if any, including the above mentioned CBL-obligations of ENEXIS.

In case of mandatory early terminations, the CBLs contain clauses which might result in payment obligations including indemnity and financing costs. In certain cases the CBL counterparties may also take possession of the asset. Assuming a mandatory early termination of all CBLs and claim of all financial damages attached, the estimated aggregate cost would amount to approximately US\$200 million as at December 31, 2009. Of this US\$150 million relate to generating facilities of Essent and US\$50 million to energy networks of ENEXIS. This amount is calculated by the difference between the aggregate termination value of US\$1,142 million under all CBLs and the value of the financial instruments and/or other relevant arrangements, plus various costs, particularly indemnities.

Upon conclusion of the Essent acquisition, the CBL-related liabilities were covered by the joint implementation of another fund by RWE and the vendors.

We bear legal and contractual liability from our membership in various associations which exist in connection with power plant projects, profit- and loss-pooling agreements and for the provision of liability cover for nuclear risks, amongst others.

By signing a mutual benefit agreement, RWE AG and other parent companies of German nuclear power plant operators undertook to provide approximately €2,244 million in funding to liable nuclear power plant operators to ensure that they are able to meet their payment obligations in the event of nuclear damages. RWE AG has a 25.851% contractual share in the liability, plus 5% for damage settlement costs.

RWE AG and its subsidiaries are involved in regulatory and anti-trust proceedings, litigation and arbitration proceedings related to their operations. However, we do not expect any material negative repercussions from these proceedings on the RWE Group's economic or financial position. Additionally, companies belonging to the RWE Group are directly involved in various administrative and regulatory proceedings (including approval procedures) or are directly affected by their results.

Outside shareholders initiated several legal proceedings to examine the appropriateness of the conversion ratios and the amount of cash paid in compensation in connection with company restructurings pursuant to German company law. We are convinced that the conversion ratios and cash compensation calculated on the basis of expert opinions and verified by auditors are adequate. If a different legally enforceable conclusion is reached, the affected shareholders will be compensated, even if they are not involved in the conciliation proceedings.

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

In early May 2007, the EU Commission initiated an abuse procedure against RWE, based on the suspicion that RWE and affiliated companies hindered access to the natural gas transmission system in Germany in order to attain a purportedly market-dominating position in the gas supply business. Following an agreement between RWE AG and the EU Commission in May 2008, in February 2009 RWE AG submitted a formal statement of commitment to sell its German gas transmission network to a third party independent of RWE. This commitment does not constitute admission that anti-trust regulations were violated. The EU Commission approved this statement in March 2009 and in turn ended the abuse proceedings against RWE. The divestment process is currently underway.

The EU Commission also ended its investigations of RWE in the field of electricity in October 2009.

(32) Segment reporting

Effective as of fiscal 2009, we made changes to the Group's structure, with the result that activities are now managed and segmented more strongly by regional markets. The segmentation of divisions and geographical regions is based on the changed system of internal reporting. Following implementation of the new Group structure, the segments break down as follows:

The segment "Power generation" essentially consists of the power generation business and lignite production in Germany.

The segment "Sales and distribution networks" essentially covers sales and distribution networks in Germany.

The segment "Netherlands/Belgium" comprises the activities of the Essent Group, which was acquired during the business year, as well as the Group's other electricity and gas business in this region.

The segment "United Kingdom" consists of almost all of the electricity and gas business in this region.

Eastern European power generation and the supply and the distribution activities in this region are included in the segment "Central and Eastern Europe".

Since 2009, the groupwide activities in renewable energy generation which are bundled in RWE Innogy have been presented in the independent segment "Renewables".

The segment "Upstream gas & oil" covers all of the Group's gas and oil production activities.

The segment "Trading/gas midstream" is comprised of trading in electricity, gas, coal, oil and emission allowances, as well as the commercial optimisation of non-regulated gas activities, including procurement, transport and storage contracts in Germany, the UK and the Czech Republic, and the liquefied natural gas (LNG) business. This segment is also responsible for major German industrial and commercial customers.

The segment "Other/consolidation" covers consolidation effects, the Group Centre and the activities of other Group areas which are not presented separately. Such activities consist primarily of the cross-segment services provided by RWE Service GmbH, RWE IT GmbH, and RWE Consulting GmbH. Furthermore, transmission grid activities in the electricity and gas business in Germany are also presented in this segment. Within this segment, a distinction is made between Operating companies and Other.

In order to ensure comparability with the previous year despite the changes to Group structure, the figures for fiscal 2008 are also stated in line with the Group's new structure.

Segment reporting Divisions 2009	Germany		Netherlands/ Belgium	United Kingdom	Central and Eastern Europe	Renewables	Upstream gas & oil	Trading/ gas mid-stream	Other/ consolidation		RWE-Group
	Power generation	Sales and distribution networks							Operating companies	Other	
€ million											
External revenue (incl. natural gas tax/electricity tax)	1,056	18,330	1,799	7,843	5,254	245	1,208	6,937	4,946	123	47,741
Intra-group revenue	9,804	4,783	158	11	465	138	262	19,308	2,561	-37,490	
Total revenue	10,860	23,113	1,957	7,854	5,719	383	1,470	26,245	7,507	-37,367	47,741
Operating result	3,428	1,352	180	247	1,055	56	203	985	129	-545	7,090
Operating income from investments	47	343	8	-6	57	4	1	-93	9	-49	321
Operating income from investments accounted for using the equity method	30	277	19	-6	55	4		-89	9	-1	298
Operating depreciation and amortisation	461	570	97	198	230	70	234	1	132	82	2,075
Total impairment losses	10	1	5			4		112		3	135
EBITDA	3,889	1,922	277	445	1,285	126	437	986	261	-463	9,165
Cash flows from operating activities	2,288	1,457	-15	387	888	27	319	580	338	-970	5,299
Carrying amount of investments accounted for using the equity method	166	2,294	222	28	375	477		190	20	-36	3,736
Capital expenditure on intangible assets, property, plant and equipment and investment property	1,791	1,022	156	853	368	447	855	2	336	83	5,913

Regions 2009	EU			Rest of Europe	Other	RWE Group
	Germany	UK	Other EU			
€ million						
External revenue ^{1,2}	28,442	8,622	7,640	1,340	147	46,191
Intangible assets, property, plant and equipment and investment property	23,103	7,911	14,124	741	250	46,129

1 Excluding natural gas tax/electricity tax.

2 Broken down by the region in which the service was provided.

Segment reporting Divisions 2008 ¹	Germany		Netherlands/ Belgium	United Kingdom	Central and Eastern Europe	Renewables	Upstream gas & oil	Trading/ gas mid-stream	Other/ consolidation		RWE-Group
	Power generation	Sales and distribution networks							Operating companies	Other	
€ million											
External revenue (incl. natural gas tax/ electricity tax)	1,093	17,513		8,618	5,776	269	1,765	8,663	5,120	133	48,950
Intra-group revenue	9,979	4,145		10	427	122	211	20,571	3,031	-38,496	
Total revenue	11,072	21,658		8,628	6,203	391	1,976	29,234	8,151	-38,363	48,950
Operating result	3,072	1,488		534	908	55	494	486	169	-380	6,826
Operating income from investments	77	374			66	4	1	-51	13	-25	459
Operating income from investments accounted for using the equity method	57	301			64	6		-49	10		389
Operating depreciation and amortisation	428	557		180	234	48	254	1	167	78	1,947
Total impairment losses	14	5					6			1	26
EBITDA	3,500	2,045		714	1,142	103	748	487	336	-302	8,773
Cash flows from operating activities	3,841	783		149	1,111	10	656	1,702	353	248	8,853
Carrying amount of investments accounted for using the equity method	179	1,956			372	418		316	27		3,268
Capital expenditure on intangible assets, property, plant and equipment and investment property	1,420	760		610	355	290	606		279	134	4,454

1 Adjusted on the basis of the new Group structure.

Regions 2008	EU			Rest of Europe	Other	RWE Group
	Germany	UK	Other EU			
€ million						
External revenue ^{1,2}	29,261	9,913	7,480	568	278	47,500
Intangible assets, property, plant and equipment and investment property	19,493	6,541	6,351	508	251	33,144

1 Excluding natural gas tax/electricity tax.

2 Broken down by the region in which the service was provided.

Products	RWE Group	
	2009	2008
€ million		
External revenue ¹	46,191	47,500
of which: electricity	(30,184)	(30,396)
of which: gas	(11,934)	(13,282)
of which: crude oil	(1,024)	(1,164)

1 Excluding natural gas tax/electricity tax.

Notes on segment data. RWE intra-group revenue reflects the level of revenue between segments. Internal supply of goods and services is settled at arm's length conditions.

The definition of the operating result is derived from the value management concept. This indicator is used for control purposes within the Group (cf. pages 207 to 208). The following table presents the reconciliation of EBITDA to the operating result and to income from continuing operations before tax:

Reconciliation of income items ¹	2009	2008
€ million		
EBITDA	9,165	8,773
- Operating depreciation and amortisation	-2,075	-1,947
Operating result	7,090	6,826
+ Non-operating result	498	-485
+ Financial result	-1,990	-1,475
Income from continuing operations before tax	5,598	4,866

1 Prior-year figures adjusted.

Income and expenses that are unusual from an economic perspective, or are the result of exceptional events, prejudice the assessment of operating activities. They are reclassified to the non-operating result. In the event that impairment losses are recognised on the goodwill of fully consolidated companies, such losses are contained in the non-operating result.

More detailed information is presented on page 72 and page 73 in the review of operations.

RWE did not generate more than 10% of sales revenues with any single customer in the year under review and the previous year.

(33) Notes to the cash flow statement

The cash flow statement classifies cash flows according to operating, investing and financing activities. Cash and cash equivalents in the cash flow statement correspond to the amount stated in the balance sheet. Cash and cash equivalents consist of cash on hand, demand deposits and fixed-interest marketable securities with a maturity of three months or less from the date of acquisition.

Among other things, cash flows from operating activities include:

- cash flows from interest income of €593 million (previous year: €807 million) and cash flows used for interest expenses of €1,231 million (previous year: €965 million)
- €1,949 million (previous year: €1,034 million) in taxes on income paid (less income tax refunds)
- income from investments, corrected for items without an effect on cash flows, in particular from accounting using the equity method, amounted to €460 million (previous year: €397 million)

Flows of funds from the acquisition and sale of consolidated companies are included in cash flows from investing activities. Effects of foreign exchange rate changes are stated separately.

Cash flows from financing activities include €2,401 million (previous year: €1,689 million) which was paid out to RWE shareholders and €191 million (previous year: €316 million) which was distributed to minority shareholders. New issuance of financial debt totalled €11,592 million (previous year: €6,641 million) and was contrasted by repayments of €4,347 million (previous year: €8,046 million).

Changes in the scope of consolidation increased cash and cash equivalents by a net amount of €589 million (previous year: €78 million). Additions of €703 million (previous year: €83 million) were offset against capital expenditure on financial assets, whilst disposals of €114 million (previous year: €5 million) were deducted from proceeds from divestitures.

Exploration activities reduced cash flows from operating activities by €188 million (previous year: €174 million) and cash flows from investing activities by €199 million (previous year: €255 million).

First-time consolidations and deconsolidations resulted in a decrease of €3,496 million in net financial debt.

There are no restrictions on the disposal of cash and cash equivalents.

Net debt of the RWE Group € million	Dec 31, 2009	Dec 31, 2008
Cash and cash equivalents	3,074	1,249
Marketable securities	3,290	7,735
Non-current marketable securities	153	317
Collateral for trading activities	2,022	3,562
Other financial receivables	1,225	1,270
Financial assets	9,764	14,133
Bonds, other notes payable, bank debt, commercial paper	17,707	11,839
Collateral for trading activities	945	541
Other financial liabilities	1,494	1,103
Financial liabilities	20,146	13,483
Net financial debt from continuing operations	10,382	-650
Provisions for pensions and similar obligations	3,281	2,738
Surplus of plan assets over benefit obligations	-79	
Provisions for nuclear waste management	9,491	9,465
Provisions for mining damage	2,712	2,866
Net debt from continuing operations	25,787	14,419
Net debt from discontinued operations		4,240
Net debt of the RWE Group	25,787	18,659

Other financial receivables essentially consist of other loans, accrued interest, and financial receivables from non-consolidated subsidiaries and investments. Other financial debt essentially includes financial liabilities to non-consolidated subsidiaries and investments, as well as miscellaneous other financial liabilities. Net financial debt is the difference between financial assets and financial liabilities.

(34) Information on concessions

In the fields of electricity, gas and water supply, there are a number of easement agreements and concession contracts between RWE Group companies and governmental authorities in the areas supplied by RWE.

Easement agreements are used in the electricity and gas business to regulate the use of public rights of way for laying and using lines for public energy supply. These agreements are generally limited to a term of 20 years. After expiry, there is a legal obligation to transfer ownership of the local distribution facilities to the new operator, for appropriate compensation.

Water concession agreements contain provisions for the right and obligation to provide water and wastewater services, operate the associated infrastructure, such as water utility plants, as well as to implement capital expenditure. Concessions in the water business generally have terms of up to 25 years.

(35) Related party disclosures

Within the framework of their ordinary business activities, RWE AG and its subsidiaries have business relationships with numerous companies. These include associated companies which are classified as related parties. In particular, this category includes investments in municipal enterprises accounted for using the equity method in the segment Sales and distribution networks.

Business transactions were concluded with major associates, resulting in following items in RWE's consolidated financial statements:

Key items from transactions with associates € million	2009	2008
Revenue	861	714
Expenses	169	139
Receivables	708	684
Liabilities	10	13

All business transactions are completed at arm's length conditions and on principle do not differ from the conditions for supply and services provided to other enterprises. €113 million of the receivables (previous year: €114 million) and €4 million of the liabilities (previous year: €5 million) fall due within one year. In respect of the receivables there were guarantees of €0 million, as in the previous year, and other collateral amounting to €5 million (previous year: €1 million). The receivables included €595 million in interest-bearing loans to the RWE-Veolia Berlinwasser Beteiligungs GmbH (previous year: €570 million).

Above and beyond this, as of December 31, 2009, there was an unused €24 million line of credit for the RWE-Veolia Berlinwasser Beteiligungs GmbH (previous year: €19 million).

As the CEO of RWE AG, Dr. Jürgen Großmann, is a partner in Georgsmarienhütte Holding GmbH and RGM Gebäudemanagement GmbH, the companies of the Georgsmarienhütte Group and RGM Gebäudemanagement GmbH are classified as related parties. RWE Group companies provided services and deliveries amounting to €7.7 million to these companies (previous year: €6.8 million). Conversely, the aforementioned companies provided services and deliveries amounting to €2.5 million to RWE Group companies (previous year: €1.9 million). As of December 31, 2009, there were receivables of €0.2 million (previous year: €0.1 million) and liabilities of €2.0 million to RWE Group companies (previous year: €0.4 million). All transactions are completed at arm's length prices and on principle the business relations do not differ from those maintained with other enterprises.

Above and beyond this, the RWE Group did not conclude or carry out any material transactions with related companies or persons.

The compensation model and compensation of the Executive and Supervisory Boards is presented in the compensation report, which is included in the review of operations.

In total, the compensation of the Executive Board amounted to €22,520,000 (previous year: €20,260,000), plus pension service costs of €439,000 (previous year: €436,000). The Executive Board received short-term compensation components amount-

ing to €18,770,000 for fiscal 2009 (previous year: €17,510,000). In addition to this, long-term compensation components from the 2009 tranche of the Beat programme in the amount of €3,750,000 were allocated (€2,750,000 from the 2008 Beat tranche in the previous year).

The Supervisory Board received total compensation of €3,446,000 (previous year: €4,173,000) in fiscal 2009. Supervisory Board members also received €296,000 in compensation from subsidiaries for the exercise of mandates (previous year: €256,000).

During the period under review, no loans or advances were granted to members of the Executive or Supervisory Boards. One employee representative on the Supervisory Board has an outstanding loan of €12,000 from the period before his membership of the Board.

Former members of the Executive Board and their surviving dependents received €18,074,000 (previous year: €26,783,000), of which €1,831,000 came from subsidiaries (previous year: €1,823,000). Of this, €7,000,000 was related to long-term incentive remuneration components (previous year: €16,501,000). As of the balance-sheet date, €124,558,000 (previous year: €114,868,000) has been accrued for defined benefit obligations to former members of the Executive Board and their surviving dependents, of which €19,737,000 was set aside at subsidiaries (previous year: €18,820,000).

The Economic Advisory Board was paid total compensation of €240,000 (previous year: €250,000).

Declarations on the members of the Executive and Supervisory Boards in accordance with Sec. 285 No. 10 of the German Commercial Code (HGB) are presented on pages 209 to 213.

(36) Auditor's fees

The following fees were recognised as expenses for the services rendered in fiscal 2009 and in the prior year by the auditors of the consolidated financial statements, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) and companies belonging to PwC's international network:

Auditor's fees ¹	2009		2008	
	Total	Of which: Germany	Total	Of which: Germany
€ million				
Audit services	18.2	8.9	17.1	8.4
Other assurance services	6.4	6.1	5.4	5.0
Tax services	0.2	0.1	0.3	0.1
Other services	0.4	0.4	0.4	0.4
	25.2	15.5	23.2	13.9

1 Prior-year figures adjusted.

The total expenses include fees related to discontinued operations of consolidated subsidiaries amounting to €1.2 million (previous year: €3.5 million). Fees amounting to €0.1 million were recognised for Amprion GmbH, in relation to services rendered by the auditor BDO Deutsche Warentreuhand AG for fiscal 2009.

The fees for audit services primarily contain the fees for the audit of the consolidated financial statements and for the audit of the financial statements of RWE AG and its subsidiaries. In line with new professional agreements, the fees for review of the interim reports, which were reported under this item in the previous year, are now shown under Other assurance services, which also include fees for review of the internal controlling system, in particular the IT systems and expenses related to statutory or court ordered requirements. Fees for tax services mainly include compensation for consultation in relation to the preparation of tax returns and review of resolutions of the tax authorities as well as other national and international tax-related matters.

(37) Application of Sec. 264, Para. 3 and Sec. 264 b of the German Commercial Code

In fiscal 2009, the following German subsidiaries made use of the exemption clause included in Sec. 264, Para. 3 and Sec. 264 b of the German Commercial Code:

- Amprion GmbH, Dortmund
- BGE Beteiligungs-Gesellschaft für Energieunternehmen mbH, Essen
- eprimo GmbH, Neu-Isenburg
- GBV Dreizehnte Gesellschaft für Beteiligungsverwaltung mbH & Co. KG, Essen
- GBV Fünfte Gesellschaft für Beteiligungsverwaltung mbH, Essen
- GBV Siebte Gesellschaft für Beteiligungsverwaltung mbH, Essen
- GBV Zwanzigste Gesellschaft für Beteiligungsverwaltung mbH, Essen
- Kavernenspeicher Staßfurt GmbH, Staßfurt
- OIE Aktiengesellschaft, Idar-Oberstein

- Rheinische Baustoffwerke GmbH, Bergheim
- rhenag Beteiligungs GmbH, Cologne
- RWE Aqua GmbH, Berlin
- RWE Aqua Holdings GmbH, Essen
- RWE Aqua International GmbH, Essen
- RWE Beteiligungsgesellschaft mbH, Essen
- RWE Beteiligungsverwaltung Ausland GmbH, Essen
- RWE Consulting GmbH, Essen
- RWE Dea AG, Hamburg
- RWE Dea North Africa/Middle East GmbH, Hamburg
- RWE Dea Suez GmbH, Hamburg
- RWE Effizienz GmbH, Dortmund
- RWE Gasspeichergesellschaft mbH, Dortmund
- RWE Innogy Cogen GmbH, Dortmund
- RWE Innogy GmbH, Essen
- RWE IT GmbH, Essen
- RWE KAC Dezentrale Energien GmbH & Co. KG, Dortmund
- RWE Kundenservice GmbH, Bochum
- RWE Power Aktiengesellschaft, Cologne and Essen
- RWE Power Erste Gesellschaft für Beteiligungsverwaltung mbH, Essen
- RWE Rheinhessen Beteiligungs GmbH, Dortmund
- RWE Rheinland Westfalen Netz Aktiengesellschaft, Essen
- RWE Rhein-Ruhr Netzservice GmbH, Siegen
- RWE Rhein-Ruhr Verteilnetz GmbH, Wesel
- RWE RWN Beteiligungsgesellschaft Mitte mbH, Essen
- RWE Service GmbH, Dortmund
- RWE Solutions Aktiengesellschaft, Alzenau
- RWE Supply & Trading GmbH, Essen
- RWE Systems Development GmbH & Co. KG, Dortmund
- RWE Vertrieb Aktiengesellschaft, Dortmund
- RWE Westfalen-Weser-Ems Netzservice GmbH, Dortmund
- RWE Westfalen-Weser-Ems Verteilnetz GmbH, Recklinghausen
- Saarlagerkraftwerke GmbH, Essen
- Thyssengas GmbH, Dortmund

(38) Events after the balance-sheet date

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

(39) Declaration according to Sec. 161 of the German Stock Corporation Act

The declarations on the German Corporate Governance Code prescribed by Sec. 161 of the German Stock Corporation Act (AktG) have been submitted for RWE AG and its publicly traded German subsidiaries and have been made accessible to the shareholders on the Internet pages of RWE AG.

Essen, 12 February 2010

The Executive Board



GroÙmann



Birnbaum



Fitting



Jobs



Pohlig



Schmitz

4.7 AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the RWE Aktiengesellschaft, Essen, comprising the income statement and statement of recognised income and expenses, balance sheet, cash flow statement, statement of changes in equity and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the RWE Aktiengesellschaft, Essen, for the business year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consoli-

dated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Essen, 15 February 2010

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Manfred Wiegand
Wirtschaftsprüfer
(German Public Auditor)

Markus Dittmann
Wirtschaftsprüfer
(German Public Auditor)

MATERIAL INVESTMENTS

As of December 31, 2009

I. Affiliates	Investment in acc. with Sec. 16 of the German Stock Corporation Act %	Equity of the last fiscal year €'000	Net income/ loss of the last fiscal year €'000	Revenue 2009 € million	Employees ² 2009 average
RWE Aktiengesellschaft, Essen		9,453,274	2,438,413	-	661
Power generation, Germany					
RWE Power Aktiengesellschaft, Cologne and Essen	100	2,037,209	- ¹	10,300	13,524
Kernkraftwerke Lippe-Ems GmbH, Lingen (Ems)	99	165,545	- ¹	243	321
Kernkraftwerk Gundremmingen GmbH, Gundremmingen	75	84,184	8,343	294	719
Rheinbraun Brennstoff GmbH, Cologne	100	63,294	- ¹	587	171
Sales and distribution networks, Germany					
Emscher Lippe Energie GmbH, Gelsenkirchen	79	76,386	26,727	508	634
Energis GmbH, Saarbrücken	64	136,760	22,729	403	300
envia Mitteldeutsche Energie AG, Chemnitz	59	1,085,502	296,018	3,039	2,068
envia Netzservice GmbH, Kabelsketal	100	4,045	- ¹	374	12
envia Verteilnetz GmbH, Halle (Saale)	100	24	- ¹	1,835	5
eprimo GmbH, Neu-Isenburg	100	4,600	- ¹	342	74
EWV Energie- und Wasser-Versorgung GmbH, Stolberg	54	39,539	13,586	341	372
Koblenzer Elektrizitätswerk und Verkehrs-Aktiengesellschaft, Koblenz	58	73,236	10,035	446	508
Lechwerke AG, Augsburg	90	237,402	63,794	1,220	1,191
LEW Verteilnetz GmbH, Augsburg	100	25	- ¹	643	4
MITGAS Mitteldeutsche Gasversorgung GmbH, Halle (Saale)	75	132,592	38,805	713	319
rhenag Rheinische Energie Aktiengesellschaft, Cologne	67	142,577	28,402	270	327
RWE Beteiligungsgesellschaft mbH, Essen	100	7,820,490	- ¹	-	-
RWE Effizienz GmbH, Dortmund	100	25	- ¹	-	19
RWE Gasspeichergesellschaft mbH, Dortmund	100	115,426	- ¹	103	19
RWE Kundenservice GmbH, Bochum	100	25	- ¹	263	14
RWE Rheinland Westfalen Netz Aktiengesellschaft, Essen	100	497,854	- ¹	1,656	5,006
RWE Rhein-Ruhr Netzservice GmbH, Siegen	100	25	- ¹	767	28
RWE Rhein-Ruhr Verteilnetz GmbH, Wesel	100	25	- ¹	2,258	7
RWE Vertrieb Aktiengesellschaft, Dortmund	100	11,002	- ¹	13,237	1,020
RWE Westfalen-Weser-Ems Netzservice GmbH, Dortmund	100	25	- ¹	978	18
RWE Westfalen-Weser-Ems Verteilnetz GmbH, Recklinghausen	100	25	- ¹	1,853	3
RWW Rheinisch-Westfälische Wasserwerksgesellschaft mbH, Mülheim an der Ruhr	80	75,463	10,306	102	406
Stadtwerke Düren GmbH, Düren	75	23,345	2,614	152	211
Süwag Energie AG, Frankfurt am Main	78	296,109	80,800	1,698	1,401
Süwag Netz GmbH, Frankfurt am Main	100	25	- ¹	526	26
VSE Aktiengesellschaft, Saarbrücken	69	133,335	14,341	460	319
Netherlands/Belgium					
RWE Benelux Holding B.V., Hoofddorp/Netherlands	100	3,709,689	-112,679	-	-
Essent Energie Productie B.V., 's-Hertogenbosch/Netherlands	100	1,400,806	-8,873	-	509
Essent Energie Verkoop Nederland B.V., 's-Hertogenbosch/Netherlands	100	108,797	7,373	259	142
Essent Energy Trading B.V., Eindhoven/Netherlands	100	1,817,424	168,169	2,282	62
Essent Retail Energie B.V., 's-Hertogenbosch/Netherlands	100	309,570	3,883	563	828

1 Profit- and loss-pooling agreement.

2 Converted to full-time positions.

I. Affiliates	Investment in acc. with Sec. 16 of the German Stock Corporation Act %	Equity of the last fiscal year €'000	Net income/ loss of the last fiscal year €'000	Revenue 2009 € million	Employees ¹ 2009 average
Netherlands/Belgium					
Essent Trading International SA, Geneva/Switzerland	100	-83,469	30,770	1,224	334
RWE Energy Nederland N.V., Hoofddorp/Netherlands	100	43,071	34,483	1,968	384
United Kingdom					
RWE Npower Holdings plc, Swindon/UK ²	100	565,208	-178,007	8,214	12,733
Central and Eastern Europe					
Budapesti Elektromos Művek Nyrt. (ELMÜ), Budapest/Hungary	55	980,067	31,014	911	341
ELMÜ Hálózati Elosztó Kft., Budapest/Hungary	100	996,987	28,978	349	217
ÉMÁSZ Hálózati Kft., Budapest/Hungary	100	319,990	6,273	142	132
Észak-magyarországi Áramszolgáltató Nyrt. (ÉMÁSZ), Miskolc/Hungary	54	334,971	3,057	327	120
Jihomoravská plynárenská, a.s., Brno/Czech Republic	50	280,567	60,837	708	715
JMP Net, s.r.o., Brno/Czech Republic	100	399,326	38,736	119	44
Mátra Erőmű Zártkörűen Működő Részvénytársaság (MÁTRA), Visonta/Hungary	51	281,318	76,468	340	2,437
RWE Energie, a.s., Ústí nad Labem/Czech Republic	100	313,888	67,591	814	42
RWE Gas International B.V., Hoofddorp/Netherlands	100	4,389,762	429,771	-	-
RWE GasNet, s.r.o., Ústí nad Labem/Czech Republic	100	517,674	82,220	159	154
RWE Gas Storage, s.r.o., Prague/Czech Republic	100	582,859	68,503	138	212
RWE Polska S.A., Warsaw/Poland	100	499,731	35,008	687	592
RWE Stoen Operator Sp z o.o., Warsaw/Poland	100	655,243	13,907	197	612
RWE Transgas, a.s., Prague/Czech Republic	100	3,652,076	599,730	2,154	263
RWE Transgas Net, s.r.o., Prague/Czech Republic	100	1,983,309	175,370	372	502
Severomoravská plynárenská, a.s., Ostrava/Czech Republic	68	206,211	51,231	469	21
SMP Net, s.r.o., Ostrava/Czech Republic	100	270,207	74,736	95	15
VCP Net, s.r.o., Hradec Králové/Czech Republic	100	201,487	75,673	52	13
Východočeská plynárenská, a.s., Hradec Králové/Czech Republic	67	132,988	28,010	303	50
Renewables					
RWE Innogy GmbH, Essen	100	183,850	- ³	111	181
Agrupació Energías Renovables, S.A.U., Barcelona/Spain					
AERSA Group ² with 9 subsidiaries in Spain	100	174,103	11,382	63	29
RWE Npower Renewables Ltd., Swindon/UK	100	462,381	-6,188	19	268
RWE Innogy Cogen GmbH, Dortmund	100	53,982	- ³	75	154
Upstream gas & oil					
RWE Dea AG, Hamburg	100	1,323,905	- ³	891	931
RWE Dea Norge AS, Oslo/Norway	100	115,512	-13,444	259	58
RWE Dea Suez GmbH, Hamburg	100	87,226	- ³	135	128
Trading/gas midstream					
RWE Supply & Trading GmbH, Essen	100	370,408	- ³	25,465	928
Other subsidiaries					
Amprion GmbH, Dortmund	100	613,025	- ³	5,742	535
RWE Finance B.V., Hoofddorp/Netherlands	100	9,749	2,442	-	-
RWE Service GmbH, Dortmund	100	247,901	- ³	2,234	1,426
Thyssengas GmbH, Dortmund	100	123,029	- ³	215	127

1 Converted to full-time positions.

2 Figures from the company's financial statements.

3 Profit- and loss-pooling agreement.

II. Companies accounted for using the equity method	Investment in acc. with Sec. 16 of the German Stock Corporation Act %	Equity of the last fiscal year €'000	Net income/ loss of the last fiscal year €'000
Power generation, Germany			
Grosskraftwerk Mannheim Aktiengesellschaft, Mannheim	40	114,141	6,647
Sales and distribution networks, Germany			
AVU Aktiengesellschaft für Versorgungs-Unternehmen, Gevelsberg	50	100,865	13,680
Dortmunder Energie- und Wasserversorgung GmbH (DEW 21), Dortmund	47	150,437	23,846
Enovos International S.A., Luxembourg/Luxembourg	20	469,083	140,541
EVH GmbH, Halle (Saale)	30	76,736	8,705
Kärntner Energieholding Beteiligungs GmbH, Klagenfurt/Austria ¹	49	390,224	73,034
KEW Kommunale Energie- und Wasserversorgung AG, Neunkirchen	29	70,468	7,830
Niederrheinische Versorgung und Verkehr Aktiengesellschaft, Mönchengladbach ¹	50	435,816	23,184
Pfalzwerke Aktiengesellschaft, Ludwigshafen	27	193,537	18,069
Regionalgas Euskirchen GmbH & Co. KG, Euskirchen	43	48,501	6,408
RheinEnergie AG, Cologne	20	564,045	189,719
RWE-Veolia Berlinwasser Beteiligungs GmbH, Berlin	50	293,392	65,513
Stadtwerke Duisburg Aktiengesellschaft, Duisburg	20	153,223	34,640
Stadtwerke Essen Aktiengesellschaft, Essen	29	117,257	24,886
Stadtwerke Remscheid GmbH, Remscheid	25	111,736	6,620
Stadtwerke Velbert GmbH, Velbert	50	76,046	11,547
Südwestfalen Energie und Wasser AG, Hagen	19	267,011	407
Zagrebačke Otpadne Vode d.o.o., Zagreb/Croatia	49	113,247	10,629
Central and Eastern Europe			
Fővárosi Gázművek Zrt., Budapest/Hungary	50	153,954	21,373
TIGÁZ Tiszántúli Gázszolgáltató Zrt., Hajdúszoboszló/Hungary	44	536,966	-40,570
Východoslovenská energetika, a.s., Košice/Slovakia	49	704,922	80,229
Renewables			
Fri-El S.p.A., Bolzano/Italy ¹	50	18,842	755
Greater Gabbard Offshore Winds Limited, Reading/UK	50	-47	16
Zephyr Investments Ltd., Swindon/UK ¹	33	-8,412	-665
Trading/gas midstream			
Excelerate Energy LP, The Woodlands/Texas/USA ¹	50	310,220	-183,626

1 Figures from the company's financial statements.

III. Other Investments	Investment in acc. with Sec. 16 of the German Stock Corporation Act %	Equity of the last fiscal year €'000	Net income/ loss of the last fiscal year €'000
Sales and distribution networks, Germany			
Stadtwerke Chemnitz Aktiengesellschaft, Chemnitz	19	255,387	11,244

THE RWE GROUP'S VALUE MANAGEMENT

Return-oriented control of the company. Increasing shareholder value lies at the heart of our strategy. Additional value is created when the return on capital employed (ROCE) exceeds the cost of capital. ROCE reflects the pure operating return. It is calculated by dividing the operating result by capital employed.

The table at the top of page 208 shows the parameters used to calculate the cost of capital. We calculate them as a weighted average cost of equity and debt.

The cost of equity capital covers the capital market's expectation of company-specific returns when investing in an RWE share over and above that of a risk-free investment. The cost of debt is linked to long-term financing conditions for the RWE Group and allows interest on debt to be classified as tax deductible (tax shield).

We used new figures as a basis for determining the cost of capital in 2009: We calculate the cost of debt by applying a pre-tax cost rate of 6.25 % (previous year: 5.25 %). The cost of equity is derived on the basis of an interest rate of 4.50 % (previous year: 4.75 %), which is customary for a risk-free investment, plus risk charges specific to the Group and the Group's divisions. In the period under review, the beta factor for the RWE Group was 0.78 (previous year: 0.67).

The ratio of equity to debt is 50:50. We do not derive this parameter from the amounts carried on the balance sheet, but, among other things, from the marked-to-market valuation of

equity and assumptions concerning the long-term development of our net financial position and provisions. The RWE Group's total cost of capital for 2009 was 9.0 % before tax (previous year: 8.5 %).

When determining operating assets, depreciable non-current assets are not stated at carrying amounts. Instead, we recognise half of their historic costs. The advantage of this procedure is that the determination of ROCE is not influenced by the depreciation period. This reduces the fluctuation in return caused by the investment cycle. However, we fully account for the goodwill included in the purchase price of financial assets.

Relative value added is the difference between ROCE and the cost of capital. Multiplying this figure by the capital employed results in the absolute value added, which we employ as a central management benchmark. The higher the value added, the more attractive a particular activity is for our portfolio. It is another important criterion for evaluating capital expenditure and for determining the performance-linked compensation of RWE Group executives.

Slight adjustment in determining capital costs for 2010. In light of the recent decline in interest rates and the more volatile market environment, we are making further adjustments in calculating the cost of capital for the current fiscal year. We are reducing the cost of debt before taxes to 5.75 % and are increasing the beta factor to 0.95. This reduces the cost of debt, but increases the cost of equity. In sum, this does not result in a change in the cost of capital. It is still 9.0 %.

RWE Group – capital costs		2008	2009	2010
Risk-free interest rate	%	4.75	4.5	4.25
Market premium	%	5.0	5.0	5.0
Beta factor		0.67	0.78	0.95
Cost of equity after tax	%	8.1	8.4	9.0
Cost of debt before tax	%	5.25	6.25	5.75
Tax rate for debt	%	27.0	27.1	27.1
Tax shield	%	-1.4	-1.7	-1.6
Cost of debt after tax	%	3.8	4.6	4.2
Proportion of equity	%	50	50	50
Proportion of debt	%	50	50	50
Capital costs after tax	%	6.0	6.5	6.5
Tax rate for blanket conversion	%	30	30	30
Weighted average cost of capital (WACC) before tax	%	8.5	9.0	9.0

RWE Group – determining capital employed		Dec 31, 08	Dec 31, 09
Intangible assets/property, plant and equipment ¹	€ million	46,819	56,150
+ Investments including loans ²	€ million	4,533	5,585
+ Inventories	€ million	2,540	3,115
+ Trade accounts receivable	€ million	10,412	9,527
+ Other accounts receivable and other assets ³	€ million	16,452	16,627
– Non-interest-bearing provisions ⁴	€ million	11,218	12,214
– Non-interest-bearing liabilities ⁵	€ million	29,727	27,043
– Adjustments ⁶	€ million	887	858
Capital employed	€ million	38,924	50,889

RWE Group – determining value added		2009
Capital employed before adjustments (averaged for the year)	€ million	44,907
+ Adjustments ⁷	€ million	-1,310
Capital employed after adjustments (averaged for the year)	€ million	43,597
Operating result	€ million	7,090
+ Interest income from lease receivables	€ million	11
Operating result for calculating ROCE	€ million	7,101
ROCE	%	16.3
Relative value added	%	7.3
Absolute value added	€ million	3,177

- Intangible assets; property, plant and equipment; and investment property were stated at half of their cost (see the statement on changes in assets); goodwill and the customer base were recognised at carrying amounts.
- Investments accounted for using the equity method and other financial assets (excluding non-current securities).
- Including tax refund claims; excluding the net present value of defined contribution pension benefit obligations as well as derivative financial instruments in the amount of €733 million (previous year: €1,893 million).
- Including tax provisions and other provisions; excluding non-current provisions in the amount of €446 million (previous year: €470 million).
- Including trade liabilities, income tax liabilities and other liabilities; excluding derivative financial instruments in the amount of €485 million (previous year €732 million) and purchase price liabilities of €1,562 million (previous year: €1,294 million) from put options.
- Assets capitalised in accordance with IAS 16.15 in the amount of €488 million (previous year: €458 million) are not taken into account since these assets do not employ capital. Deferred tax liabilities relating to RWE npower's capitalised customer base are not taken into account, either.
- Corrected to account for first-time consolidation of Essent, among other things.

BOARDS

As of February 12, 2010

Supervisory Board

Dr. Manfred Schneider

Leverkusen

Chairman - since May 1, 2009 -

- Bayer AG (Chairman)
- Daimler AG
- Linde AG (Chairman)
- TUI AG

Dr. Thomas R. Fischer²

Berlin

- until January 31, 2010,

Chairman until April 30, 2009 -

Business executive

Frank Bsirske¹

Berlin

Deputy Chairman

Chairman of ver.di Vereinte Dienstleistungsgewerkschaft

- Deutsche Lufthansa AG
- IBM Central Holding GmbH
- KfW Bankengruppe

Dr. Paul Achleitner

Munich

Member of the Board of Management of Allianz SE

- Allianz Deutschland AG
- Allianz Europe B. V. (Chairman)
- Allianz Global Investors AG
- Allianz Lebensversicherungs-AG
- Bayer AG

Werner Bischoff¹

Monheim am Rhein

Former member of the Main Executive Board of IG Bergbau,
Chemie, Energie

- Continental AG
- Evonik-Degussa GmbH
- Evonik Industries AG
- RWE Dea AG
- RWE Power AG
- BGAG Beteiligungsgesellschaft der Gewerkschaften GmbH
- THS TreuHandStelle für Bergmannswohnstätten
im rheinisch-westfälischen Steinkohlenbezirk GmbH
(Chairman)

Carl-Ludwig von Boehm-Bezing

Bad Soden

Former member of the Board of Management
of Deutsche Bank AG

Heinz Büchel¹

Trier

Chairman of the General Works Council of

RWE Rheinland Westfalen Netz AG

Dieter Faust¹

Eschweiler

Deputy Chairman of the General Works Council of

RWE Power AG

- RWE Power AG

Andreas Henrich¹

Siegen

Head of HR Management at RWE Rheinland Westfalen Netz AG

- ELE Emscher Lippe Energie GmbH
- RWE Rheinland Westfalen Netz AG

Heinz-Eberhard Holl²

Osnabrück

- until January 31, 2010 -

Former Chief Administrative Officer,
Osnabrück Rural District

- Georgsmarienhütte GmbH
- Georgsmarienhütte Holding GmbH

Frithjof Kühn

Siegburg

- since February 1, 2010 -

Chief Administrative Officer, Rhein Sieg Rural District

- RW Holding AG (Chairman)
- Board of Directors of Kreissparkasse Köln

Hans Peter Lafos¹

Bergheim

- since October 28, 2009 -

Regional District Sector Head, Utilities and Disposal (Sector 2),
ver.di Vereinte Dienstleistungsgewerkschaft, District of NRW

- RWE Power AG
- RWE Vertrieb AG
- GEW Köln AG

▪ Member of other mandatory supervisory boards.
- Member of comparable domestic and foreign supervisory bodies of commercial enterprises.

1 Employee representative.
2 Information valid as of the date of retirement from the Supervisory Board.

Dr. Gerhard Langemeyer

Dortmund

Former Mayor of the City of Dortmund

- Gesellschaft für Vermögensverwaltung AG
- KEB Holding AG (Chairman)
- WestLB AG

Dagmar Mühlenfeld

Mülheim an der Ruhr

Mayor of the City of Mülheim an der Ruhr

- Mülheimer Wohnungsbau e.G. (Chairman)
- Beteiligungsholding Mülheim an der Ruhr GmbH
- Flughafen Essen/Mülheim GmbH (Chairman)
- medl GmbH (Chairman)
- Mülheim & Business GmbH (Chairman)
- Ruhrbania Projektentwicklungsgesellschaft mbH (Chairman)

Dr. Wolfgang Reiniger

Essen

Lawyer

Günter Reppien¹

Lingen

Chairman of the General Works Council of RWE Power AG

- RWE Power AG
- Stadtwerke Lingen GmbH

Karl-Heinz Römer^{1,2}

Mülheim an der Ruhr

- until September 30, 2009 -

District General Manager of

ver.di Vereinte Dienstleistungsgewerkschaft

Dagmar Schmeer¹

Saarbrücken

Chairman of the Works Council of VSE AG

- VSE AG

Dr.-Ing. Ekkehard D. Schulz

Krefeld

Chairman of the Executive Board of ThyssenKrupp AG

- AXA Konzern AG
- Bayer AG
- MAN SE
- ThyssenKrupp Elevator AG (Chairman)
- ThyssenKrupp Steel Europe AG (Chairman)

Uwe Tigges¹

Bochum

Chairman of the General Works Council of

RWE Vertrieb AG

- RWE Vertrieb AG

Prof. Karel Van Miert

Beersel

- deceased on June 22, 2009 -

Professor, Nyenrode University

Manfred Weber¹

Wietze

Chairman of the General Works Council of RWE Dea AG

- RWE Dea AG

Dr. Dieter Zetsche

Stuttgart

- since July 16, 2009 -

Chairman of the Executive Board of Daimler AG

▪ Member of other mandatory supervisory boards.
 - Member of comparable domestic and foreign supervisory bodies of commercial enterprises.

1 Employee representative.

2 Information valid as of the date of retirement from the Supervisory Board.

Supervisory Board Committees

Executive Committee of the Supervisory Board

Dr. Manfred Schneider (Chairman since May 1, 2009)
Dr. Thomas R. Fischer (Chairman until April 30, 2009)
Frank Bsirske
Dr. Paul Achleitner
Heinz Büchel
Dieter Faust
Dagmar Mühlenfeld
Dagmar Schmeer
Dr.-Ing. Ekkehard D. Schulz – since May 1, 2009 –

Mediation Committee in accordance with Sec. 27, Para. 3 of the German Co-Determination Act (MitbestG)

Dr. Manfred Schneider (Chairman since May 1, 2009)
Dr. Thomas R. Fischer (Chairman until April 30, 2009)
Frank Bsirske
Werner Bischoff
Dr.-Ing. Ekkehard D. Schulz – since May 1, 2009 –

Personnel Affairs Committee

Dr. Manfred Schneider (Chairman since May 1, 2009)
Dr. Thomas R. Fischer (Chairman until April 30, 2009)
Frank Bsirske
Dr. Paul Achleitner
Heinz-Eberhard Holl – until January 31, 2010 –
Frithjof Kühn – since February 1, 2010 –
Günter Reppien
Uwe Tigges

Audit Committee

Carl-Ludwig von Boehm-Bezing (Chairman)
Werner Bischoff
Dr. Gerhard Langemeyer
Günter Reppien
Dr.-Ing. Ekkehard D. Schulz
Uwe Tigges

Nomination Committee

Dr. Manfred Schneider (Chairman since May 1, 2009)
Dr. Thomas R. Fischer (Chairman until April 30, 2009)
Dr. Paul Achleitner
Heinz-Eberhard Holl – until January 31, 2010 –
Frithjof Kühn – since February 1, 2010 –

Executive Board

Dr. Jürgen Großmann

President and CEO of RWE AG,
appointed until September 30, 2012

Born in 1952 in Mülheim an der Ruhr; studied ferrous metallurgy and economics, doctorate in ferrous metallurgy; active within the Klöckner Group from 1980 to 1993, exiting as member of the Executive Board of Klöckner-Werke AG; acquired Georgsmarienhütte in 1993; Owner and Managing Director of Georgsmarienhütte Holding GmbH from 1993 to 2006; joined RWE AG as President and CEO with effect from October 1, 2007.

Group-level responsibilities: Energy Policy, Compliance, Investor Relations, Communications, Executive Management, Executive Office and Auditing.

Other appointments:

- Amprion GmbH (Chairman)
- BATIG Gesellschaft für Beteiligungen mbH
- British American Tobacco (Industrie) GmbH
- British American Tobacco (Germany) GmbH
- Deutsche Bahn AG
- SURTECO SE (Chairman)
- Volkswagen AG
- Hanover Acceptances Limited

Dr. Leonhard Birnbaum

Executive Vice-President of RWE AG,
appointed until September 30, 2013

Born in 1967 in Ludwigshafen am Rhein; graduated chemical engineer; consultant at McKinsey & Company Inc. from 1996 to 2008; promoted to partner (principal) in 2000 and to senior partner (director) at McKinsey in 2006, exiting as member of McKinsey's global management team for the energy sector; joined RWE AG as Head of Corporate Strategy and Business Development with effect from April 7, 2008; member of the Executive Board since October 1, 2008; Chief Strategy Officer of RWE AG since January 1, 2009.

Group-level responsibilities: Business Development, Strategy, Mergers & Acquisitions, Research & Development and Special Projects.

Other appointments:

- RWE Npower Holdings plc

Alwin Fitting

Executive Vice-President of RWE AG,
appointed until March 31, 2013

Born in 1953 in Westhofen (Rhine-Hesse); joined the RWE Group in 1974; trained master electrician; Executive Vice-President and Labour Director of RWE Power AG from October 2000 to July 2005; Executive Vice-President and Labour Director of RWE AG since August 2005.

Group-level responsibilities: Citizenship, Security, HR Management, Strategic HR Projects, Labour Law, Diversity Office and Corporate Responsibility/Environmental Protection.

Other appointments:

- RWE IT GmbH (Chairman)
- RWE Pensionsfonds AG
- RWE Service GmbH (Chairman)
- European School of Management and Technology GmbH

Dr. Ulrich Jobs

Executive Vice-President of RWE AG,
appointed until March 31, 2012

Born in 1953 in Herne; holds a diploma in engineering and a doctorate in mining/mine engineering; joined the RWE Group in 1977; Executive Vice-President of RWE AG since April 2007; concurrently CEO of RWE Power AG from May 2007 to February 2008; Chief Operating Officer of RWE AG from April 2008 to April 2009; Chief Operating Officer International of RWE AG since May 2009.

Group-level responsibilities: Performance Improvement/Investment Management International, Value Chain Management and Organisation.

Other appointments:

- Deutsche Steinkohle Aktiengesellschaft
- RAG AG
- RWE Dea AG (Chairman)
- ELMÜ Nyrt. (Chairman)
- EMASZ Nyrt. (Chairman)
- Essent N.V.
- RWE Npower Holdings plc (Chairman)
- RWE Polska Spółka Akcyjna (Chairman)

-
- Member of other mandatory supervisory boards.
 - Member of comparable domestic and foreign supervisory bodies of commercial enterprises.

- RWE Supply & Trading GmbH (Chairman)
- RWE Transgas, a.s. (Chairman)
- RWE Transgas Net, s.r.o.
- Východoslovenská energetika, a.s.
- Mátrai Kraftwerk G.AG

Dr. Rolf Pohlig

Executive Vice-President of RWE AG,
appointed until December 31, 2011

Born in 1952 in Solingen; doctorate in economics; Executive Vice-President Finance and Accounting of VEBA AG from 1993 to 2000; Executive Vice-President Mergers & Acquisitions of E.ON AG from 2000 to 2006; joined the RWE Group in January 2007 as Executive Vice-President; Chief Financial Officer of RWE AG since May 2007.

Group-level responsibilities: Controlling, Finance, Risk Management, Legal/Board Affairs, Accounting, Tax and Insurance.

Other appointments:

- RWE Pensionsfonds AG (Chairman)
- RWE Power AG
- RWE Rheinland Westfalen Netz AG
- RWE Stiftung gemeinnützige GmbH (Chairman)
- RWE Vertrieb AG
- Essent N.V.
- RWE Npower Holdings plc
- RWE Transgas, a.s.

Dr. Rolf Martin Schmitz

Executive Vice-President of RWE AG,
appointed until April 30, 2014

Born in 1957 in Mönchengladbach; doctorate in engineering; i.a. in charge of corporate development and economic policy at VEBA AG from 1988 to 1998; Member of the Executive Board of rhenag Rheinische Energie AG, Cologne, from 1998 to 2001; Member of the Board of Management of Thüga AG, Munich, from 2000 to 2004; Chairman of the Board of Directors of E.ON Kraftwerke GmbH, Hanover, from 2004 to 2005; Chairman of the Board of Management of RheinEnergie AG, Cologne, and Managing Director of Stadtwerke Köln from 2006 to 2009; joined RWE AG as Executive Vice-President and Chief Operating Officer National with effect from May 1, 2009.

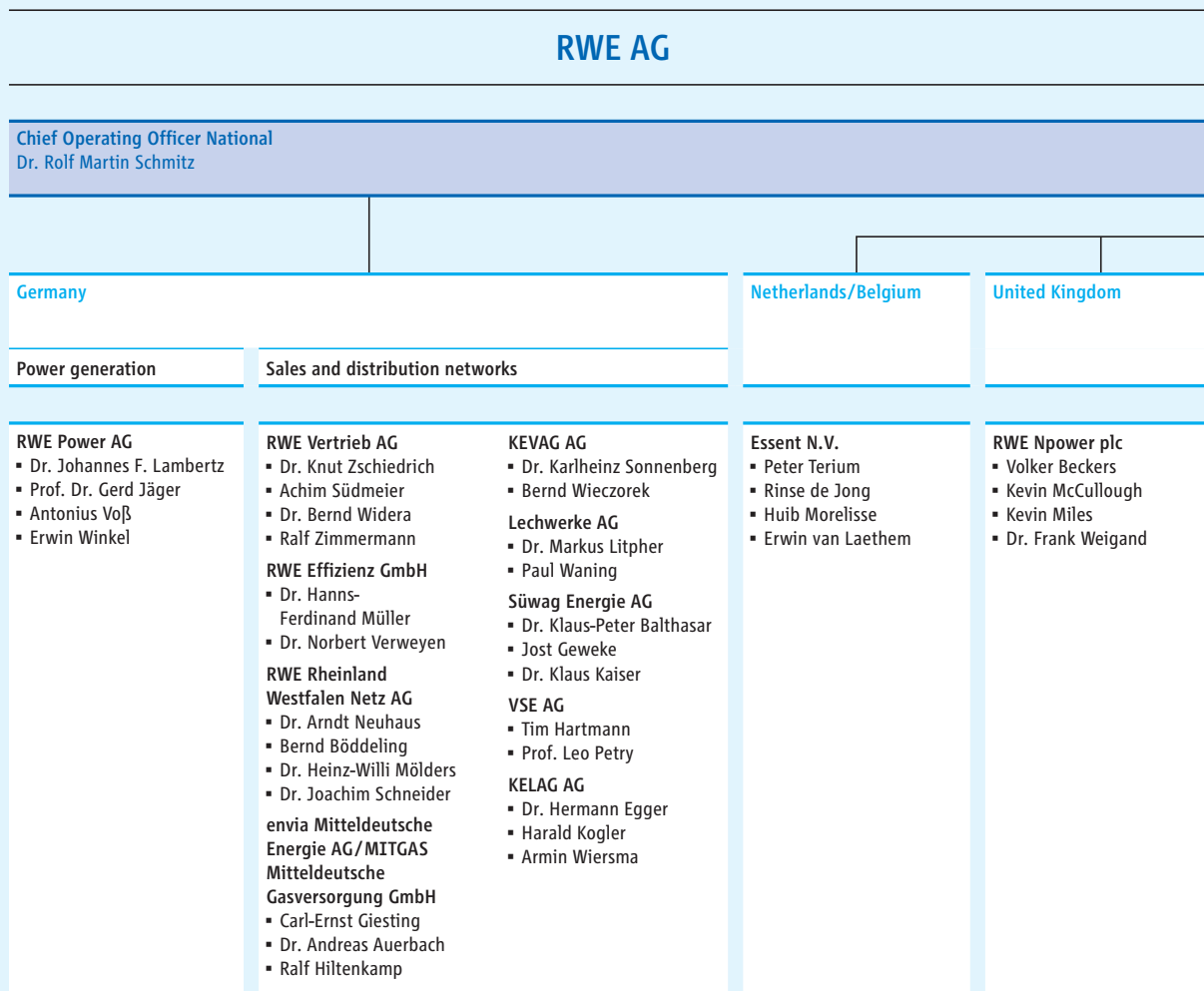
Group-level responsibilities: Investment Management National, Concessions, Municipalities and Management of Generation, Networks and Sales.

Other appointments:

- envia Mitteldeutsche Energie AG (Chairman)
- Lechwerke AG (Chairman)
- RWE Power AG (Chairman)
- RWE Rheinland Westfalen Netz AG (Chairman)
- RWE Vertrieb AG (Chairman)
- Süwag Energie AG (Chairman)
- VSE AG (Chairman)

ORGANISATION CHART OF THE RWE GROUP

As of February 12, 2010



RWE AG

Chief Operating Officer International
 Dr. Ulrich Jobs

Chief Strategy Officer
 Dr. Leonhard Birnbaum

Central and Eastern Europe

Renewables

Upstream gas & oil

Trading/gas midstream

RWE Hungária Kft.

- (Hungary)
- Emmerich Endresz
- László Koncz
- Dr. Marie-Theres Thiel
- József Valaska

RWE Polska s.a.

- (Poland)
- Dr. Filip Thon
- Sławomir Jacek Koczywąs
- Janusz Moroz
- Dr. Werner Wetekamp

Východoslovenská energetika, a.s.

- (Slovakia)
- Norbert Schürmann
- Radoslav Haluška
- Martin Mikláš

RWE Transgas, a.s.

- (Czech Republic)
- Martin Herrmann
- Dr. Wolfgang Peters
- Dirk Simons
- Tomáš Varcop

RWE Transgas Net, s.r.o.

- (Czech Republic)
- Thomas Kleefuß
- Jan Nehoda

RWE Holding A.S.

- (Turkey)
- report to
 Dr. Leonhard Birnbaum –
- Dr. Andreas Radmacher
- Helmut Kempf

RWE Innogy GmbH

- Prof. Dr. Fritz Vahrenholt
- Dr. Hans Friedrich Bunting
- Paul Coffey

RWE Dea AG

- Thomas Rappuhn
- Lutz-Michael Liebau
- Ralf to Baben

RWE Supply & Trading GmbH

- Stefan Judisch
- Dr. Bernhard Günther
- Dr. Peter Kreuzberg
- Richard Lewis
- Alan Robinson

RWE AG

Amprion GmbH

- Transmission System Operator (unbundled)
- Dr. Hans-Jürgen Brick
- Dr. Klaus Kleinekorte

RWE Technology GmbH

- Matthias Hartung
- Dr. Michael Fübi
- Dr. Ralf Nowack

RWE Consulting GmbH

- Dr. Klaus Grellmann
- Eckhard Frischbier

RWE IT GmbH

- Chittur Ramakrishnan
- Stefan Niehusmann

RWE Service GmbH

- Georg Petrich
- Dr. Ulrich Piepel

ORGANISATION CHART OF RWE AG

As of February 12, 2010

RWE AG		
President and Chief Executive Officer Dr. Jürgen Großmann	Chief Financial Officer Dr. Rolf Pohlrig	Labour Director Alwin Fitting
Public Affairs/Energy Policy Dr. Peter Heinacher	Group Controlling Dominik Asam (as of March 15, 2010)	Corporate Citizenship Dr. Stephan Muschick
Compliance Dr. Jens Hüffer	Group Finance Dr. Markus Coenen	Group Security Michael Schmidt
Investor Relations Ingo Alphéus	Group Risk Management Dr. Michael Herrmann	Group HR Management Dr. Hans-Dieter Rüter
Corporate Communications Volker Heck	Legal/Board Affairs Dr. Manfred Döss	Strategic HR Projects/Labour Law Dr. Peter Gentges
Group Executive Management Dr. Johannes Karlisch	Group Accounting Fred Riedel	Diversity Office Dr. Claudia Mayfeld
Executive Office Sabine Jeschke	Group Tax Dr. Berend Holst	Corporate Responsibility/Environmental Protection Joachim Löchte
Group Audit Harry Schur	Group Insurance Dr. Joachim Haaf	
Chief Operating Officer National Dr. Rolf Martin Schmitz	Chief Operating Officer International Dr. Ulrich Jobs	Chief Strategy Officer Dr. Leonhard Birnbaum
Investment Management National Dr. Arndt Neuhaus	Performance Improvement/Investment Management International Dr. Nina Skorupska	Business Development Karl Kraus
Generation Management Dr. Johannes F. Lambertz	Value Chain Management Andy Butterworth	Group Strategy Thomas Birr
Concessions/Municipalities Dr. Hanns-Ferdinand Müller	Group Organisation Uwe Bargmann	Mergers & Acquisitions Andreas Zetzsche
Network Management Dr. Joachim Schneider		Research & Development Dr. Frank-Detlef Drake
Retail Management Dr. Knut Zschiedrich		Special Projects Prof. Dr. Wolfgang Straßburg

GLOSSARY

Asset coverage. Ratio of long-term capital (shareholders' equity and non-current liabilities) to long-term assets.

Barrel. International unit of measurement for trading oil. A US barrel corresponds to 158.987 litres.

Base load. Constant minimum demand for electricity irrespective of load fluctuation. This electricity is used by household appliances running 24 hours a day, industrial facilities that operate around the clock, etc. Base-load power is primarily generated by nuclear and lignite power stations. These facilities are usually in operation more than 6,000 hours a year. Run-of-river power stations and biomass plants also supply base-load power.

CO₂. Chemical formula for carbon dioxide. CO₂ is a chemical compound made of carbon and oxygen.

Clean Development Mechanism. In accordance with the Kyoto Protocol, companies and countries can obtain emissions certificates by participating in projects to reduce emissions in newly industrialising and developing countries, which are not obliged to reduce emissions themselves. They can use these certificates to meet their own requirements.

Commercial paper. Tradable, unsecured bearer bond issued only for short-term debt financing. Commercial paper is a revolving credit facility, with terms typically ranging from one day to 24 months.

Commodity. Term for standardised, tradable goods such as electricity, oil or gas.

Confidence level. Probability of a value lying within a certain interval.

Credit default swap (CDS). Financial derivative for trading default risks associated with debt financing. The party seeking to hedge such risks generally pays an annual fee to the principal. In the event that the underlying credit is not repaid, the hedge-seeking party receives a contractually agreed sum from the principal.

Current asset intensity of investment. Ratio of current assets to total assets.

Debt issuance programme. Contractual master and model documents for the issuance of bonds. It can be used as a flexible financing vehicle to issue long-term debt.

Defined benefit obligation. Net present value of an employee's benefit entitlements as of the balance-sheet date.

Degree of asset depreciation. Cumulative property, plant and equipment depreciation-to-cost ratio.

Diluted earnings per share. If a company places new shares on the financial market as part of a capital increase, the portion of the company represented by each share decreases. In addition, the rise in the total number of shares causes earnings per share to decline. This drop in value is referred to as a dilution.

EBITDA. Earnings before interest, taxes, depreciation and amortisation.

Efficiency. In energy conversion, the ratio of useful work performed to total energy expended. In thermal power stations, the efficiency is the percentage of thermal energy contained in the fuel which can be converted to electricity. The higher the efficiency, the lower the loss of the fuel's energy content. Modern gas-fired power plants have an efficiency of up to 60%. Efficiencies of 46% and 43% can be achieved with hard coal and lignite respectively.

Equity accounting. Method for accounting for entities whose assets and liabilities cannot be entirely included in the consolidated financial statements by fully consolidating the entity. In such cases, the carrying amount of the investment is recorded on the basis of the development of the share held in the entity's equity. This change is recorded in the income statement of the company which owns the share in the entity.

Exploration. Term used for the search for, and prospecting of, oil and gas resources.

Fixed asset intensity of investments. Ratio of non-current assets (property, plant and equipment; intangible assets; and investment property) to total assets.

Forward market/forward trading. Contracts for transactions to be fulfilled at a fixed point in time in the future are traded on forward markets. The price of the forward is established when the contract is agreed.

Full consolidation. Method for including subsidiaries in the financial statements of a group in cases where the subsidiaries are controlled by the parent company (through the majority of the voting rights or by other means).

Hard coal unit (HCU). Unit of measurement for the energy content of primary energy carriers. One kilogram HCU corresponds to 29,308 kilojoules.

Joint Implementation. In accordance with the Kyoto Protocol, countries or companies can obtain emissions certificates by participating in projects to reduce emissions in certain other countries which are also obliged to reduce emissions. They can use these certificates to meet their own reduction requirements.

Kilowatt (kW). Unit of measurement of electric output.
1 megawatt (MW) = 10^3 kilowatts,
1 gigawatt (GW) = 10^6 kilowatts,
1 terawatt (TW) = 10^9 kilowatts.

Leverage factor. Ratio of net debt to EBITDA.

LNG. Acronym for liquefied natural gas. LNG is obtained by cooling gas until it becomes liquid. It occupies only 1/600 of the space filled by natural gas in its gaseous state. In this form, it is very well suited for transportation and storage.

Peak load. Need for electricity in periods of maximum network usage, for example, at noon, when meals are prepared in many factories and homes. Peak-load power plants are often in service less than 3,000 hours per year. Gas-fired and hydro storage power stations belong to this category.

Performance shares. Virtual shares, which entitle participants in the Beat Long-Term Incentive Plan to receive a payment at the end of the three-year plan period. Performance shares are not exercised individually. They are paid out in cash at the end of the period if the pre-defined performance targets have been met or exceeded.

Put or call options. Options granting their buyer the right to purchase (call option) or sell (put option) a specific underlying, for example a share, at a pre-arranged price within a pre-determined period of time.

Rating. Standardised method in international capital markets for assessing the risk exposure and creditworthiness of debt issuers. A Single A rating is given to borrowers of strong creditworthiness.

Service cost. Reflects the increase in the cost associated with the net present value of an employee's benefit entitlements in accordance with the employee's work performance in the period being reviewed.

Spot market/spot trading. General term for markets where payment and delivery are effected immediately on conclusion of the transaction.

Syndicated credit line. Credit line offered to companies, backed by several banks, which can be drawn down in various amounts, terms and currencies. Generally used to secure liquidity.

Total Shareholder Return (TSR). Indicator of the development of a share investment over the long term. It takes into account both the dividends paid as well as the changes in share price for the duration of the investment.

Upstream. Term for all activities involved in the exploration and production of oil and gas. Also includes the processing of these resources into marketable raw materials meeting generally accepted quality standards.

Value at risk (VaR). Measure of risk indicating the maximum loss that might occur from a risk position (e.g. a securities portfolio) assuming a certain probability under normal market conditions and that the position is held for a certain period of time. A value at risk of €1 million with a holding period of one day and a confidence level of 95 % means that there is a 95 % probability that the potential loss resulting from the risk position will not exceed €1 million from one day to the next.

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IMPRINT

RWE Aktiengesellschaft

Opernplatz 1
45128 Essen
Germany

Phone +49 201 12-00
Fax +49 201 12-15199
E-mail contact@rwe.com

Investor Relations:

Phone +49 201 12-15025
Fax +49 201 12-15265
E-mail invest@rwe.com

Corporate Communications:

Phone +49 201 12-15250
Fax +49 201 12-15094

For annual reports, interim reports and further information on RWE, please visit us on the internet at www.rwe.com or call our shareholder hotline:

Phone 0180 1 451280 (callers in Germany)
Phone +49 180 1 451280 (callers outside Germany, excluding the USA)
Phone +11 49 180 1 451280 (callers from the USA)

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FIVE-YEAR OVERVIEW (PART OF THE REVIEW OF OPERATIONS)

Five-year overview RWE Group		2009	2008	2007	2006	2005
External revenue	€ million	47,741	48,950	42,507	42,554	39,487
Income						
EBITDA ¹	€ million	9,165	8,773	7,915	7,172	7,095
Operating result	€ million	7,090	6,826	6,533	5,681	5,371
Income from continuing operations before tax	€ million	5,598	4,866	5,246	3,537	3,156
Net income/RWE AG shareholders' share in net income	€ million	3,571	2,558	2,667	3,847	2,231
Earnings per share	€	6.70	4.75	4.74	6.84	3.97
Recurrent net income per share	€	6.63	6.25	5.29	4.38	4.01
Return on equity	%	28.5	20.7	20.1	30.3	20.8
Return on revenue	%	14.8	12.3	16.0	15.2	13.6
Value management²						
Return on capital employed (ROCE)	%	16.3	17.2	16.5	14.2	16.6
Value added	€ million	3,177	3,453	2,970	2,074	2,451
Capital employed	€ million	43,597	39,809	39,710	40,206	32,444
Cash flow/capital expenditure/depreciation and amortisation						
Cash flows from operating activities	€ million	5,299	8,853	6,085	6,783	5,304
Free cash flow	€ million	-614	4,399	2,020	2,289	1,637
Capital expenditure including acquisitions	€ million	15,637	5,693	4,227	4,728	4,143
of which: property, plant and equipment	€ million	5,913	4,454	4,065	4,494	3,667
Depreciation, amortisation, impairment losses and asset disposals	€ million	2,553	2,416	2,629	3,164	4,098
Degree of asset depreciation	%	64.0	69.4	70.9	66.0	59.9
Free cash flow per share	€	-1.15	8.17	3.59	4.07	2.91
Asset/capital structure						
Non-current assets	€ million	56,563	41,763	41,360	51,999	71,680
Current assets	€ million	36,875	51,667	42,060	41,456	37,778
Balance sheet equity	€ million	13,717	13,140	14,659	14,111	12,357
Non-current liabilities	€ million	45,633	36,793	36,796	52,402	65,065
Current liabilities	€ million	34,088	43,497	31,965	26,942	32,036
Balance sheet total	€ million	93,438	93,430	83,420	93,455	109,458
Fixed asset intensity of investments	%	49.4	35.5	38.4	44.0	50.4
Current asset intensity of investments	%	39.5	55.3	50.4	44.4	34.5
Asset coverage	%	104.9	119.6	124.4	127.9	108.0
Equity ratio	%	14.7	14.1	17.6	15.1	11.3
Net financial debt of continuing operations	€ million	10,382	-650	-2,064	-4,720	11,438
Net debt of the RWE Group	€ million	25,787	18,659	16,514	17,827	33,937
Leverage factor		2.8	2.1	2.1	-	-

Five-year overview		2009	2008	2007	2006	2005
RWE Group						
Workforce						
Workforce at the end of the year ³		70,726	65,908	63,439	61,725	85,928
Research & development						
R&D costs	€ million	110	105	74	73	55
R&D employees		350	330	270	273	223
Emissions balance						
CO ₂ emissions	million metric tons	149	172	187	178	173
Free allocation of CO ₂ certificates	million metric tons	105	105	170	167	165
Shortage of CO ₂ certificates	million metric tons	44	67	17	11	8
Specific CO ₂ emissions	metric tons/MWh	0.796	0.768	0.866	0.797	0.788

Five-year overview		2009	2008	2007	2006	2005
RWE Aktiengesellschaft						
Dividend/dividend payment						
Dividend payment	€ million	1,867 ⁴	2,401	1,689	1,968	984
Dividend per share	€	3.50 ⁴	4.50	3.15	3.50	1.75
Market capitalisation						
Market capitalisation at the end of the year	€ billion	38.0	35.4	53.5	46.5	34.9
Long-term credit rating						
Moody's		A2	A1	A1	A1	A1
(outlook)		(negative)	(negative)	(stable)	(stable)	(stable)
Standard & Poor's		A	A	A+	A+	A+
(outlook)		(negative)	(stable)	(negative)	(negative)	(negative)

1 Since 2008, EBITDA has also included operating income from investments.

2 Figures from 2006 according to the new value management concept; see Annual Report 2007, page 208.

3 Converted to full-time positions.

4 Proposed dividend for RWE AG's 2009 fiscal year, subject to approval by the April 22, 2010 Annual General Meeting.

FINANCIAL CALENDAR 2010/2011

April 22, 2010	Annual General Meeting
April 23, 2010	Dividend payment
May 12, 2010	Interim report for the first quarter of 2010
August 12, 2010	Interim report for the first half of 2010
November 11, 2010	Interim report for the first three quarters of 2010
February 24, 2011	Annual report for fiscal 2010
April 20, 2011	Annual General Meeting
April 21, 2011	Dividend payment
May 12, 2011	Interim report for the first quarter of 2011
August 11, 2011	Interim report for the first half of 2011
November 10, 2011	Interim report for the first three quarters of 2011

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

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MAKE BIG THINGS HAPPEN.

For our customers.

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RWE Aktiengesellschaft

Opernplatz 1
45128 Essen
Germany

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