Consolidated Statement of Changes in Equity of the RWE Group

Note (22) € million	Subscribed capital of RWE AG	Additional paid-in capital of RWE AG	Retained earnings and distributable profit	Accumulated other comprehensive income		RWE Group interest	Minority interest	Total
				Currency translation adjustment	Fair value measurement of financial instruments			
Balance at 01/01/04	**1,440**	**1,288**	**4,856**	**–756**	**185**	**7,013**	**2,052**	**9,065**
Repayment of equity							–43	–43
Dividends paid			–703			–703	–236	–939
Other comprehensive income				630	579	1,209	101	1,310
Income			2,137			2,137	277	2,414
Other changes							–614	–614
Balance at 12/31/04	**1,440**	**1,288**	**6,290**	**–126**	**764**	**9,656**	**1,537**	**11,193**
Repayment of equity							–3	–3
Dividends paid			–844			–844	–245	–1,089
Other comprehensive income				282	–110	172	56	228
Income			2,231			2,231	356	2,587
Other changes			259			259	–58	201
Balance at 12/31/05	**1,440**	**1,288**	**7,936**	**156**	**654**	**11,474**	**1,643**	**13,117**

Statement by the Executive Board

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 has been combined with the review of operations of RWE AG.

The consolidated financial statements for the period ended December 31, 2005 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as applicable in the EU. The previous year's figures have been calculated according to the same principles.

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, 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), our risk management system enables the Executive Board to identify potential 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 have been included in the report of the Supervisory Board (pages 80 to 83) of this annual report.

Essen, February 14, 2006

The Executive Board

Roels Bonekamp Fitting Sturany Zilius

Basis of presentation

The consolidated financial statements have been prepared in accordance with the IFRSs, as 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 consolidated financial statements also comply with all IFRSs effective up to the balance-sheet date.

Changes in equity have been disclosed in addition to the income statement, the balance sheet and the cash flow statement. Statements made in the notes to the financial statements also include segment reporting.

Several balance sheet and income statement items have been combined in order to improve clarity. These items are stated and explained separately in the notes to the financial statements. The income statement has been prepared using the nature of expense method.

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

These consolidated financial statements were prepared for the 2005 fiscal year (January 1 to December 31).

Scope of consolidation

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

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 filed in the Commercial Register of the Essen District Court. Material consolidated investments, investments accounted for using the equity method,* and other investments are listed on pages 173 to 175 of this annual report.

* 184

Eighteen companies domiciled in Germany and 18 companies domiciled outside of Germany were consolidated for the first time in the year under review. One hundred and twenty-four companies, 46 of which are headquartered outside of Germany, were excluded from the scope of consolidation. Twelve companies, two of which are based outside of Germany, were merged. Six associates or joint ventures, including three outside of Germany, were accounted for using the equity method for the first time. Sixty-seven investments, which had been accounted for using the equity method in the previous year, including eleven outside of Germany, were sold, merged or were fully consolidated for the first time. First-time consolidation and deconsolidation generally take place when control is transferred.

	German 12/31/05	Foreign 12/31/05	**Total 12/31/05**	Total 12/31/04
Fully consolidated companies	161	328	489	589
Investments accounted for using the equity method	79	79	158	219

With regards to subsidiaries, the following share acquisitions or increases were significant:

- Great Yarmouth Power Ltd, United Kingdom, acquisition of a 100 % stake; €227 million in acquisition costs
- STOEN S. A., Poland; increased stake by 14.09 percentage points to 99.09 %; €52 million in acquisition costs
- Stredoceská plynárenská a. s., Czech Republic; increased stake by 30.96 percentage points to 82.14 %; €34 million in acquisition costs
- Severoceská plynárenská a. s., Czech Republic; increased stake by 20.21 percentage points to 72.03 %; €33 million in acquisition costs
- Harpen Aktiengesellschaft, Dortmund; increased stake by 4.94 percentage points to 100.00 %; €31 million in acquisition costs

A total of €227 million was used to acquire stakes in companies which were consolidated for the first time (previous year: €81 million).

Assets and liabilities held for sale. At RWE Thames Water, preparation for the sale of peripheral activities in 2006 was commenced, with the result that these are now classified as a disposal group and are disclosed as “Assets / liabilities held for sale”:

€ million	**12/31/05**
Assets	878
Liabilities	533

Discontinued operations. RWE sold approximately 70 % of RWE Umwelt to Rethmann per contract signed on September 28, 2004. The German Federal Cartel Office approved the deal on February 24, 2005. Sale of the 30 % which initially remained with RWE was completed in October 2005. As a result, the former segment RWE Umwelt is disclosed in these statements as a discontinued operation, the key figures of which are presented in the following tables:

€ million	12/31/05
Assets	0
Liabilities	0

€ million	2005
Revenue	614
Expenses / Income	–585
Income from discontinued operations before tax	29
Taxes on income	–15
Income from the disposal before tax	–34

€ million	2005
Cash flows from operating activities	341
Cash flows from investing activities	–402
Cash flows from financing activities	19

Furthermore, with regard to subsidiaries and investments accounted for using the equity method, the following share disposals were significant:

Subsidiaries:

- SSM Coal B. V. Group, the Netherlands
- RWE Umwelt Ost GmbH, Halle (Saale), Germany
- RWE Umwelt West GmbH, Grevenbroich, Germany

Investments accounted for using the equity method:

- Stadtwerke Düsseldorf AG, Düsseldorf, Germany
- Severoceská energetika a. s., Czech Republic
- RWE SCHOTT Solar GmbH, Alzenau, Germany

All in all, a net –€761 million in non-current assets (including deferred taxes), –€712 million in current assets (excluding cash and cash equivalents), –€41 million in cash and cash equivalents and –€1,736 million in non-current and current liabilities were assumed or transferred as a result of the acquisition or disposal of consolidated enterprises.

The total selling price of divested subsidiaries amounted to €205 million (previous year: €1,180 million), which was paid in cash or cash equivalents.

Further information on major share disposals is provided on pages 34 to 36 in the review of operations.

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 consolidation are prepared using uniform accounting policies. On principle, subsidiaries with a different balance-sheet date prepare interim financial statements as of the Group's balance-sheet date.

Business combinations are reported according to the purchase method. Pursuant to this method, at the time of acquisition, capital consolidation takes place by offsetting the purchase price against the acquired subsidiaries' revalued prorated net assets. 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. No new restructuring provisions are recognized within the scope of the purchase price allocation. Acquisition costs not allocated to assets, liabilities, or contingent liabilities are capitalized as goodwill. Negative goodwill from first-time consolidation is included in income.

Capitalized goodwill is no longer amortized. It is tested for impairment once a year or more frequently if there are indications of impairment. In the deconsolidation, residual carrying amounts of capitalized goodwill are taken into account when calculating income from disposals.

Expenses and income as well as receivables and payables between consolidated companies are eliminated. Intra-group profits and losses are eliminated as long as they are not of minor significance.

The same consolidation principles apply to investments accounted for using the equity method, in respect of which recognized goodwill is reported on the balance sheet under investments. This goodwill is also not amortized. If necessary, impairment losses on the equity value are reported under income from investments accounted for using the equity method. The financial statements of all investments accounted for using the equity method are also prepared using uniform accounting policies.

Currency translation

Non-monetary foreign-currency transactions disclosed in companies' separate financial statements as of the balance-sheet date are valued at the exchange rate valid when they were recognized initially. Monetary items are converted using the exchange rate valid on the balance-sheet date. Exchange rate gains and losses from the measurement of monetary assets or monetary liabilities in foreign currency occurring up to the balance-sheet date are recognized in the income statement under other operating expenses or income.

Functional currency translation is applied when converting the currencies of foreign companies' financial statements. In the consolidated financial statements, the balance-sheet items of all foreign companies are translated into euros at the average exchange rate prevailing on the balance-sheet date, since principal foreign enterprises included in the consolidated financial statements conduct their business activities independently in their national currencies. When translating the adjusted equity of foreign companies accounted for using the equity method, the same procedure is followed. Differences to previous-year translations are recognized in other comprehensive income without an effect on the income statement. Goodwill is translated at year-end as an asset of the economically autonomous foreign sub-unit. For expense and income items, the annual average exchange rates are used for currency translation. Annual financial statements of Group companies based in a country with hyperinflation are translated according to IAS 29. No material entities were headquartered in a country with hyperinflation in the fiscal or previous year.

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

Exchange rates	Average		Year-end	
€	**2005**	2004	**12/31/05**	12/31/04
1 US dollar	0.81	0.80	0.85	0.73
1 British pound	1.46	1.47	1.46	1.42
100 Czech korunas	3.36	3.14	3.45	3.28
100 Hungarian forints	0.40	0.40	0.40	0.41
1 Polish zloty	0.25	0.22	0.26	0.24

Accounting policies

Intangible assets are accounted for at amortized cost. With the exception of goodwill, all intangible assets have finite useful lives and are thus amortized using the straight-line method. Software for commercial and technical applications is amortized over three to five years; concessions and other usage rights in the electricity and gas business generally have useful lives of up to 20 years. Concessions in the water business have terms of up to 50 years. Capitalized customer relations are amortized over a useful life of ten years. Useful lives and methods of amortization are reviewed on an annual basis.

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

Development costs are capitalized 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 will lead to future cash inflows. Capitalized development costs are amortized over the time period during which the products are expected to be sold. Research expenses are recognized as expenses in the period in which they are incurred.

An impairment loss is recognized for an intangible asset, if the recoverable amount of the asset is less than its carrying amount. If the asset is part of a cash-generating unit, the impairment loss is calculated based on the recoverable amount of the cash-generating unit. If this results in the carrying amount of a cash-generating unit to which goodwill was allocated exceeding the recoverable amount, the allocated goodwill is initially written down by the difference. Impairment losses which must be recognized 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 recognized in prior years has ceased to exist, a write-back is performed, whereby the increased carrying amount resulting from the write-back may not exceed the amortized cost. Impairment losses on goodwill are not reversed.

Property, plant and equipment is stated at depreciated cost. The borrowing cost is not capitalized as part of the cost. 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 recognized as expenses.

Exploratory drillings are accounted according to the successful efforts method, i. e. as a rule, the expenses for exploratory drillings are capitalized only in the event of commercial success.

With the exception of land and leasehold rights, property, plant and equipment is generally written down using the straight-line method, unless in exceptional cases another depreciation method is better suited to the usage pattern. The depreciation of 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	15–20
Electricity grids	20–35
Water main networks	20–100
Gas and water storage facilities	20–100
Gas distribution facilities	14–20
Mining facilities	4–25
Mechanical and electrical engineering facilities	4–15
Mining developments	33–35
Exploratory wells owned by RWE Dea	up to 28

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

An impairment loss is recognized for property, plant and equipment, if the recoverable amount of the asset is less than its carrying amount. If the asset is part of a cash-generating unit, the impairment loss is calculated based on the recoverable amount of the cash-generating unit. If this results in the carrying amount of a cash-generating unit to which goodwill was allocated exceeding the recoverable amount, the allocated goodwill is initially written down by the difference. Impairment losses which must be recognized 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 recognized in prior years has ceased to exist, a write-back is performed, whereby the increased carrying amount resulting from the write-back may not exceed the depreciated cost.

Investment property is 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 included in the initial measurement. Depreciable investment property is written-down 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.

An impairment loss is recognized for investment property, if the recoverable amount of the asset is less than its carrying amount. If the asset is part of a cash-generating unit, the impairment loss is calculated based on the recoverable amount of the cash-generating unit. If this results in the carrying amount of a cash-generating unit to which goodwill was allocated exceeding the recoverable amount, the allocated goodwill is initially written down by the difference. Impairment losses which must be recognized 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 recognized in prior years has ceased to exist, a write-back is performed, whereby the increased carrying amount resulting from the write-back may not exceed the depreciated cost.

Investments accounted for using the equity method. Shares of companies accounted for using the equity method are initially accounted for at cost and thereafter based on their amortized prorated net assets. The carrying amounts are increased or reduced annually by the prorated profits or losses, dividends distributed and other changes in equity. Recognized goodwill is included in the carrying amount and is not amortized. An impairment loss is recognized for companies accounted for using the equity method, if the recoverable amount is less than the carrying amount.

Other non-current financial assets. Shares in non-consolidated subsidiaries, in associates and joint ventures not accounted for using the equity method, as well as other investments and non-current marketable securities stated under other financial assets are nearly exclusively classified as “available for sale”. 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. Unrealized gains and losses are stated as other comprehensive income, with due consideration of any deferred taxes. Gains or losses are recognized in the income statement at the time of sale. If there are substantive objective indications of a reduction in the value of an asset, an impairment loss is recognized with an effect on income.

Accounts receivable and other assets. Receivables are comprised of financial receivables, trade accounts receivable and other receivables.

With the exception of financial derivatives, accounts receivable and other assets are stated at amortized cost. Allowances for doubtful accounts are based on the actual default risk. Prepayments received from customers for consumption which is yet to be metered and billed are netted out against trade accounts receivable of the utilities.

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

Customer-specific construction contracts are recognized using the percentage of completion method. The capitalizable amount is disclosed under accounts receivable. Negative balances for construction contracts are carried as accounts payable from construction contracts. The percentage of completion is determined according to the ratio between costs incurred and estimated total costs (cost-to-cost method). Expected contract losses are covered with allowances or provisions and are determined taking the identifiable risks into account. Contract revenue comprises the amount of revenue agreed in the contract and is shown under revenue.

CO_2 emission allowances are accounted for as intangible assets and reported under other assets. They are stated at cost and are not amortized.

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 utilization of existing loss carryforwards in subsequent years. They are capitalized when the realization of these loss carryforwards is guaranteed with sufficient certainty. Deferred taxes are assessed based on the tax rates that are applicable or expected in the individual countries at the time of realization, with due consideration of the tax regulations valid or adopted as of the balance-sheet date. The tax rate used to calculate German deferred taxes is 39.4 %. The Group's average local trade tax rate in Germany has been taken into account, in addition to the 25.0 % corporate income tax rate and the 5.5 % solidarity surcharge. Deferred tax assets and deferred tax liabilities are netted against each other for each company and / or tax group.

Inventories include all 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).

Inventories are carried at the lower of cost or net realizable value. Production costs include full costs directly related to production and are determined based on the normal capacity. Specifically, in addition to directly allocable costs, production costs include adequate portions of required materials and production overheads, including production-related depreciation. The borrowing cost is not capitalized as part of the cost. Assessment is generally based on average values. The usage of excavated earth for lignite mining is calculated using the FIFO method.

If the net realizable value of inventories written down in earlier periods has increased, the resulting reversal of the write-down is recognized 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.

Marketable securities. The securities classified as current marketable securities essentially consist of marketable securities held in special funds as well as fixed-interest securities with 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. Upon initial recognition, the transaction costs directly associated with the acquisition of the financial asset are taken into account. These securities are initially valued on their settlement date. Unrealized gains and losses are stated as other comprehensive income as part of equity, with due consideration of any deferred taxes. Gains or losses are recognized in the income statement at the time of sale. If there are substantive objective indications of a reduction in the value of an asset, an impairment loss is recognized with an effect on income.

Financial assets are derecognized when the contractual rights to cash flows from the assets expire or the entity transfers substantially all the risks and rewards of ownership of the asset or the entity no longer has control of the asset.

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

Assets and liabilities held for sale. Assets are stated as "held for sale" if they can be sold in their present condition and if 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 amortized; they are recognized at fair value less costs to sell, as long as this is lower than the carrying amount.

Results from 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.

Gains or losses on the valuation of discontinued operations at fair value less costs to sell and profits or losses from operating activities or from the sale of such operations are reported under income from discontinued operations.

Share-based payment. The groupwide stock option plans are accounted for as cash-settled share-based payment transactions. At each reporting date, a provision is recognized in the amount of the prorated fair value of the payment obligation; changes in the fair value are recognized with an effect on income. The fair value of options is determined using generally accepted valuation methodologies.

Provisions are recognized 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. Provisions based on a large number of similar events are stated at expected amounts.

All non-current provisions are recognized at the most likely outcome that is discounted as of the balance-sheet date. The settlement amount also includes the cost increases to be taken into account as of the balance-sheet date. For decommissioning, restoration and similar provisions, changes in the estimated timing or amount of the payments and changes in the discount rate are taken into account at the same amount in measuring the existing provision as well as the respective asset, for example a power plant. If the decrease in the provision exceeds the carrying amount of the underlying asset, the excess is recognized immediately in profit or loss. Releases of provisions are credited to the same expense account on which the provision was originally recognized.

Provisions for pensions and similar obligations are recognized for defined benefit plans. These are obligations of the RWE Group 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 in the form of both basic and supplementary benefits. Individual commitments are based on the differing industry and country-specific benefit arrangements and are generally calculated according to the employees' length of service and compensation.
As benefits, the obligations of US group enterprises for their employees' post-retirement medical expenses are also disclosed under provisions for pensions and similar obligations.

Provisions for defined benefit plans are measured according to 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 increases in salaries and pension benefits to be expected in the future. The calculation is based on actuarial reports, taking into account appropriate biometric parameters. The provision is reduced by the amount of the plan assets. The service costs are disclosed in staff costs, and the interest cost and expected return on plan assets in the financial result.

Actuarial gains and losses exceeding 10 % of the greater of the benefit obligations or the fair value of plan assets are amortized over the entitled employees' average remaining working lives with an effect on income.

In addition to the defined benefit plans, the company pension plan also consists of defined contribution plans. 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 recognized as expenses and disclosed under staff costs.

Waste management provisions in the nuclear energy sector are based on obligations under public law and restrictions included in operating licenses. The amount recognized for the disposal of spent nuclear fuel assemblies covers the expected costs, in particular reprocessing costs on the basis of contractual agreements and costs for direct final disposal. The cost of transporting, treating and taking back waste, including the cost of temporary storage are included accordingly.

The amount recognized for the decommissioning of nuclear power station facilities is also based on the expected costs. The calculation of expected costs for the post-shutdown phase and dismantling is based on outside expert opinions working on the assumption that the facilities are dismantled completely.

Furthermore, provisions are created for other waste management measures (management of radioactive operational waste).

Waste management provisions also include the cost of final storage and associated pre-financing costs calculated based on data from the German Federal Office for Radiation Protection. It is expected that these provisions will be used up by 2080.

Provisions for mining damage are recognized to cover 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. They must be recognized due to obligations under public law that are based, among others, on the German Federal Mining Act and formulated, above all, in operating schedules and water law permits. Provisions are generally recognized 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 based on total cost estimates derived from past experience and comparative rates determined by the German Association of Oil and Natural Gas Production Industry. Similar assumptions for foreign subsidiaries are also taken into account.

Liabilities consist of financial liabilities, trade accounts payable and other liabilities.

Upon initial recognition, liabilities are stated at fair value. In the periods thereafter, liabilities (except for financial derivatives) are carried at amortized cost. Liabilities from finance lease agreements are measured at the lower of fair value of the leasing object or present value of minimum lease payments.

Prepayments from customers and deferred income are recognized 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 which are generally amortized and included in income over the term of the corresponding asset. Moreover, this item also generally includes taxable and non-taxable government grants for capital expenditure on non-current assets, which are recognized as other operating income in line with the assets' depreciation.

Derivative financial instruments and hedging transactions. Derivative financial instruments are accounted for as assets or liabilities. When recorded for the first time, they are stated as of the settlement date. All derivative financial instruments are stated at fair value regardless of their purpose. Changes in the fair value are recognized with an effect on income, unless the instruments are used for hedging 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 the risk of a change in the fair value of an asset or liability carried on the balance sheet. Hedges of unrecognized firm commitments are also recognized as fair value hedges. For fair value hedges changes in the fair value of the hedging instrument are stated in the income statement, analogously to the changes in the fair value of the respective underlying transactions, i.e. 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 related hedged item. In this regard, changes in the fair value must pertain to the hedged risk. In the event that unrecognized 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, unrealized gains and losses from the hedge are initially stated as other comprehensive income. Such gains or losses are disclosed in the income statement as soon as 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 recognized in equity until this point in time must be recognized in the income statement in the period during which the asset or liability affects the income statement. If non-financial assets or liabilities result from the transaction, the amounts recognized in equity without an effect on income are included in the initial cost of the asset or liability.

Hedges of a net investment in a foreign entity are used to hedge the currency risk from investments with foreign functional currencies. Unrealized gains and losses from hedges are recognized as part of the currency translation adjustment in other comprehensive income until the investment is sold.

IAS 39 sets certain conditions for hedge accounting. In particular, the hedging relationship must be documented in detail and be effective, i. e. the changes in the fair value of the hedging instrument must be 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 recognized in accordance with relevant rules for fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. The ineffective portion of a hedge is recognized 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 recognized as derivative financial instruments and are accounted for as pending contracts. Written options to buy or sell a non-financial item, that can be settled in cash, are not own-use contracts.

Results of derivative energy trading activities are stated in net amounts.

Contingent liabilities. Contingent liabilities are possible obligations to third parties or present 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. On principle, contingent liabilities are not recognized on the balance sheet. 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 pending 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 provisions for pensions and similar liabilities, there are various options for the recognition of actuarial gains and losses.
- With regard to assets held for sale, it must be determined if the assets can be sold in their current condition and if the sale of such is highly probable. If that is the case, the assets and any related liabilities must be reported and measured as “assets held for sale” or “liabilities held for sale”, respectively.
- RWE Thames Water has capitalized €83 million in planning and construction expenses under “Property, plant and equipment” in relation to a planned desalination water treatment plant at Beckton in East London. However, planning permission for this plant has not been granted following the intervention of the Mayor of London. RWE Thames Water has appealed this decision, on the grounds that the plant is an essential element in securing adequate supplies of water to the population of London. The current position reflects the best estimate of the outcome of the appeal. If it emerges at any stage that the current judgment needs to be revised, then a reappraisal of the amounts capitalized may become necessary.

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 recognized value of the assets and liabilities carried on the balance sheet, on income and expenses and on the disclosure of contingent liabilities.

Among other things, these assumptions and estimates relate to the accounting and measurement of provisions, whereby the discount rate for pension provisions and similar obligations is one very important estimate. An increase or decrease of one percentage point in the discount rate would result in a reduction of €1,510 million or an increase of €1,660 million, respectively, in the pension obligations of the pension plans in Germany. For the group companies in the UK, an increase or decrease of one percentage point in the discount rate would reduce or increase pension obligations by €750 million or €928 million, respectively. An increase or decrease of one percentage point in the discount rate would result in a €141 million reduction or a €163 million increase, respectively, in the pension obligations of the US group companies. As actuarial gains and losses may only be recognized if they exceed 10% of the greater of the total pension obligations or the fair value of the plan assets, changes in the discount rate for the benefit systems in the RWE Group do not generally have an effect on the carrying amount of the provisions in the following fiscal year.

Above and beyond this, the impairment test for goodwill is also based on certain key assumptions pertaining to the future. Based on current knowledge, changes in these key assumptions will not cause the carrying amounts of the cash-generating units to exceed the recoverable amounts, and thus lead to an adjustment of the carrying amounts in the next fiscal year. Due to the planned disposal of the UK and North American water business, the valuation of these cash-generating units is based on market-related data, and changes in such may have an impact on the carrying amount. In particular, the valuation depends on equity market conditions, the development of long-term interest rates on the capital market, the development of assets subject to regulation and the decisions of the local regulatory authorities.

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 assumptions regarding the future development of overall economic conditions in the sectors and regions in which the Group conducts operations are taken into consideration with regard to the expected future development of business. Actual amounts may deviate from the estimated amounts due to deviation between the assumptions and the actual development of such overall conditions. In such cases, the assumptions, and, if necessary, the carrying amounts of the affected assets and liabilities are adjusted accordingly.

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, and therefore viewed from the current perspective there is no expectation of material adjustment to the carried amounts of the recognized assets and liabilities in the 2006 fiscal year.

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, 2005. The RWE Group is applying the following IFRSs in the reporting period for the first time:

IAS 1 (2003)	"Presentation of Financial Statements"
IAS 2 (2003)	"Inventories"
IAS 8 (2003)	"Accounting Policies, Changes in Accounting Estimates and Errors"
IAS 10 (2003)	"Events After the Balance-Sheet Date"
IAS 16 (2003)	"Property, Plant and Equipment"
IAS 17 (2003)	"Leases"
IAS 21 (2003)	"The Effects of Changes in Foreign Exchange Rates"
IAS 24 (2003)	"Related Party Disclosures"
IAS 27 (2003)	"Consolidated and Separate Financial Statements"
IAS 28 (2003)	"Investments in Associates"
IAS 31 (2003)	"Interests in Joint Ventures"
IAS 32 (2003)	"Financial Instruments: Disclosure and Presentation"
IAS 33 (2003)	"Earnings per Share"
IAS 39 (2004)	"Financial Instruments: Recognition and Measurement"
IAS 40 (2003)	"Investment Property"
IFRS 2	"Share-based Payment"
IFRS 4	"Insurance Contracts"
IFRS 5	"Non-current Assets Held for Sale and Discontinued Operations"
IFRIC 2	"Members' Shares in Co-operative Entities and Similar Instruments"
SIC-12 (2004)	"Consolidation—Special Purpose Entities"

First-time application of the aforementioned IFRSs had the following material effects on the RWE Group's annual financial statements for the period ended December 31, 2005:

According to ***IAS 1 (2003)***, balance sheets must be classified by maturity. Therefore, assets and liabilities on the balance sheet of the RWE Group are classified as non-current or current. Assets and liabilities are classified as current if they are expected to be realized / settled within twelve months after the balance-sheet date, or if they can be realized or settled within the normal operating cycle.

Investment property is now stated separately from property, plant and equipment under non-current assets. Investments accounted for using the equity method are stated separately. Other non-current financial assets largely consist of the remaining other investments and non-current securities.

Loans are stated as current or non-current financial receivables, in line with their maturities. As a rule, trade accounts receivable and payable are stated as current items.

Provisions for pensions and similar obligations are stated under non-current liabilities, in line with their nature. All other obligations are stated under current or non-current liabilities, in line with their maturity.

On principle, deferred taxes are classified on the balance sheet as non-current. Prepaid expenses and deferred income are no longer stated separately on the balance sheet. Instead, they are stated under “Other receivables and other assets” and “Other liabilities,” respectively.

In the income statement, income from investments accounted for using the equity method is stated separately from other income from investments. Financial income is stated separately from finance costs.

IAS 39 (2004) introduces minor changes in hedge accounting. Hedges of unrecognized firm commitments are now generally recognized as fair value hedges instead of as cash flow hedges. 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 recognized in equity until this point in time must be recognized in the income statement in the period during which the asset or liability affects the income statement. If non-financial assets or liabilities result from the transaction, the amounts recognized in equity without an effect on income are included in the initial cost of the asset or liability.

IAS 39 (2004) has established a firm scope of application for the purchase and sale of non-financial items. Consequently, 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 under the scope of IAS 39 (2004). Written options to buy or sell a non-financial item that can be settled in cash are not own-use contracts.

The first-time application of IAS 39 (2004) led to immaterial changes from the previous approach. Taking issues of materiality into account, there was no need to adjust amounts stated for the previous year.

IFRS 5 sets out requirements for the measurement, presentation and disclosure of certain non-current assets, asset groups and associated liabilities that have been, or are intended to be sold ("disposal groups"), as well as operations that have been sold or are held for sale ("discontinued operations"). Assets, and if applicable liabilities, must be stated separately on the balance sheet as "held for sale", if they can be sold in their present condition, and if their sale is highly probable. Non-current assets and disposal groups classified as held for sale are measured at the lower of the carrying amount or fair value less costs to sell. IFRS 5 stipulates that additional information on discontinued operations must be included in the notes. Application of IFRS 5 has caused certain assets and disposal groups to be classified as "held for sale" or as "discontinued operations". Related information is provided in the notes on the scope of consolidation.

Accounting for CO_2 emission allowances. RWE has been subject to the European emissions trading scheme since January 1, 2005. Companies affected by the scheme are allocated CO_2 emission allowances, which must be returned to the authority in charge within four months from the end of the calendar year in line with the CO_2 actually emitted during the year. If actual CO_2 emissions exceed the allocation for the year, allowances needed to make up the difference must be bought.

In the consolidated financial statements, purchased CO_2 allowances are accounted for as current intangible assets at cost, while allowances obtained free of charge are stated at €0. A provision is recognized to cover the obligation to return emission allowances which is measured at the carrying amount of the capitalized CO_2 emission allowances. If a portion of the obligation is not covered by existing allowances, then the provision for this portion of the obligation is measured at the market price of the allowances on the cut-off date.

New accounting policies

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have adopted further standards and interpretations, which were not yet effective in the 2005 financial year. These IFRSs can only be applied if they are endorsed by the EU, which is still pending in some cases.

IFRS 6 "Exploration for and Evaluation of Mineral Resources" includes rules for accounting expenses related to the exploration and evaluation of minerals, oil, natural gas and similar finite resources before their technological and economic production can be proven. IFRS 6 does not mandate an accounting policy specific to exploration and evaluation expenses. Instead, it sets forth the basic conditions under which the company preparing the accounts selects an accounting method. Furthermore, IFRS 6 prescribes that impairment tests pursuant to IAS 36 be carried out on exploration and evaluation assets. IFRS 6 becomes effective for the first time for fiscal years starting on January 1, 2006, or thereafter. First-time application of IFRS 6 is not expected to have any material impact on the RWE Group's consolidated financial statements.

IFRS 7 "Financial Instruments: Disclosures" combines and expands disclosures on financial instruments previously required under IAS 32 and under IAS 30. The latter was previously only required of banks and similar financial institutions. IFRS 7 will be effective for all industries in the future. As part of the development of IFRS 7, IAS 1 was amended to add requirements for disclosures about capital management. IFRS 7 and the amendment to IAS 1 become effective for the first time for fiscal years that start on January 1, 2007, or thereafter.

IAS 19 Amendment (2004) "Actuarial Gains and Losses, Group Plans and Disclosures". By adopting the change to IAS 19 "Employee Benefits" in December 2004, the IASB introduced another option for treating actuarial gains and losses, also allowing for them to be accounted for without an effect on the income statement in the future. In addition, further disclosures on pension commitments will become necessary in the future. IFRS 19 (2004) becomes effective for the first time for fiscal years starting on January 1, 2006, or thereafter. With exception of the necessary additional information in the notes, first-time application of the new version of IAS 19 is not expected to have a material impact on the RWE Group's consolidated financial statements.

IFRIC 4 "Determining Whether an Arrangement Contains a Lease" contains criteria for identifying lease elements in arrangements which are not formally referred to as leases. Contractual elements that meet IFRIC 4 criteria must be accounted for as leases in accordance with IAS 17. The application of IFRIC 4 becomes effective for the first time for fiscal years starting on January 1, 2006, or thereafter. First-time application of this Interpretation is not expected to have any material impact on the RWE Group's consolidated financial statements.

IFRIC 5 "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds" governs the recognition and measurement of claims and obligations from funds accrued for the decommissioning of plants and similar obligations. This Interpretation becomes effective for the first time for fiscal years starting on January 1, 2006, or thereafter. No material impact on the RWE Group's consolidated financial statements is expected.

IFRIC 6 "Liabilities Arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment" governs the accounting of provisions related to disposal liabilities stemming from the European Union's Directive on Waste Electrical and Electronic Equipment. The application of IFRIC 6 becomes effective for the first time for fiscal years starting on December 1, 2005, or thereafter. Here again, no material impact on the RWE Group's consolidated financial statements is expected.

IFRIC 7 "Applying the Restatement Approach under IAS 29 'Financial Reporting in Hyperinflationary Economies'" clarifies certain issues related to the application of IAS 29 for cases in which the country, the currency of which is the functional currency of the reporting enterprise, becomes a hyperinflationary country. The application of IFRIC 7 becomes effective for the first time for fiscal years starting on March 1, 2006, or thereafter. First-time application of IFRIC 7 is not expected to have any material impact on the RWE Group's consolidated financial statements.

Additional amendments to IAS 39 were also adopted by the IASB, which become effective for the first time for fiscal years starting on January 1, 2006, or thereafter. These amendments relate to the option to classify financial instruments as "financial assets or financial liabilities recognized at fair value through profit and loss," to the recognition of cash flow hedges for hedging currency risks associated with forecast transactions that have a high probability of occurrence within a group, and to the recognition of financial warranties issued, which will fall under the scope of IAS 39 in the future.

Notes to the Income Statement

(1) Revenue (including natural gas tax / electricity tax)

Revenue is recorded when the risk stemming from a delivery or service has been transferred to the customer. This does not apply to contract revenue recognized under the percentage of completion method for customer-specific construction contracts.

To improve the presentation of the business development, revenue generated by energy trading operations is stated as net figures. This means that revenue only reflects realized gross margins. By contrast, electricity, gas, coal and oil transactions that are subject to physical settlement are stated as gross figures. Energy trading revenue is generated by RWE Trading. In fiscal 2005, gross revenue (including energy trading) amounted to €59,403 million (previous year: €58,060 million).

The segment reporting on pages 157 to 160 contains a breakdown of revenue (including natural gas tax / electricity tax) by division and geographical region. Of the €41,819 million in revenue (previous year: €42,137 million), €10 million (previous year: €327 million) are attributable to revenue from customer-specific construction contracts. Deconsolidations and first-time consolidations reduced revenue by a net €3,994 million.

Natural gas tax / electricity tax are the taxes paid directly by Group companies.

(2) Other operating income

€ million	**2005**	2004
Release of provisions	798	1,508
Disposal of non-current assets including income from deconsolidation	344	543
Disposal and write-back of current assets excluding marketable securities	174	68
Derivative financial instruments	59	70
Currency gains	283	275
Cost allocations / refunds	129	59
Rent and lease	53	40
Compensation for damage / insurance benefits	69	33
Miscellaneous	528	664
	2,437	**3,260**

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.

In addition to currency gains, there are also currency losses which are disclosed under other operating expenses.

Miscellaneous other operating income includes €39 million in income from the disposal of assets held for sale.

A decrease of €369 million in other operating income is attributable to changes in the scope of consolidation.

(3) Cost of materials

€ million	2005	2004
Cost of raw materials and of goods for resale	20,077	17,734
Cost of purchased services	4,423	5,241
	24,500	**22,975**

The cost of raw materials used also contains expenses for the use and disposal of spent nuclear fuel assemblies as well as €103 million (previous year: €65 million) in taxes paid for RWE Dea's foreign production companies.

A total of €17,584 million in material costs (previous year: €15,923 million) was netted out against energy trading revenue. A decrease of €1,832 million in cost of materials is attributable to changes in the scope of consolidation.

(4) Staff costs

€ million	2005	2004
Wages and salaries	4,252	4,886
Cost of social security, pensions and other benefits	1,118	1,236
	5,370	**6,122**

The cost of pension benefits is €351 million (previous year: €305 million); this figure consists mainly of €301 million in current service costs (previous year: €216 million). In addition to this, amortization of past service costs amounted to €0 million (previous year: €46 million) and recognized actuarial losses to €23 million (previous year: €0 million).

Converted to full time equivalents, the RWE Group's average personnel headcount totalled 86,426 (previous year: 106,138). One full time equivalent is equal to a full-time position, whereas part-time and fixed-term employees are included on a prorated basis in accordance with the extent of their part-time work or their duration of employment. In addition, the Group employed 2,842 trainees (previous year: 3,554).

A decrease of €1,094 million in staff costs is attributable to changes in the scope of consolidation.

(5) Depreciation, amortization, and impairment losses

Depreciation on property, plant and equipment amounted to €2,423 million (previous year: €2,661 million) and to €28 million (previous year: €49 million) on investment property. Intangible assets were written-down by €1,311 million (previous year: €1,055 million), of which €328 million (previous year: €330 million) was related to customer relationships capitalized in connection with acquisitions made in prior financial years.

Impairment losses were also recognized in the reporting period. These impairment losses amounted to €46 million (previous year: €80 million) on property, plant and equipment, and to €11 million (previous year: €27 million) on investment property. Impairment losses of €0 million (previous year: €41 million) were recorded on intangible assets (excluding goodwill), while €814 million in impairment losses on goodwill were recognized in the year under review (previous year: €492 million).

A reduction of €568 million in depreciation, amortization and impairment losses resulted from changes in the scope of consolidation.

(6) Other operating expenses

€ million	2005	2004
Concessions, licenses and other contractual obligations	584	577
Disposal of non-current assets, including expenses from deconsolidation	109	223
Additions to provisions	332	482
Disposal of current assets and decreases in values excluding inventories and marketable securities	232	304
Derivative financial instruments	143	140
Maintenance and renewal obligations	486	559
Insurance, commissions, freight and similar distribution costs	331	453
Lease payments for plant and grids as well as rents	353	392
Advertising	157	169
Currency losses	276	290
Other taxes, primarily on property	118	114
Postage and monetary transactions	124	181
Structural and adaptation measures	322	347
General administration	256	412
Legal and other consulting and data processing services	475	453
Miscellaneous	581	958
	4,879	**6,054**

Amongst other items, miscellaneous other operating expenses include fees and membership dues amounting to €103 million (previous year: €106 million).

A decrease of €882 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.

€ million	2005	2004
Income from investments accounted for using the equity method	**557**	**298**
of which: amortization and impairment losses on investments accounted for using the equity method	(22)	(–)
Income from non-consolidated subsidiaries	10	–16
of which: amortization and impairment losses on non-consolidated subsidiaries	(6)	(15)
Income from other investments	60	55
of which: impairment of shares in other investments	(11)	(8)
Income from the disposal of investments	202	483
Expenses from the disposal of investments	39	8
Income from loans to investments	39	36
Expenses from loans to investments	62	7
Other	–	5
Other income from investments	**210**	**548**
	767	**846**

Income from investments includes impairment losses on other financial assets in the amount of €17 million (previous year: €23 million) and impairment losses on loans to investments amounting to €62 million (previous year: €1 million).

Changes in the scope of consolidation increased income from investments by €28 million.

(8) Financial result

€ million	2005	2004
Interest and similar income	1,208	1,117
Other financial income	1,097	838
Financial income	**2,305**	**1,955**
Interest and similar expenses	2,193	2,247
Interest accretion to		
Provisions for pensions and similar obligations	528	557
Provisions for nuclear waste management as well as to mining provisions	567	559
Other provisions	143	211
Other finance costs	559	866
Finance costs	**3,990**	**4,440**
	–1,685	**–2,485**

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

Net interest includes interest income from all interest-bearing securities and loans, expenses and income relating to marketable securities and all interest expenses. Net interest also includes shares in profit and dividends from non-current and current marketable securities.

€ million	2005	2004
Interest and similar income	1,208	1,117
Interest and similar expenses	2,193	2,247
Net interest	**–985**	**–1,130**

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.

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. Among other things, other financial income includes €842 million in gains realized from the disposal of marketable securities (previous year: €155 million). Other finance costs include write-backs of marketable securities due to their increased fair values in the amount of €3 million (previous year: €41 million) and €189 million (previous year: €201 million) in realized losses from the disposal of marketable securities.

Changes in the scope of consolidation improved the financial result by €81 million.

(9) Taxes on income

€ million	2005	2004
Current taxes on income	1,073	1,039
Deferred taxes	148	482
	1,221	**1,521**

Current taxes on income contain €78 million in net tax income (previous year: expenses of €85 million) relating to prior periods.

Changes in tax rates led to a deferred tax income of €8 million (previous year: €6 million). German deferred taxes are calculated using a tax rate of 39.40 % (previous year: 39.28 %). The increase in the tax rate stems from a change in the municipality multiplier for trade taxes in Germany.

Due to the utilization of tax loss carryforwards unrecognized in prior years, current taxes on income were reduced by €190 million (previous year: €112 million). Deferred tax expenses decreased by €240 million (previous year: €1 million), due to previously unrecognized tax loss carryforwards that are to be reassessed.

The income tax expense is derived from the theoretical tax expense. A tax rate of 39.40 % (previous year: 39.28 %) was applied to income from continuing operations before taxes.

€ million	2005	2004
Income from continuing operations before tax	**3,828**	**3,935**
Theoretical tax expense	**1,508**	**1,546**
Differences from foreign tax rates	–104	–78
Tax effects on		
Tax-free domestic dividend income	–86	–42
Tax-free foreign dividend income	–22	–35
Other tax-free income	–8	–22
Expenses not deductible for tax purposes	102	102
Amortization of goodwill from capital consolidation	321	193
Accounting for associates using the equity method (including amortization of associates’ goodwill)	–105	–10
Capitalization of deferred taxes on unutilizable loss carryforwards and / or utilization of unrecognized loss carryforwards and write-downs on loss carryforwards	–309	–6
Income on the disposal of investments	–190	–99
Other	114	–28
Effective tax expense	**1,221**	**1,521**
Effective tax rate in %	31.9	38.7

Notes to the Balance Sheet

(10) Intangible assets

€ million	Development costs	Concessions, patent rights, licenses and similar rights	Customer relationships and similar assets	Goodwill	Prepay-ments	Total
Cost						
Balance at 01/01/05	117	1,958	2,906	14,873	135	19,989
Additions / disposals due to changes in the scope of consolidation	–1	–203	□	–562	3	–763
Additions	72	161		□	23	256
Transfers		18			–14	4
Currency translation adjustments	4	30	84	710	3	831
Disposals	1	427			1	429
Balance at 12/31/05	191	1,537	2,990	15,021	149	19,888
Accumulated depreciation / amortization / impairment losses						
Balance at 01/01/05	61	1,167	549	494		2,271
Additions / disposals due to changes in the scope of consolidation	–1	–90		–549		–640
Depreciation / amortization / impairment losses in the reporting period	30	139	328	814		1,311
Transfers		□				□
Currency translation adjustments	2	7	15	93		117
Disposals	1	382				383
Write-backs		3				3
Balance at 12/31/05	91	838	892	852		2,673
Carrying amounts						
Balance at 12/31/05	100	699	2,098	14,169	149	17,215
Cost						
Balance at 01/01/04	193	2,251	2,905	18,097	150	23,596
Additions / disposals due to changes in the scope of consolidation	–85	99	2	–858	2	–840
Additions	14	92	□		–5	101
Transfers		12			□	12
Currency translation adjustments	–3	–13	–1	–199	–2	–218
Disposals	2	483		2,167	10	2,662
Balance at 12/31/04	117	1,958	2,906	14,873	135	19,989
Accumulated depreciation / amortization / impairment losses						
Balance at 01/01/04	68	1,441	230	2,439		4,178
Additions / disposals due to changes in the scope of consolidation	–12	–20	1	–293		–324
Depreciation / amortization / impairment losses in the reporting period	6	227	330	492		1,055
Transfers		1				1
Currency translation adjustments	–1	–2	–12	22		7
Disposals	□	480		2,166		2,646
Write-backs						
Balance at 12/31/04	61	1,167	549	494		2,271
Carrying amounts						
Balance at 12/31/04	56	791	2,357	14,379	135	17,718

□ Negligible amount.

In the reporting period, a total of €55 million (previous year: €114 million) was spent on research and development. Development costs of €72 million (previous year: €14 million) were capitalized.

Goodwill was allocated to cash-generating units at the segment level or at a level beneath the segment level to perform impairments tests. The carrying amounts of goodwill allocated to segments break down as follows:

€ million	**12/31/05**	12/31/04
RWE Power	963	956
of which: RWE Trading	(434)	(442)
RWE Energy	3,791	3,675
RWE npower	4,330	4,215
RWE Thames Water	5,079	5,514
of which: North America	(2,221)	(2,613)
Other	6	19
	14,169	**14,379**

In fiscal 2005 impairment losses of €814 million were recognized on goodwill, of which €759 million was related to the cash-generating unit Thames Water North America and €55 million was related to the Group's international water activities. In the previous year, an impairment loss on goodwill in the amount of €492 million was recognized. The carrying amount of goodwill increased by €617 million due to currency effects.

Due to revised growth projections in the regulated business and in particular in the non-regulated business, which resulted in adjustment of the medium-term budget, in the fourth quarter of 2005 RWE performed another impairment test on the goodwill recognized for the cash-generating unit RWE Thames Water North America. This impairment test, performed on the basis of fair value less costs to sell, resulted in the recognition of an impairment loss of €759 million on the cash-generating unit's goodwill. Other assets were not affected by changes in valuation. The fair value less costs to sell was determined on the basis of an enterprise valuation model using the discounted cash flow method and reviewed using valuation methods (multiples) which reflect market prices. The discount rate used was 5.64%.

The impairment test involves determining the recoverable amount of the cash-generating units, which corresponds to 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 units as of the balance-sheet date; selling costs are deducted. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit. Fair value and value in use are determined on the basis of an enterprise valuation model, whereby the fair value is assessed from an external perspective and the value in use from a company-internal perspective. Fair values and values in use are determined based on cash flow budgets, which are based on the medium-term budget for a period of five years, which has been approved by the Executive Board and which is valid when the impairment test is performed. These budgets are based on past experience as well as on future expected market trends.

The medium-term budget is based on the general economic data derived from macroeconomic and financial studies and makes assumptions primarily on the development of gross domestic product, consumer prices, interest rates and nominal wages.

The main assumptions underlying the budgets for the divisions active on Europe's electricity and gas markets—RWE Power, RWE Energy and RWE npower—are the premises relating to the development of world market prices for crude oil, natural gas and coal, wholesale and retail electricity and gas prices as well as to the development of market shares and regulatory framework conditions.

Basic conditions established by regulatory authorities constitute a further key assumption underlying the budget for RWE Thames Water, which is predominantly active in regulated markets. These conditions determine end consumer prices, the budget of capital expenditure and the return achievable in the corresponding regulatory period.

Discount rates are determined on the basis of market data. For the cash-generating units these rates are between 5.5 % and 6.9 % (previous year: 5.8 % to 7.3 %) after tax and between 7.5 % and 10.5 % (previous year: 7.5 % to 11.0 %) before tax.

RWE extrapolates future cash flows going beyond the detailed budget horizon based on constant growth rates of 0.0 % to 1.0 %, which are derived from past experience and future expectations for each division, and none of which exceed the average growth rates of the markets on which the companies are active. Growth rates are determined subtracting the capital expenditure required to achieve them.

(11) Property, plant and equipment

€ million	Land, land rights and buildings incl. buildings on third-party land	Technical plant and machinery	Other equipment, factory and office equipment	Prepayments to other enterprises	Plants under construction	Total
Cost						
Balance at 01/01/05	12,793	71,426	3,428	95	1,034	88,776
Additions / disposals due to changes in the scope of consolidation	–1,452	–267	–1,138	–4	–137	–2,998
Additions	690	2,296	247	16	620	3,869
Transfers	–39	333	–25	–11	–329	–71
Currency translation adjustments	298	1,581	57	□	37	1,973
Disposals	132	1,088	231	□	37	1,488
Balance at 12/31/05	12,158	74,281	2,338	96	1,188	90,061
Accumulated depreciation / amortization / impairment losses						
Balance at 01/01/05	5,060	46,518	2,668		12	54,258
Additions / disposals due to changes in the scope of consolidation	–678	-464	-868		–2	–2,012
Depreciation / amortization / impairment losses in the reporting period	487	1,644	178	□	114	2,423
Transfers	–25	-4	9			–20
Currency translation adjustments	124	415	26			565
Disposals	60	953	211		7	1,231
Write-backs	9	2				11
Balance at 12/31/05	4,899	47,154	1,802	□	117	53,972
Carrying amounts						
Balance at 12/31/05	7,259	27,127	536	96	1,071	36,089
Cost						
Balance at 01/01/04	13,488	71,482	4,326	73	890	90,259
Additions / disposals due to changes in the scope of consolidation	–792	–1,273	–876	1	–78	–3,018
Additions	426	2,016	239	26	615	3,322
Transfers	9	256	32	–5	–339	–47
Currency translation adjustments	–111	–215	17	1	–28	–336
Disposals	227	840	310	1	26	1,404
Balance at 12/31/04	12,793	71,426	3,428	95	1,034	88,776
Accumulated depreciation / amortization / impairment losses						
Balance at 01/01/04	5,158	46,049	3,365		12	54,584
Additions / disposals due to changes in the scope of consolidation	–461	–661	–732		–6	–1,860
Depreciation / amortization / impairment losses in the reporting period	537	1,819	298		7	2,661
Transfers	–23	9	6			–8
Currency translation adjustments	–22	–22	22		–1	–23
Disposals	125	674	291			1,090
Write-backs	4	2	□			6
Balance at 12/31/04	5,060	46,518	2,668		12	54,258
Carrying amounts						
Balance at 12/31/04	7,733	24,908	760	95	1,022	34,518

□ Negligible amount.

€ 556 million (previous year: € 0 million) of the additions / disposals due to changes in the scope of consolidation result from the reclassification of assets held for sale.

Property, plant and equipment are subject to restrictions in the amount of € 160 million (previous year: € 278 million) in the form of land charges and chattel mortgages. Of the carrying amount of property, plant and equipment, € 52 million (previous year: € 519 million) is attributable to assets leased under finance leases. These assets are principally comprised of technical plant and equipment amounting to € 33 million (previous year: € 508 million). Disposal of property, plant and equipment resulted from the sale and decommissioning of plants.

(12) Investment property

€ million	
Cost	
Balance at 01/01/05	884
Additions / disposals due to changes in the scope of consolidation	–16
Additions	3
Transfers	67
Currency translation adjustments	1
Disposals	112
Balance at 12/31/05	827
Accumulated depreciation / amortization / impairment losses	
Balance at 01/01/05	377
Additions / disposals due to changes in the scope of consolidation	–9
Depreciation / amortization / impairment losses in the reporting period	28
Transfers	20
Currency translation adjustments	□
Disposals	51
Write-backs	14
Balance at 12/31/05	351
Carrying amounts	
Balance at 12/31/05	476

€ million	
Cost	
Balance at 01/01/04	872
Additions / disposals due to changes in the scope of consolidation	1
Additions	6
Transfers	39
Currency translation adjustments	3
Disposals	37
Balance at 12/31/04	884
Accumulated depreciation / amortization / impairment losses	
Balance at 01/01/04	337
Additions / disposals due to changes in the scope of consolidation	1
Depreciation / amortization / impairment losses in the reporting period	49
Transfers	8
Currency translation adjustments	□
Disposals	18
Write-backs	
Balance at 12/31/04	377
Carrying amounts	
Balance at 12/31/04	507

□ Negligible amount.

As of December 31, 2005, the fair value of investment property amounted to € 642 million (previous year: € 715 million). The fair value of investment property is determined using internationally accepted valuation methods such as the discounted cash flow method or is derived from the current market prices of comparable real estate. € 115 million of the fair value (previous year: € 111 million) is based on a valuation made by independent appraisers. Rental income generated in the reporting period amounted to € 53 million (previous year: € 66 million). Direct operating expenses totaled € 20 million (previous year: € 27 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:

€ million	12/31/05
Equity	
Assets	17,562
Liabilities	11,545
	6,017
Adjustment to RWE interest and equity method	–3,400
Investments accounted for using the equity method	**2,617**

€ million	2005
Revenue	11,901
Income	841
Adjustment to RWE interest and equity method	–284
Income from investments accounted for using the equity method	**557**

The fair value of investments accounted for using the equity method, as far as quoted market prices exist, amounted to €4 million as of December 31, 2005 (previous year: €4 million).

(14) Other non-current financial assets

€ million	12/31/05	12/31/04
Non-consolidated subsidiaries	189	239
Other investments	641	664
Non-current securities	1,012	1,036
	1,842	**1,939**

Non-current securities primarily consist of fixed-interest marketable securities and shares of public companies. They are not subject to any restrictions on disposal.

(15) Financial receivables

	12/31/05		12/31/04	
€ million	Non-current	Current	Non-current	Current
Loans to non-consolidated subsidiaries and investments	1,008	44	971	9
Collaterals for trading activities		2,597		471
Deferred interest		176		184
Other financial receivables	492	338	330	438
	1,500	**3,155**	**1,301**	**1,102**

(16) Other receivables and other assets

	12/31/05		12/31/04	
€ million	Non-current	Current	Non-current	Current
Derivatives	6,211	9,544	2,930	3,007
Pension plan assets	554		529	
Prepayments for items other than inventories		263		278
Accounts receivable from investment grants and subsidies		10	9	14
Prepaid expenses		262		309
Miscellaneous other assets	50	1,033	47	942
	6,815	**11,112**	**3,515**	**4,550**

Changes in the scope of consolidation reduced other receivables and other assets by €119 million.

Other receivables and other assets are measured at amortized cost, which essentially corresponds to their fair value. Derivative financial instruments are stated at fair value.

Loans had interest rates of up to 5 % (previous year: 3 % to 11 %).

(17) Deferred taxes

The deferred tax assets of €3,790 million (previous year: €3,243 million) and deferred tax liabilities of €4,873 million, (previous year: €4,134 million) principally relate to measurement differences to the tax bases. €2,882 million and €3,138 million of the total amount of gross deferred tax assets and liabilities, respectively, will be realized within twelve months.

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

€ million	12/31/05 Deferred tax assets	12/31/05 Deferred tax liabilities	12/31/04 Deferred tax assets	12/31/04 Deferred tax liabilities
Non-current assets	802	5,297	769	4,257
Current assets	117	2,503	81	1,087
Exceptional tax items		510		514
Non-current liabilities				
Provisions for pensions	1,482	74	1,407	72
Other non-current provisions	2,620	280	2,643	410
Current liabilities	2,765	635	504	125
	7,786	**9,299**	**5,404**	**6,465**
Tax loss carryforwards	430		170	
Gross total	**8,216**	**9,299**	**5,574**	**6,465**
Netting	–4,426	–4,426	–2,331	–2,331
Net total	**3,790**	**4,873**	**3,243**	**4,134**

Deferred tax assets and deferred tax liabilities were netted out against each other for each company and / or tax group.

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

€ million	12/31/05	12/31/04
Corporate income tax (or comparable foreign income tax)	164	166
Trade tax	266	4
	430	**170**

The realization of these tax carryforwards is guaranteed with sufficient certainty. There are €681 million in corporate income tax loss carryforwards and €928 million in trade tax loss carryforwards for which no deferred tax claims have been recognized (previous year: €1,527 million and €3,816 million, respectively).

As of December 31, 2005, the balance of corporate income tax reductions and increases related to future disbursements amounted to €740 million (previous year: €699 million). These corporate income tax reductions and increases can occur or be utilized by 2019. According to the German Tax Benefit Reduction Act, corporate income tax credits based on profit distributions can be utilized again from January 1, 2006 onwards.

Foreign tax loss carryforwards can be used for an unlimited period.

In the year under review, €172 million in deferred taxes (previous year: €33 million) arising from the translation of foreign financial statements and €142 million (previous year: €78 million) from valuations without an effect on income were offset against equity.

(18) Inventories

€ million	12/31/05	12/31/04
Raw materials, incl. nuclear fuel assemblies and earth excavated for lignite mining	1,143	1,244
Work in progress – goods	123	111
Work in progress – services	183	229
Finished goods and goods for resale	734	386
Prepayments	74	73
	2,257	**2,043**

Changes in the scope of consolidation resulted in a decrease of €179 million in inventories.

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

(19) Trade accounts receivable

A decrease of €466 million in trade accounts receivables is attributable to changes in the scope of consolidation.

Trade accounts receivable from associates totaled €308 million (previous year: €333 million).

Expenses and profit contributions from customer-specific construction contracts totalling €269 million (previous year: €881 million) were capitalized. Prepayments in the amount of €257 million (previous year: €813 million) were deducted from this.

(20) Marketable securities

Current marketable securities amount to €10,344 (previous year: €11,013 million), consisting of fixed-interest marketable securities of €7,770 million with a term of more than three months from the date of acquisition, and stocks and profit-participation certificates of €2,574 million. Marketable securities are stated at fair value. As of December 31, 2005, the average return obtainable on fixed-interest bonds was 3.7 % (previous year: 3.6 %).

(21) Cash and cash equivalents

€ million	12/31/05	12/31/04
Cash	1,313	1,354
Marketable securities and other cash investments (maturity three months or less from the date of acquisition)	118	172
	1,431	**1,526**

Demand deposits are only kept for short-term cash positions at banks with outstanding creditworthiness. As in the previous year, interest rates are maintained at interbank levels.

(22) Equity

A breakdown of equity is shown on page 97.

Subscribed capital breaks down as follows:

	12/31/05 Number of shares ‘000	%	12/31/04 Number of shares ‘000	%	**12/31/05 € million**	12/31/04 € 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.

Contingent capital of €51,200,000 (previous year: €51,200,000) is available to offer subscription rights to common shares in the name of the bearer. The subscription rights were granted to members of the Executive Board as well as to other executives of RWE AG and subordinate affiliates.

Pursuant to the resolution passed by the Annual General Meeting on April 14, 2005, the Executive Board was authorized to purchase shares of any class in RWE, totalling up to 10% of the company’s share capital until October 13, 2006.

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

In the year under review, –€ 60 million in changes in the fair values of cash flow hedges (previous year: € 406 million) and € 431 million in "financial instruments available for sale" (previous year: € 406 million) were disclosed under accumulated other comprehensive income without an effect on income. In the reporting period, € 90 million in cash flow hedges were realized as expenses (previous year: income of € 34 million) and € 571 million in "financial instruments available for sale" were realized as income (previous year: income of € 199 million).

Dividend proposal. We propose to the Annual General Meeting that RWE AG's distributable profit for fiscal 2005 be appropriated as follows:

Distribution of a dividend of € 1.75 per individual share certificate on the dividend-bearing

capital stock of € 1,439,756,800.00:	€ 984,208,750.00
Profit carryforward:	€ 71,077.47
Distributable profit:	**€ 984,279,827.47**

Minority interest. The share ownership of third parties in group entities is presented in this item. In particular, significant minority interests are held in the Hungarian-based power utilities, and enviaM, in the RWE Thames Water division and the Czech gas companies.

(23) 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 Executive Stock Option Plan (AOP-F), the Long-Term Incentive Plan (LTIP) and the new long-term incentive plan '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.

	AOP-F[1]		LTIP[2]		
	2001 tranche	2001A tranche	2002 tranche	2003 tranche	2004 tranche
Grant date	01/15/01	08/02/01	09/20/02	07/01/03	05/25/04
Number of options granted	5,222,300	5,262,300	5,950,350	6,677,450	9,192,800
Term	5 years	5 years	5 years	5 years	5 years
Vesting conditions	Three-year waiting period, the quoted market price of the common share—calculated on the basis of the total return approach—must increase prior to the excercise date by at least 6 % annually on average and may not trail the Dow Jones STOXX share index by more than ten percentage points over the same period Four-week exercise periods, starting on the 21st trading day following the publication of the revenue and earnings figures for the completed fiscal year and of the semi-annual results		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 % 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	The exercise price equals the quoted market price of the common share on the first trading day after expiry of the relevant exercise period, minus a performance-related markdown. The markdown is limited to 40 percentage points.		€ 34.24	€ 26.37	€ 35.45
Form of settlement	Shares from contingent capital, existing common shares or cash settlement amounting to the difference between the share price upon exercise and the exercise price (at the discretion of RWE AG)		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 Executive Stock Option Plan.
2 Long-Term Incentive Plan.

During the reporting period, a new long-term incentive plan (‘Beat’) for executives was introduced, in order to create a uniform, international framework for long-term compensation within the RWE Group:

Beat	
Grant date	01/01/05
Number of conditionally granted performance shares	2,551,800
Term	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 covers both the development of the share price and reinvested dividends.
Determination of payment	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 applicable 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 three times the value of the performance shares as of the grant date)
Change in corporate control/merger	▪ If during the waiting period there is a change in corporate control, a compensation payment amounting to the product of the price paid during acquisition of the RWE shares and the final number of performance shares shall be granted. The latter shall be determined as per the regulations of the scheme 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 ratio between the total waiting period and the waiting period until the merger takes place.
Form of settlement	Cash settlement

Executive Stock Option Plan (AOP-F). The following changes in the number of outstanding AOP-F options occurred in the year under review:

	2001 tranche	2001A tranche
Outstanding at the start of the fiscal year	3,651,200	4,028,600
Forfeited	–233,600	–299,600
Exercised	–3,417,600	–3,714,500
Outstanding at the end of the fiscal year	0	14,500
Exercisable at the end of the fiscal year	0	0

The weighted average share price as of the exercise date was €54.92 for the options from AOP-F exercised in the year under review. The exercise price of the outstanding AOP-F options as of the balance-sheet date was €38.19. The weighted average remaining contractual term amounted to 0.6 years.

LTIP. The following changes in the number of outstanding LTIP options occurred in the year under review:

	2002 tranche	2003 tranche	2004 tranche
Outstanding at the start of the fiscal year	2,813,315	6,377,400	9,174,100
Forfeited	–135,475	–382,850	–112,000
Exercised	–2,669,940	–5,792,650	0
Outstanding at the end of the fiscal year	7,900	201,900	9,062,100
Exercisable at the end of the fiscal year	7,900	201,900	0

The average weighted share price as of the exercise date amounted to €51.50 for the options from LTIP exercised in fiscal 2005. The exercise prices of the outstanding LTIP options as of the balance-sheet date ranged from €26.37 to €35.45. The weighted average remaining contractual term amounted to 3.4 years.

Beat. The fair value of the performance shares (PS) conditionally granted in the Beat programme amounted to €18.62 per share as of the grant date. This value was calculated externally using Monte Carlo simulations on the basis of 1 million scenarios. In this calculation, due consideration was taken of the maximum payment stipulated in the programme's conditions for each conditionally granted performance share, discount rates for the remaining term, volatilities and the expected dividends of peer companies as well as the expected dividends of RWE AG.

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

	2005 tranche
Outstanding at the start of the fiscal year	0
Granted	2,551,800
Forfeited	–500
Outstanding at the end of the fiscal year	2,551,300
Exercisable at the end of the fiscal year	0

The remaining contractual term amounted to two years.

In addition to the above, the following share-based payment systems for executives and employees are operated at the level of the divisions:

	RWE Thames Water plc		RWE Npower plc / RWE Trading GmbH	
	LTIP	Sharesave Scheme	LTIP	Sharesave Scheme
Awards / tranches	2003–2005	2002	2004–2005	2002–2005
Number of options granted per tranche	3,260–40,036	280,037	130,608–145,803	228,335–787,875
Term	3 years	3 years	3 years	3 years
Vesting conditions	Waiting period: 2.5 years	Waiting period: 3 years	Waiting period: 2 years	Waiting period: 3 years
Exercise price	–	€32.08	€1.46	€21.29–39.88
Form of settlement	Existing shares	Existing shares	Existing shares	Existing shares

In the year under review, the number of outstanding options from the LTIP developed as follows:

	RWE Thames Water plc	RWE Npower plc / RWE Trading GmbH
Outstanding at the start of the fiscal year	34,572	129,765
Granted	40,036	130,608
Exercised	0	–49,444
Expired	0	–382
Outstanding at the end of the fiscal year	74,608	210,547
Exercisable at the end of the fiscal year	3,260	0

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

	RWE Thames Water plc	RWE Npower plc / RWE Trading GmbH
Outstanding at the start of the fiscal year	245,633	1,400,893
Granted	0	357,636
Forfeited	–1,564	0
Exercised	–188,427	–461,535
Expired	–43,008	–85,082
Outstanding at the end of the fiscal year	12,634	1,211,912
Exercisable at the end of the fiscal year	12,634	34,176

In the year under review, the total expense for the groupwide share-based payment systems amounted to €310 million (previous year: €87 million). Of this amount, €0 million was attributable to equity-settled share-based payment transactions of RWE AG (previous year: €0 million). As of the balance-sheet date, provisions in the amount of €160 million have been recognized for cash-settled share-based payment programmes (previous year: €97 million). The intrinsic value of the cash-settled share-based payment transactions exercisable as of the balance-sheet date amounts to €3 million.

(24) Provisions

€ million	12/31/05 Non-current	12/31/05 Current	12/31/05 Total	12/31/04 Non-current	12/31/04 Current	12/31/04 Total
Provisions for pensions and similar obligations	11,997	–	11,997	11,853	–	11,853
Provisions for taxes	1,719	733	2,452	1,617	783	2,400
Provisions for nuclear waste management	8,435	240	8,675	8,691	321	9,012
Provisions for mining damage	2,301	80	2,381	1,808	140	1,948
	24,452	**1,053**	**25,505**	**23,969**	**1,244**	**25,213**
Other provisions						
Staff-related obligations (excluding restructuring)	544	674	1,218	474	654	1,128
Restructuring obligations	648	207	855	775	311	1,086
Purchase and sales obligations	675	798	1,473	815	1,226	2,041
Uncertain obligations in the electricity business	498	307	805	402	274	676
Environmental protection obligations	139	17	156	332	37	369
Interest payment obligations	152	187	339	323	62	385
Provisions for CO_2 emission allowances		186	186			
Miscellaneous other provisions	956	1,355	2,311	740	1,522	2,262
	3,612	**3,731**	**7,343**	**3,861**	**4,086**	**7,947**
	28,064	**4,784**	**32,848**	**27,830**	**5,330**	**33,160**

Provisions for pensions and similar obligations. The company pension plan consists of defined contribution and defined benefit plans. In the reporting period, €12 million were paid into defined contribution plans (previous year: €53 million).

The amount of provisions for defined benefit plans was calculated using actuarial methods. The following assumptions are applied:

%	2005 Germany	2005 Foreign	2004 Germany	2004 Foreign
Discount rate	4.25	4.75–5.75	5.00	5.25–6.25
Compensation increase	2.75	3.90–4.25	2.75	3.50–4.75
Pension increase	1.50	2.80–2.90	1.50	2.50–2.90
Rise in health care service cost	–	5.00–10.00	–	5.00–10.00
Expected return on the plan assets	–	5.60–8.25	–	6.10–8.75

Provisions for pensions are derived as follows:

€ million	12/31/05	12/31/04
Present value of funded benefit obligations	**8,440**	**7,613**
Fair value of plan assets	7,692	6,746
Less: capitalized plan assets of pension plans	–554	–529
Fair value of plan assets (excluding capitalized plan assets)	**7,138**	**6,217**
Unrecognized actuarial gains / losses	–868	–1,018
Accrued provision for funded benefit obligations	**434**	**378**
Present value of unfunded benefit obligations	**12,202**	**10,946**
Unrecognized actuarial gains / losses on unfunded benefit obligations	–639	529
Accrued provision for unfunded benefit obligations	**11,563**	**11,475**
Provisions for pensions (funded and unfunded benefits)	**11,997**	**11,853**

The unrecognized actuarial gains / losses of –€1,507 million (previous year: –€489 million) which have not yet been recognized primarily result from actuarial gains / losses in connection with changes in the number of employees and differences in actual market trends compared with the actuarial assumptions. This amount is recognized as income or an expense over the employees’ average remaining working lives to the extent that it exceeds 10 % of the greater of the benefit obligation or the fair value of the plan assets.

The table below shows the reconciliation of the fair value of the plan assets:

€ million	2005	2004
Beginning balance	6,746	6,598
Expected return on plan assets	542	523
Contributions to the funded plans	110	92
Benefits paid by the funded plans	–407	–392
Actuarial gains / losses (related to plan assets)	550	59
Other changes (mainly changes in the scope of consolidation, transfers and currency adjustments)	151	–134
Closing balance	**7,692**	**6,746**

The actual return on plan assets totals €1,092 million (previous year: €521 million).

Provisions for pensions in fiscal 2005 and 2004 developed as follows:

€ million	2005	2004
Beginning balance	11,853	12,303
Additions	324	262
Unused amounts released	0	–12
Interest accretion / change in discount rate	528	557
Changes in the scope of consolidation, currency adjustments, transfers	–84	–648
Amounts used	–624	–609
Closing balance	**11,997**	**11,853**

Expenses relating to pension provisions break down as follows:

€ million	2005	2004
Service costs	301	216
Interest costs	1,070	1,080
Expected return on plan assets	–542	–523
Amortization of past service cost	–	46
Recognized actuarial gains / losses	23	–
	852	**819**

Roll-forward of provisions € million	Balance at 01/01/05	Additions	Unused amounts released	Interest accretion / change in discount rate	Changes in the scope of consolida-tion, currency adjustments, transfers	Amounts used	**Balance at 12/31/05**
Provisions for pensions	11,853	324		528	–84	–624	11,997
Provisions for taxes	2,400	772	–47		–26	–647	2,452
Provisions for nuclear waste management	9,012	154	–581	440		–350	8,675
Provisions for mining damage	1,948	407	–20	127		–81	2,381
	25,213	**1,657**	**–648**	**1,095**	**–110**	**–1,702**	**25,505**
Other provisions							
Staff-related obligations (excluding restructuring)	1,128	718	–16	7	–89	–530	1,218
Restructuring obligations	1,086	49	–62	39	–33	–224	855
Purchase and sales obligations	2,041	400	–295	48	–226	–495	1,473
Uncertain obligations in the electricity business	676	217	–27	21	57	–139	805
Environmental protection obligations	369	8	–11	2	–207	–5	156
Interest payment obligations	385	52	–3		–11	–84	339
Provisions for CO_2 emission allowances		172			14		186
Miscellaneous other provisions	2,262	801	–295	26	–120	–363	2,311
	7,947	**2,417**	**–709**	**143**	**–615**	**–1,840**	**7,343**
Provisions	**33,160**	**4,074**	**–1,357**	**1,238**	**–725**	**–3,542**	**32,848**
of which: changes in the scope of consolidation							(–669)

Releases of €559 million were applied to the expense items for which the provisions were recognized. Non-current provisions and current provisions which were like liabilities in nature were reclassified into trade accounts payable or into other liabilities, in accordance with international practices.

Provisions for nuclear waste management are primarily stated as non-current provisions, and their settlement amount is discounted to the balance-sheet date. Due to developments in long-term capital market interest rates, the discount rate was reduced from 5.5% to 5.0%. This change resulted in an increase of €644 million in the cash value of the obligations. This is offset by a reduction in the volume of obligations due to lower expected cost increases in the future. Volume-based increases in the provisions are measured at their present value. In the reporting period, they amounted to €154 million (previous year: €105 million). By releasing €581 million in unused provisions (previous year: €821 million), we have taken into account that according to current estimates waste disposal costs are expected to be lower. Additions to provisions for nuclear waste management primarily consist of an interest accretion of €440 million (previous year: €461 million). €644 million in prepayments were deducted from the provisions for nuclear waste management (previous year: €671 million).

Provisions for mining damage also consist primarily of non-current provisions. They are recognized at the settlement amount discounted to the balance-sheet date. An interest rate of 5.0% (previous year: 5.5%) was used as the discount rate. The cash value of the obligations increased by €198 million as a result of the reduction in the discount rate. Lower expected costs compared to the previous year had an opposite effect. In the reporting period, allocations to provisions for mining damage amounted to €407 million (previous year: €84 million) and stemmed from an increase in the volume of the obligations. This amounted to €338 million and did not have an impact on income as the same amount was capitalized under property, plant and equipment. The interest accretion of the additions to provisions for mining damage is €127 million (previous year: €98 million).

Provisions for restructuring mainly comprise measures for socially acceptable payroll downsizing from previous years. The restructuring programme initiated in fiscal 2003 to reorganize the energy business in Germany was completed for the most part in 2005.

(25) Financial liabilities

	12/31/05		12/31/04	
€ million	Non-current	Current	Non-current	Current
Bonds payable (incl. other notes payable)	18,542	625	18,922	1,120
Commercial paper		3,201		1,705
Bank debt	2,243	371	2,692	443
Other financial liabilities				
Collaterals for trading activities	–	1,126	–	695
Miscellaneous other liabilities	673	671	874	932
	21,458	**5,994**	**22,488**	**4,895**

Accounts payable to associates totaled €102 million (previous year: €231 million).

€21,255 million of current financial liabilities were interest-bearing liabilities (previous year: €20,559 million). Bank debt stems mainly from the former activities of acquired companies. Nominal interest depends on the currency, term and conditions of the agreement and is between 2 % and 9 % (previous year: 3 % to 11 %).

Changes in the scope of consolidation caused financial liabilities to decrease by €662 million.

Outstanding bonds payable relate to RWE AG, RWE Finance B. V., RWE Thames Water plc and its subsidiaries, American Water Works Company Inc. and its subsidiaries, as well as to RWE Npower plc. Nominal interest is between 0 % and 8.375 % for public bonds (previous year: 0 % to 8.375 %), and between 0.78 % and 10.0 % for private placements (previous year: 0.05 % to 10.0 %), depending on currency, terms and time of issue.

The following table presents an overview of our major bonds payable as of December 31, 2005:

Issuer	Issue volume	Carrying amount	Coupon in %	Maturity
RWE AG	€150 million	€150 million	4.75	January 2007
RWE AG	€200 million	€194 million	0.875	April 2007
RWE AG	€460 million	€437 million	0.0	June 2007
RWE AG	€100 million	€100 million	5.63	June 2009
RWE AG	€100 million	€100 million	Variable	November 2017
RWE AG	€750 million	€741 million	5.75	February 2033
RWE Finance B.V.	£350 million	€511 million	5.75	April 2006
RWE Finance B.V.	€1,357 million	€1,353 million	5.5	October 2007
RWE Finance B.V.	€1,282 million	€1,279 million	5.375	April 2008
RWE Finance B.V.	CHF 500 million	€307 million	2.0	December 2008
RWE Finance B.V.	£500 million	€729 million	4.625	August 2010
RWE Finance B.V.	€2,200 million	€2,250 million	6.125	October 2012
RWE Finance B.V.	£750 million	€1,088 million	6.375	June 2013
RWE Finance B.V.	€650 million	€663 million	4.625	July 2014
RWE Finance B.V.	€850 million	€854 million	6.25	April 2016
RWE Finance B.V.	€1,200 million	€1,087 million	5.125	July 2018
RWE Finance B.V.	£650 million	€952 million	6.5	April 2021
RWE Finance B.V.	£600 million	€871 million	5.625	December 2023
RWE Finance B.V.	£950 million	€1,380 million	6.25	June 2030
Thames Water Utilities Finance plc	£175 million	€255 million	3.375	July 2021
Thames Water Utilities Finance plc	£330 million	€482 million	6.75	November 2028
Thames Water Utilities Finance plc	£200 million	€292 million	6.5	February 2032
RWE Npower plc	£131 million	€177 million	8.375	August 2006
Pennsylvania—American Water Company	US$ 150 million	€127 million	7.8	September 2026
Other (incl. other notes payable)	Various	€2,788 million	Various	2006–2038
Bonds payable (incl. other notes payable)		**€19,167 million**		

As of December 31, 2005, bonds payable (incl. other notes payable) had a fair value of €21,085 million (previous year: €22,419 million). The fair value of other financial liabilities basically corresponds to the disclosed carrying amounts.

Euro and US dollar commercial paper was issued on the European and US capital markets throughout the reporting period, with a countervalue of between €1.7 billion and €3.7 billion (previous year: €1.7 billion to €2.5 billion). The interest rates ranged from 2.06 % to 4.68 % (previous year: 1.05 % to 2.67 %). As of the cut-off date, RWE held commercial paper totalling €3,201 million (previous year: €1,705 million).

Other financial liabilities primarily consist of finance lease liabilities. Lease agreements principally relate to capital goods in the electricity and water business.

Minimum lease payments for liabilities arising from finance lease agreements have the following maturities:

	12/31/05			12/31/04		
€ million	**Nominal value**	**Discount**	**Present value**	Nominal value	Discount	Present value
Due within 1 year	24	3	21	66	5	61
Due within 1–5 years	135	26	109	303	66	237
Due after 5 years	278	127	151	475	179	296
	437	**156**	**281**	**844**	**250**	**594**

€178 million (previous year: €260 million) of the liabilities are secured by mortgages, and €65 million (previous year: €109 million) by similar rights.

(26) Trade accounts payable

Due to changes in the scope of consolidation, trade accounts payable decreased by a total of €617 million. In the case of individual customer-specific construction contracts, there is a balance on the liabilities side of €44 million (previous year: €60 million).

(27) Other liabilities

€ million	12/31/05 Non-current	12/31/05 Current	12/31/04 Non-current	12/31/04 Current
Tax liabilities	–	487	–	520
Social security liabilities	464	201	562	197
Derivatives	5,465	9,383	1,313	2,440
Deferred income	3,904	281	3,644	526
Miscellaneous other liabilities	74	1,457	350	1,754
	9,907	**11,809**	**5,869**	**5,437**

The principle component of social security liabilities are the amounts payable to social security institutions.

Deferred income breaks down as follows:

€ million	12/31/05 Non-current	12/31/05 Current	12/31/04 Non-current	12/31/04 Current
Advances and contributions in aid of construction and building connection	3,505	162	3,249	156
Government grants for non-current assets				
Taxable	17	2	30	3
Non-taxable	210		188	
Other	172	117	177	367
	3,904	**281**	**3,644**	**526**

Other information

(28) Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shares by the average number of shares. The figure may become diluted by potential shares (primarily share options and convertible bonds). When determining diluted earnings per share, stock options issued by RWE as part of the stock option programmes are taken into account if they have a diluting effect. The earnings per share are the same for both common and preferred shares.

		2005	2004
Net income	€ million	2,231	2,137
Number of shares outstanding (weighted average)	thousands	562,375	562,364
Earnings per share			
Basic	€	3.97	3.80
Diluted	€	3.97	3.80
Dividend per share	€	1.75[1]	1.50

1 Proposal for fiscal 2005.

(29) Reporting on financial instruments

Financial instruments include non-derivative and derivative financial instruments.

Non-derivative financial assets essentially include other non-current financial assets, accounts receivable, marketable securities as well as cash and cash equivalents. Financial assets available for sale are measured at fair value, while other financial assets are measured at amortized cost. Fair values are derived from the relevant stock market quotation or are measured on the basis of generally accepted valuation methods. On the liabilities side, non-derivative financial instruments principally include liabilities stated at cost. The balance of non-derivative financial instruments is disclosed in the balance sheet, and the maximum default risk corresponds to the amount of financial assets. If default risks associated with financial assets are identified, they are recognized through allowances.

As a utility enterprise with international operations, the RWE Group is exposed to currency, commodity and interest rate risks in its ordinary business activity. Such risks are limited via systematic risk management. Among other things, risks are mitigated through hedges. Derivative financial instruments are used to hedge currency, commodity and interest rate risks from operations as well as from cash investments and financing transactions. The instruments most commonly used are foreign exchange forwards, foreign exchange options, interest rate currency swaps, commodity forwards, commodity options, commodity swaps and interest rate swaps.

Our group companies are subjected to strict risk management. Binding internal directives define the range of action, responsibilities and controls. Accordingly, as a rule, financial derivatives may not be used for speculative purposes and serve only to hedge risks arising from operations. Guidelines have been established by the Group central risk management department for commodities, stipulating that commodity derivatives may be used to hedge price risks, optimize power plant schedules and increase margins. Furthermore, commodity derivatives may be traded, subject to strict limits. The limits are defined by independent organizational units and monitored on a daily basis.

Credit risks associated with contractual partners are systematically reviewed upon conclusion of the contract and constantly monitored. Furthermore, credit risk is reduced through appropriate forms of collateralizing.

Hedge accounting pursuant to IAS 39 is applied primarily for hedges of net investments in foreign entities as well as for hedges of foreign-currency liabilities and interest rate risks from non-current liabilities.

Fair value hedges are mainly used to hedge fixed-interest loans and liabilities against market price risks. 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.

Cash flow hedges exist primarily to hedge variable-interest loans and liabilities against interest rate risks as well as against foreign currency and price risks from future sales and purchase transactions. Changes in the fair value of hedges used are disclosed under other comprehensive income until the underlying transaction is realized. The hedge's contribution to income is transferred from other comprehensive income to the income statement when the underlying transaction is realized.

Hedges of a net investment in a foreign entity. RWE hedges a significant portion of the foreign currency risks of net investment in foreign entities using bonds with various terms in the appropriate currency as well as with interest rate currency swaps. Every hedge is assigned to an underlying transaction. Exchange rate changes from bonds used for hedging purposes and changes in the fair value of interest rate currency swaps are subsumed under the currency translation adjustment disclosed under other comprehensive income.

When interpreting the positive and negative fair values of derivative financial instruments, with the exception of the relatively low commodity trading volumes, it must be taken into account that they are matched with underlying transactions with offsetting risks. All derivative financial instruments are recognized as assets or liabilities and are stated at fair value regardless of their purpose.

Maturities of derivative interest rate, currency, share-price related or index-related and commodity transactions 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 can be agreed upon to hedge foreign currency risks of foreign investments.

The nominal volume of the derivatives outlined below is specified with being offset. It represents the total of all purchase and sales amounts on which the derivatives are based. The level of the nominal volume enables estimates regarding the scope of the use of derivatives, but does not reflect the risk the group is exposed to from the use of derivatives.

The value-at-risk method is used to quantify the interest rate, currency and stock price risks for financial instruments in line with the international banking standard. The maximum expected loss arising from changes in market prices is calculated and continuously checked on the basis of historical market volatility, with a confidence level of 99 % and a holding period of one day.

Currency risks may exist for financial assets and liabilities in foreign currency. Such risks are counteracted by derivative financial instruments.

Interest rate derivatives used to hedge interest rate risks are nearly exclusively interest rate swaps.

Commodity derivatives are primarily used to hedge electricity, coal, gas and oil prices as well as CO_2 emission allowances.

The following derivative transactions were concluded:

	Nominal volume		Remaining term > 1 year		Fair value	
€ million	**12/31/05**	12/31/04	**12/31/05**	12/31/04	**12/31/05**	12/31/04
Foreign currency derivatives						
Forwards	6,248	4,908	606	930	1.8	–96.1
Options	542	865	224	26	–27.9	–28.6
Interest rate currency swaps	17,355	16,036	8,407	9,744	1,266.5	2,023.7
	24,145	**21,809**	**9,237**	**10,700**	**1,240.4**	**1,899.0**
Interest rate derivatives	12,779	5,134	8,815	4,861	53.6	12.4
Share-price related / index-related derivatives	1,041	1,037	1,024	1,037	–39.0	78.4
	37,965	**27,980**	**19,076**	**16,598**	**1,255.0**	**1,989.8**
Commodity derivatives						
Options	2,164	3,274	822	1,159	34.4	–19.4
Swaps	1,254	5,961	938	1,054	–654.8	–79.6
Forwards	55,640	16,918	14,641	2,697	213.7	222.9
Other	171	95	70	67	58.7	70.2
	59,229	**26,248**	**16,471**	**4,977**	**–348.0**	**194.1**
	97,194	**54,228**	**35,547**	**21,575**	**907.0**	**2,183.9**

Derivatives are exposed to default risks equivalent to their positive fair values. These risks are minimized by the stringent demands on our counterparties' credit-worthiness. Default risk exposure was negligible in the year under review and in the previous year. Risks resulting from changes in the value of derivative financial instruments due to market fluctuations are generally not relevant for assessing the group's net worth, financial or earnings position, due to their hedging purpose.

As a rule, RWE AG centrally handles the refinancing of cash and capital market liabilities that come due. In addition to the extension of current money market programmes and short-term debt, some €0.7 billion in capital market debt and €0.9 billion in bank debt will come due in 2006. Capital is generally provided in the form of cash and cash equivalents, current marketable securities totalling €11,775 million, bilateral bank credit lines and a fully committed syndicated credit line of €4 billion, as well as US$ 1.2 billion / €1.0 billion in unused funds from a US$ 5 billion global commercial paper programme and the €20 billion debt issuance programme. This keeps the liquidity risk very low.

(30) Contingent liabilities and financial commitments

€ million	12/31/05	12/31/04
Contingent liabilities resulting from general, draft and check guarantees	164	598
Contingent liabilities from warranties	84	122
Contingent liabilities from granting collateral for third-party liabilities	22	145
	270	**865**

Contingent liabilities from warranties includes €38 million in guarantees, €1 million in guaranty commitments, €13 million in surety bonds, €2 million in binding letters of comfort and €30 million in other contingent liabilities.

The group had €1,996 million in capital commitments (previous year: €718 million). Moreover, as of December 31, 2005, assurances as regards acquisitions of investment existed in the amount of €386 million (previous year: €501 million).

The outside shareholders of enviaM Mitteldeutsche Energie AG (Chemnitz, Germany) and Süwag Energie AG (Frankfurt am Main, Germany) were granted put options on the shares in these companies. The financial liability that would arise if they exercised all of the put options totals €1.2 billion.

Pursuant to the shareholders' agreement of December 22, 2003, RWE Energy will purchase all of RWE Westfalen-Weser-Ems AG's outstanding shares that were granted to the former shareholders of RWE Gas AG in connection with the split-up of RWE Gas AG for €800 million, effective December 31, 2008. RWE AG accepted the obligation to pay the purchase price through an assumption of debt.

Rütgerswerke mbh, a subsidiary of RAG AG, was granted a €400 million line of credit at fair market conditions, which can be drawn down until June 29, 2007.

Commitments from operating leases refer largely to long-term rental arrangements for power generation and supply plants as well as rent and lease obligations for storage and administration buildings.

Minimum lease payments have the following maturity structure:

Operating leases € million	**Nominal value 12/31/05**	Nominal value 12/31/04
Due within 1 year	76	81
Due within 1 – 5 years	226	252
Due after 5 years	254	314
	556	**647**

Payment obligations for non-current financial assets amounted to €59 million (previous year: €61 million). As in the previous year, there was no joint liability for third-party payment obligations under Sec. 24 of the German Limited Liability Companies Act.

The RWE Power Division has long-term purchase and service agreements for uranium, conversion, enrichment, production and waste management. RWE bears customary commercial liability for long-term contracts in the plant construction business.

We bear the 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, among others.

By signing a mutual benefit agreement, RWE AG and other parent companies of German nuclear power plant operators undertook to provide €2,244.4 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 24.834 % (25.879 % from January 1, 2006 onwards) contractual share in the liability, plus 5 % for damage settlement costs.

RWE Group companies are involved in litigations and arbitration proceedings connected with their operations. However, RWE does not expect any material negative repercussions from these proceedings on the RWE Group's economic or financial position. Additionally, companies belonging to the RWE Energy Division are directly involved in various administrative and regulatory procedures (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 independent accounting firms are adequate and will stand up to scrutiny in court.

(31) Segment reporting

In the RWE Group, segments are distinguished on the basis of the services provided by the group's divisions. The segmentation of divisions and geographical regions is based on the reporting system used by the management.

RWE Power is the segment comprising the entire Continental European power generation business as well as the group's lignite, gas and petroleum production business. This segment also includes the upstream operations of RWE Dea and the activities of the Harpen Group, which specializes in renewables-based and distributed power generation. As of fiscal 2005 the trading activities of RWE Trading will no longer be reported as an independent segment as they will be subsumed under the segment RWE Power, in reflection of the closely intertwined business activities of these two divisions. The figures for the previous years have been adjusted accordingly. In the previous fiscal year the following figures were reported for RWE Trading: Segment assets €7,118 million; segment liabilities €5,844 million; segment result €67 million

RWE Energy is the segment comprising distribution, transmission and sales for the Continental European electricity and gas businesses as well as parts of the Continental water business. RWE Solutions is also subsumed under RWE Energy.

RWE npower is the segment dedicated to the UK electricity and gas business.

The majority of the Group's water operations are reported in the segment RWE Thames Water, with a focus on the UK and North America.

Consolidation effects, the Group Centre and other activities not allocable to the divisions presented separately are disclosed under "Other / consolidation". This primarily includes the general services provided by RWE Systems. The figures for the previous year also include the business activities of RWE Umwelt and Heidelberger Druckmaschinen, which have been disposed of.

Segment reporting

Divisions	RWE Power		RWE Energy		RWE npower	
€ million	**2005**	2004	**2005**	2004	**2005**	2004
External revenue	**6,832**	**6,741**	**24,318**	**22,450**	**6,382**	**5,605**
Intra-group revenue	6,323	5,684	865	706	3	0
Total revenue	13,155	12,425	25,183	23,156	6,385	5,605
Operating result	**2,112**	**1,846**	**2,507**	**2,192**	**437**	**604**
Income from operating activities = segment result	2,211	2,560	2,168	1,978	92	261
Income from operating investments	95	69	265	239	2	–1
Income from investments accounted for using the equity method	117	41	358	193	2	–1
Depreciation and amortization	750	762	902	946	455	423
Operating depreciation and amortization	783	794	900	974	126	93
Impairment losses on goodwill	0	0	0	0	0	0
Impairment losses	37	73	14	50	0	0
Other major non-cash expenses relating to the segment result	1,109	735	2,067	1,946	328	85
EBITDA	**2,800**	**2,571**	**3,142**	**2,927**	**561**	**698**
Capital employed (as per the value management concept)	7,468	7,979	11,962	11,963	6,645	6,378
Carrying amount of shares in investments accounted for using the equity method	291	206	2,122	1,863	0	0
Segment assets	28,324	15,760	19,652	18,935	10,635	10,019
Segment liabilities	33,992	22,107	13,624	12,948	2,609	2,204
Capital expenditure on intangible assets, property, plant and equipment and investment property	842	666	1,064	947	315	150

Regions	EU					
	Germany		UK		Other EU	
€ million	**2005**	2004	**2005**	2004	**2005**	2004
External revenue	23,038	23,101	8,638	8,425	6,753	6,299
Segment assets	30,150	26,989	34,990	27,051	6,861	6,523
Capital expenditure on intangible assets, property, plant and equipment and investment property	1,434	1,405	1,210	1,087	359	290

RWE Thames Water		Other, consolidation		RWE Group	
2005	2004	**2005**	2004	**2005**	2004
4,210	**4,065**	**77**	**3,276**	**41,819**	**42,137**
4	0	–7,195	–6,390	0	0
4,214	4,065	–7,118	–3,114	41,819	42,137
1,416	**1,389**	**–271**	**–55**	**6,201**	**5,976**
1,192	1,063	–917	–288	4,746	5,574
99	114	17	–9	478	412
74	91	6	–26	557	298
728	704	56	290	2,891	3,125
728	704	64	271	2,601	2,836
814	200	0	292	814	492
814	200	6	317	871	640
152	171	425	803	4,081	3,740
2,045	**1,979**	**–224**	**225**	**8,324**	**8,400**
19,047	18,971	–2,983	–811	42,139	44,480
204	302	0	294	2,617	2,665
25,792	24,113	471	3,280	84,874	72,107
4,116	3,348	5,887	7,653	60,228	48,260
1,388	1,465	58	201	3,667	3,429

Rest of Europe		Americas		Other		RWE Group	
2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
593	708	2,267	2,605	530	999	41,819	42,137
577	366	11,689	10,573	607	605	84,874	72,107
69	81	525	529	70	37	3,667	3,429

Notes on segment data. Intra-group revenue reflects the level of revenue between segments and is priced at arm's length. The segment revenue is the sum of external and intra-group revenue.

Depreciation and amortization concern intangible assets, property, plant and equipment and investment property.

The definition of capital employed is derived from the value management concept. These figures are compatible with the operating result, which is also used for control purposes within the group (cf. pages 74 to 75). In addition to capital employed, the divisions' segment assets and liabilities are also disclosed. The following table shows the reconciliation of gross assets and gross liabilities to segment assets and segment liabilities:

€ million	**12/31/05**	12/31/04
Gross assets as per the balance sheet	108,122	93,370
Investments accounted for using the equity method	–2,617	–2,665
Other non-current financial assets	–1,842	–1,939
Marketable securities	–10,344	–11,013
Financial receivables	–4,655	–2,403
Deferred tax assets	–3,790	–3,243
Segment assets	**84,874**	**72,107**

€ million	**12/31/05**	12/31/04
Gross liabilities as per the balance sheet	95,005	82,177
Tax provisions	–2,452	–2,400
Financial liabilities	–27,452	–27,383
Deferred tax liabilities	–4,873	–4,134
Segment liabilities	**60,228**	**48,260**

Capital expenditure includes spending on intangible assets, property, plant and equipment and investment property.

Income from investments accounted for using the equity method covers income and expenses from profit- and loss-pooling agreements, and prorated corporate results. It also includes amortization and impairment losses on goodwill as well as on shares in companies accounted for using the equity method.

Operating result

€ million	2005	2004
Income from operating activities	4,746	5,574
+ Income from investments	767	846
+ / – Non-operating result	688	–444
Operating result	**6,201**	**5,976**

The reconciliation addresses the following points: Income from investments includes all expenses and income that have arisen in connection with operating investments. Income from investments thus constitutes an integral part of the Group's operating activity.

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 recognized on the goodwill of fully consolidated companies, such losses are contained in the non-operating result.

In the year under review, the group's income from operating activities and income from investments were adjusted by the non-operating result of €688 million (previous year: –€444 million).

Gains on disposals included in the non-operating result in the reporting period amount to €326 million, and relate to the disposal of shares in Stadtwerke Düsseldorf, among other things. In the previous year, the gains on disposals amounted to €678 million and related primarily to the sale of shares in Heidelberger Druckmaschinen, Motor-Columbus / Atel, HOCHTIEF and the last tranche of shares in CONSOL.

(32) 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 total cash and cash equivalents on 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.

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.

Among other things, cash flows from operating activities include:

- cash flows from interest income of €1,216 million (previous year: €1,108 million) and cash flows used for interest expenses of €2,194 million (previous year: €2,257 million);
- €1,010 million (previous year: €1,050 million) in taxes on income paid (less income tax refunds); and
- cash flows from investments (dividends) amounting to €368 million (previous year: €346 million), net of the portion stemming from accounting using the equity method that does not have an effect on cash flows.

Cash flows from financing activities include €844 million (previous year: €703 million), which was paid out to RWE shareholders, and €226 million (previous year: €236 million) which was distributed to minority shareholders. New issuance of financial debt totaled €4,361 million (previous year: €2,087 million) and was contrasted by repayments of €6,672 million (previous year: €5,114 million).

Changes in the scope of consolidation resulted in a net change in cash and cash equivalents of –€41 million (previous year: –€128 million).

Cash and cash equivalents of €5 million (previous year: €0 million) stemming from acquisitions are offset against capital expenditure on financial assets. Divested cash and cash equivalents of €46 million (previous year: €128 million) are included in proceeds from divestitures.

Major first-time consolidations and deconsolidations did not result in any significant changes in net financial debt (previous year: –€0.9 billion).

There are no restrictions on the disposal of cash and cash equivalents.

The table below shows the RWE Group's net financial debt:

€ million	12/31/05	12/31/04
Cash and cash equivalents	1,431	1,526
Current marketable securities	10,344	11,013
Non-current marketable securities and other loans	1,431	1,339
Other financial assets	3,184	1,120
Financial assets	**16,390**	**14,998**
Bonds, other notes payable and bank debt	21,781	23,177
Commercial paper	3,201	1,705
Other financial debt	2,846	2,501
Financial liabilities	**27,828**	**27,383**
Net financial debt	**11,438**	**12,385**

Other financial debt includes financial liabilities to affiliates, investments accounted for using the equity method as well as other financial liabilities. Net financial debt is the difference between financial assets and financial liabilities.

(33) Information on concessions

A number of concession agreements have been entered into in the fields of electricity, gas and water by RWE Group companies and governmental authorities in the areas supplied by RWE.

Electricity concession agreements relate to the usage of public roads, ways and sites for the laying and operation of utility lines as well as for electric plants and equipment for the supply of electric power. In municipal regions, there is a general obligation to provide network connection and supply electricity to everyone. Electricity concession agreements are generally limited to a term of 20 years. There is an obligation to construct and maintain necessary plants during the terms of the concession agreements. When the concession agreements expire, there is a legal obligation to transfer ownership of the local electricity distribution facilities in exchange for appropriate compensation of RWE by the local authorities.

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 50 years.

Gas concession agreements contain provisions for the usage of public roadways for the direct supply of gas to end consumers as well as for the construction and maintenance of gas utility plants. There are also statutory connection obligations. In the gas business, concession agreements generally have terms of 20 years. When the concession agreements expire, there is a legal obligation to transfer ownership of the network in exchange for appropriate compensation of RWE by the local authorities.

(34) Related party disclosures

Transactions with related parties. Within the framework of their ordinary business activities, RWE AG and its subsidiaries have business relationships with numerous companies. These include associates, which are classified as parties related to the Group, along with the RWE Energy Division’s investments in municipal enterprises accounted for using the equity method, especially municipal utilities.

In the 2005 fiscal year, business transactions concluded with major related parties led to the following items in RWE's consolidated financial statements:

Key items from transactions with associates € million	**2005**	2004
Revenue	634	465
Expenses	74	96
Receivables	777	776
Payables	56	4

All business transactions are completed at arm's length prices and on principle do not differ from the conditions for supply and services provided to other enterprises. €70 million of the receivables and €61 million of the liabilities fall due within one year. For the receivables there are guarantees of €5 million and other collaterals amounting to €0 million. Guarantees for liabilities amount to €0 million and to €1 million for other collaterals. €730 million of the receivables are interest-bearing; there were no interest-bearing liabilities.

No material business transactions were concluded between the RWE Group and related persons.

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 178 to 181.

Compensation model for the Executive and Supervisory Boards. Compensation of the Executive Board members and the structure of such is established by the Human Resources Committee of the Supervisory Board and is reviewed on a regular basis. The objective is to ensure that the Executive Board members are compensated in a manner commensurate with their activities and responsibilities, taking into account their personal performance and the company's business situation, as well as its performance and prospects for the future.

Executive Board members' total cash compensation consists of a fixed component and a variable, performance-related component (short-term compensation components). Their total cash compensation breaks down into roughly 40 % for the fixed component and 60 % for the variable, performance-related component. The variable component consists of a company bonus (70 %) and an individual bonus (30 %). The company bonus is based equally on the figures budgeted for value added to the core business and free cash flow I for the fiscal year in question. The budgeted figure represents full achievement of the target. The company bonus can amount to a maximum of 150 %. The personal bonus depends on achievement of the goals agreed between the Chairman of the Supervisory Board and the Executive Board member at the beginning of the year. 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 sums reflecting the use of company cars according to German fiscal guidelines and insurance premiums for accident insurance. Compensation also includes payment for exercising Supervisory Board mandates at affiliates, which is accounted for as variable compensation in accordance with the contractual regulations.

The compensation paid to members of the Executive Board for fiscal 2005 is as follows:

Executive Board compensation in 2005	Short-term compensation				
€`000	Fixed compensation	Variable compensation	Non-cash and other remuneration	Payment for exercise of mandates	Total
Roels	1,400	2,234	24	120	3,778
Bonekamp	680	1,047	48	90	1,865
Fitting (since August 1, 2005)	167	234	5	39	445
Dr. Maichel (until February 22, 2005)	102	170	8	40	320
Dr. Sturany	1,000	1,268	37	63	2,368
Zilius	680	1,013	54	115	1,862
Total	**4,029**	**5,966**	**176**	**467**	**10,638**

In addition, members of the Executive Board receive a long-term compensation in the form of stock options granted in previous years and stock appreciation rights as part of the Executive Stock Option Plan (AOP-F) and the Long-Term Incentive Plan (LTIP). The individual amounts are broken down into the respective tranches and grant dates as follows:

Stock options / stock appreciation rights granted	Long-term compensation				
€`000	AOP-F 2001 tranche Grant date: 01/15/01	AOP-F 2001A tranche Grant date: 08/02/01	LTIP 2002 tranche Grant date: 09/20/02	LTIP 2003 tranche Grant date: 07/01/03	Total
Roels	0	0	0	5,065	5,065
Bonekamp	878	648	648	528	2,702
Fitting (since August 1, 2005)	439	324	0	0	763
Dr. Sturany	1,318	972	1,197	2,374	5,861
Zilius	879	648	810	1,319	3,656
Total	**3,514**	**2,592**	**2,655**	**9,286**	**18,047**

In addition, as a long-term incentive, members of the Executive Board received variable compensation in the form of performance shares, as part of the 2005 long-term incentive plan (Beat). A condition for the granting of performance shares is an investment by the Board members in the form of RWE shares. This investment is equal to one-third of the value of the performance shares granted after taxes. Any necessary notifications of directors' dealings in relation to this were submitted and published. The Beat programme replaced the previous Long-Term Incentive Plan 2002 (LTIP) as of January 1, 2005. The terms and conditions of the Beat programme and the earlier programmes AOP-F and LTIP are presented in the section on Share-based payment (cf. pages 138 and 142).

Long-term incentive share-based payment	Beat: 2005 tranche	
	No.	Fair value[1] upon grant €`000
Roels	161,100	3,000
Bonekamp	53,700	1,000
Fitting (since August 1, 2005)	10,000	186
Dr. Sturany	80,600	1,501
Zilius	53,700	1,000
Total	**359,100**	**6,687**

1 Waiting period not yet expired.

Members of the Executive Board still hold stock appreciation rights from the previous year, stemming from the 2004 tranche of LTIP, as the relevant waiting period has not yet expired.

Long-term incentive share-based payment	LTIP: 2004 tranche	
	No.	Fair value[1] upon grant in €`000
Roels	471,700	3,000
Bonekamp	157,200	1,000
Fitting (since August 1, 2005)	40,000	254
Dr. Sturany	235,800	1,500
Zilius	157,200	1,000
Total	**1,061,900**	**6,754**

1 Waiting period not yet expired.

€1,900,000 of the Executive Board's compensation in fiscal 2005 was paid by subsidiaries for mandates exercised in their Executive Boards.

In total, the Executive Board received €10,638,000 in short-term compensation components in fiscal 2005. In addition to this, long-term compensation components from the 2005 tranche of the Beat programme amounting to €6,687,000 were allocated, and €18,047,000 was paid out for stock options and stock appreciation rights granted in previous years. Total compensation of the Executive Board thus amounts to €35,372,000.

Furthermore, members of the Executive Board received pension commitments (direct commitments), which grant them entitlement to an annual pension and surviving dependents' benefits. The amount of qualifying income and the level of benefits determined based on the duration of service is taken as a basis for each member's individual pension and surviving dependents' benefits. There are some differences in the pension commitments in terms of the calculation of the level of benefits.

Pensions	Age	Expected annual pension benefit at 60[1] €`000
Roels	57	400
Bonekamp	55	324
Fitting	52	169
Dr. Sturany	59	279
Zilius	59	302

1 Based on compensation qualifying for pensions as of December 31, 2005.

The service cost of pension commitments in the reporting period totalled €1,864,000. As of December 31, 2005, the present value of the defined benefit obligation was €20,215,000.

Until December 31, 2004, Executive Board members had the option to convert parts of their variable compensation into a benefit commitment backed by reinsurance coverage. Within this framework, Dr. Sturany is entitled at the age of 65 to payment of a lump-sum currently amounting to €925,000 and surviving dependents' benefits currently amounting to €916,000. This entitlement stems from conversion of variable compensation components which were reported in the previous years in the annual reports.

Former members of the Executive Board and their surviving dependents received €28,407,000, of which €1,875,000 came from subsidiaries. Of this, exercise of AOP-F and LTIP and severance payments to former Executive Board members accounted for €18,574,000. The total amount also includes compensation for exercise of mandates at subsidiaries amounting to €57,000. €118,509,000 have been accrued for defined benefit obligations to former members of the Executive Board and their surviving dependents, of which €25,087,000 were set aside at subsidiaries.

As of the balance-sheet date former members of the Executive Board held 157,200 stock appreciation rights from the 2004 tranche of LTIP.

Compensation of the Supervisory Board is set forth in the bylaws and is determined by the Annual General Meeting. Supervisory Board members receive a fixed compensation of €40,000 for their services at the end of each fiscal year. The compensation increased 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 the aforementioned sums paid to ordinary members and the Deputy Chairperson receives twice these amounts. If a committee has been active at least once in a fiscal year, the committee chairperson receives twice the aforementioned sums, and committee members receive one-and-a-half times the aforementioned sums. If a member of the Supervisory Board holds several offices concurrently, he or she receives compensation only for the highest-paid position. Out-of-pocket expenses are refunded.

In total, the emoluments of the Supervisory Board amounted to €2,275,000 in fiscal 2005. Additionally, certain Supervisory Board members were paid compensation of €176,000 for exercising mandates at subsidiaries.

No loans or advances were paid to members of the Executive Board and the Supervisory Board during the year under review.

The Economic Advisory Board was paid €380,000; above and beyond this, the Economic Advisory Board also received compensation for mandates at subsidiaries in the amount of €36,000.

(35) Auditors' fees

The following fees were recognized as expenses for the services rendered in fiscal 2005 by the auditors of the consolidated financial statements, Pricewaterhouse-Coopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft:

€ million	2005
Audit services	13.1
Other assurance and valuation services	8.6
Tax services	1.5
Other services rendered for RWE AG or subsidiaries	0.5
	23.7

The fees for audit services primarily contain the fees for the audit of the consolidated financial statements as well as for the audit of the financial statements of RWE AG and its subsidiaries. Fees for other assurance or valuation services related principally to due diligence services in relation to acquisitions and disposals. This item also includes 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 fees for consultation in relation to the preparation of tax returns and review of resolutions of the tax authorities as well as national and international tax-related matters. They also include tax consultation for employees living abroad.

(36) Application of Sec. 264, Para. 3 and Sec. 264b of the German Commercial Code

The following German subsidiaries made use of the exemption clause included in Sec. 264 Para. 3 and Sec. 264b of the German Commercial Code (HGB):

- BGE Beteiligungs-Gesellschaft für Energieunternehmen mbH, Essen
- GBV Dreizehnte Gesellschaft für Beteiligungsverwaltung mbH & Co KG, Essen
- GBV Fünfte Gesellschaft für Beteiligungsverwaltung mbH, Essen
- GBV Siebte Gesellschaft für Beteiligungsverwaltung mbH, Essen
- GBV Vierzehnte Gesellschaft für Beteiligungsverwaltung mbH, Essen
- OIE Aktiengesellschaft, Idar-Oberstein
- Rheinische Baustoffwerke GmbH, Bergheim
- rhenag Beteiligungs GmbH, Cologne
- RWE Energy Aktiengesellschaft, Dortmund
- RWE Energy Beteiligungsgesellschaft mbH, Dortmund
- RWE Fuel Cells GmbH, Essen
- RWE Key Account GmbH, Essen
- RWE Kundenservice GmbH, Bochum
- RWE NUKEM GmbH, Alzenau
- RWE Plus Beteiligungsgesellschaft Mitte mbH, Essen
- RWE Power Aktiengesellschaft, Cologne and Essen
- RWE Rhein-Ruhr Aktiengesellschaft, Essen
- RWE Rhein-Ruhr Netzservice GmbH, Siegen
- RWE Rhein-Ruhr Verteilnetz GmbH, Wesel
- RWE Solutions Aktiengesellschaft, Neu-Isenburg
- RWE Systems Aktiengesellschaft, Dortmund
- RWE Systems Computing GmbH, Dortmund
- RWE Systems Consulting GmbH, Essen
- RWE Systems Development GmbH & Co. KG., Dortmund
- RWE Systems Immobilien Alzenau GmbH, Alzenau
- RWE Systems Immobilien GmbH u. Co. KG, Essen
- RWE Trading GmbH, Essen
- RWE Transportnetz Gas GmbH, Essen
- RWE Transportnetz Strom GmbH, Dortmund
- RWE Westfalen-Weser-Ems Aktiengesellschaft, Dortmund
- RWE Westfalen-Weser-Ems Netzservice GmbH, Dortmund
- RWE Westfalen-Weser-Ems Verteilnetz GmbH, Recklinghausen
- RWW Rheinisch-Westfälische Wasserwerksgesellschaft mbH, Mülheim an der Ruhr
- SAG Netz- und Energietechnik GmbH, Langen
- Speicher Breitbrunn / Eggstätt RWE Dea & Mobil, Hamburg
- Thames Water Aqua Holdings GmbH, Essen
- Thames Water Aqua International GmbH, Essen
- Thyssengas GmbH, Duisburg
- VEW Immobiliengesellschaft Castrop-Rauxel mbH, Castrop-Rauxel

(37) 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 have been submitted for RWE AG and its publicly traded subsidiaries and have been made accessible to the shareholders.

(38) Events after the balance-sheet date

On February 10, 2006, a binding agreement was reached on the sale of majority stakes in the Chilean water utilities ESSBIO S. A. (51 %) and ANSM S. A. (100 %).

More detailed information is presented on page 36 in the review of operations.

This report contains individual forward-looking statements concerning the future course of business such as forecasts on the development of the economic and political environment as well as on our own business. These statements are based on carefully made assumptions on our part. However, due to remaining risks and uncertainties, we cannot guarantee that they will turn out to be correct in part or in their entirety.

Auditor's report. We have audited the consolidated financial statements – consisting of income statement, balance sheet, cash flow statements, statement of changes in equity, notes – and the combined review of operations of the RWE Aktiengesellschaft for the business year from January 1, to December 31, 2005. The preparation of the consolidated financial statements and the combined review of operations in accordance with the IFRS, as adopted by the EU, and the additional provisions stated in § 315a Abs. 1 HGB as well are the responsibility of the Company's Board. Our responsibility is to express an opinion on the consolidated financial statements and the combined review of operations based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB (German Commercial Law) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (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 review of operations 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 consolidated financial statements and the combined review of operations are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies 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 review of operations. 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 results of our audit the consolidated financial statements are in compliance with the IFRS, as adopted by the EU, and the additional provisions stated in § 315a 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 review of operations is in accordance with the consolidated financial statements and provides on the whole a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development.

Essen, Germany, February 15, 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

P. Albrecht	Dr. N. Schwieters
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Material Investments as of December 31, 2005

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	External revenue 2005 € million	Employees[1] 2005 average
RWE Aktiengesellschaft, Essen		**5,994,743**	**1,857,989**	**–**	**354**
RWE Power					
RWE Power Aktiengesellschaft, Cologne and Essen	100	2,116,974	–[2]	6,481	12,746
Harpen Aktiengesellschaft, Dortmund	100	157,220	–33,471	43	135
Kernkraftwerke Lippe-Ems GmbH, Lingen (Ems)	99	165,545	–[2]	78	299
Kernkraftwerk Gundremmingen GmbH, Gundremmingen	75	79,619	3,200	180	687
Mátrai Erömü Rt. (MÁTRA), Visonta / Hungary	51	175,519	34,239	238	2,518
Rheinbraun Brennstoff GmbH, Cologne	100	63,294	–[2]	575	149
RWE Dea AG, Hamburg	100	1,323,905	–[2]	939	703
RWE Trading GmbH, Essen	100	51,100	–[2]	8,865	477
RWE Energy					
RWE Energy Aktiengesellschaft, Dortmund	100	971,000	–[2]	6,833	504
Budapesti Elektromos Müvek Rt. (ELMÜ), Budapest / Hungary	55	343,443	66,381	772	1,882
Emscher Lippe Energie GmbH, Gelsenkirchen	79	97,950	28,404	394	654
envia Mitteldeutsche Energie AG, Chemnitz	64	915,874	99,324	2,581	2,322
Észak-magyarországi Áramszolgáltató Rt. (ÉMÁSZ), Miskolc / Hungary	54	144,119	10,558	309	1,083
EWV Energie- und Wasser-Versorgung GmbH, Stolberg	54	37,369	12,172	263	379
Jihomoravská plynárenská a. s., Brno / Czech Republic	50	192,489	27,498	519	1,019
Koblenzer Elektrizitätswerk und Verkehrs-Aktiengesellschaft, Koblenz	58	89,231	23,185	351	546
Lechwerke Aktiengesellschaft, Augsburg	90	220,129	60,259	905	1,174
MITGAS Mitteldeutsche Gasversorgung GmbH, Halle / Saale	60	93,786	25,710	588	290
rhenag Rheinische Energie Aktiengesellschaft, Cologne	100	114,242	–[2]	200	333
RWE NUKEM GmbH, Alzenau	100	36,684	–[2]	255	305
RWE Energy Beteiligungsgesellschaft mbH, Dortmund	100	2,843,009	–[2]	–	–
RWE Obragas N. V., Helmond / Netherlands	100	40,326	24,951	264	164
RWE Rhein-Ruhr Aktiengesellschaft, Essen	100	238,405	–[2]	4,879	4,776
RWE Solutions Aktiengesellschaft, Neu-Isenburg	100	186,856	–[2]	364	134
RWE Transgas a. s., Prague / Czech Republic	100	1,410,836	173,503	2,180	1,108
RWE Transportnetz Gas GmbH, Essen	100	55	–[2]	285	61
RWE Transportnetz Strom GmbH, Dortmund	100	553,025	–[2]	3,886	252
RWE Westfalen-Weser-Ems Aktiengesellschaft, Dortmund	80	283,185	–[2]	4,530	2,647
RWW Rheinisch-Westfälische Wasserwerksgesellschaft mbH, Mülheim an der Ruhr	80	70,238	8,606	106	480
SAG Energieversorgungslösungen GmbH, Langen	100	11,025	–[2]	187	1,098
SAG Holding GmbH, Langen[3]	100	114,943	285	–	3
SAG Netz- und Energietechnik GmbH, Langen	100	38,872	–[2]	275	2,097
STOEN S. A., Warsaw / Poland	99	195,374	37,032	410	1,345
Süwag Energie AG, Frankfurt am Main	78	273,109	57,800	1,319	1,528
Thyssengas GmbH, Duisburg	100	179,695	–[2]	110	–
VSE Aktiengesellschaft, Saarbrücken	69	133,217	14,318	244	325

1 Full time equivalent.
2 Profit- and loss-pooling agreement.
3 Truncated fiscal year from June 7 to December 31, 2005.

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	External revenue 2005 € million	Employees[1] 2005 average
RWE npower					
RWE Npower Holdings plc, Swindon / UK[2]	100	758,905	–80,349	6,385	10,006
RWE Thames Water					
RWE Thames Water plc, Reading / UK[2]	100	2,241,930	173,635	2,268	8,762
American Water Works Company, Inc., Wilmington / Delaware / USA AWW-Group[2] with 60 subsidiaries in the USA and Canada	100	4,088,986	117,231	1,486	6,194
Pridesa Proyectos y Servicios, S. A. U., Madrid / Spain Pridesa-Group[2] with 9 subsidiaries in Spain	100	20,149	–440	134	846
Other subsidiaries					
RWE Finance B. V., Zwolle / Netherlands	100	10,093	2,170	–	–
RWE Systems Aktiengesellschaft, Dortmund	100	150,507	–[3]	1,908	1,506

1 Full time equivalent.
2 Data from the group financial statement.
3 Profit- and loss-pooling agreement.

II. Entities 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
RWE Power			
TCP Petcoke Corporation, Dover / Delaware / USA[1]	50	9,902	11,155
Grosskraftwerk Mannheim Aktiengesellschaft, Mannheim	40	114,141	6,647
RWE Energy			
Cegedel S. A., Luxembourg / Luxembourg[1]	30	307,017	20,601
Déldunántúli Gázszolgáltató Rt., Pécs / Hungary	50	202,501	6,086
Dortmunder Energie- und Wasserversorgung GmbH, Dortmund	47	150,437	59,087
Fövárosi Gázmüvek Rt., Budapest / Hungary	33	142,690	18,152
Kärntner Energieholding Beteiligungs-GmbH, Klagenfurt, Austria[1]	49	242,641	42,099
Kommunale Energie- und Wasserversorgung Neunkirchen AG, Neunkirchen	29	72,344	9,706
Niederrheinische Versorgung und Verkehr AG, Mönchengladbach[1]	50	419,933	27,379
RheinEnergie AG, Cologne	20	564,045	161,693
Stadtwerke Duisburg AG, Duisburg	20	151,223	29,348
Stadtwerke Essen AG, Essen	29	115,186	25,026
TIGÁZ Tiszántúli Gázszolgáltató Rt., Hajdúszoboszló / Hungary	44	134,342	770
RWE Thames Water			
RWE-Veolia Berlinwasser Beteiligungs AG, Berlin	50	252,452	–61,751

III. Other investments			
RWE Energy			
Stadtwerke Chemnitz AG, Chemnitz	19	255,562	13,120
Others			
RAG Aktiengesellschaft, Essen[1]	30	4,231,900	–13,200

1 Data from the group financial statement.

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 capital costs. ROCE reflects the pure operating return. It is calculated by dividing the operating result by capital employed.

We calculate our cost of capital as a weighted average cost of equity and debt. Equity capital costs cover the 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 in the RWE Group and allows interest on debt to be classified as tax deductible (tax shield). We calculate the Group's cost of debt by applying a pre-tax cost rate of 5.75 %. The cost of equity is derived on the basis of an interest rate of 5.0 %, which is customary for a risk-free investment, plus risk charges specific to the Group and the Group's divisions. We do not derive the relationship between equity and debt from the amounts carried on the balance sheet, but assume a ratio of 40 : 60 instead. Until 2004 we applied a 30 : 70 ratio. This adjustment is based on the reduction of our net financial debt. In 2005, the RWE Group's cost of capital was thus 9.0 % before tax.

Relative value added is the difference between ROCE and capital costs. 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 the most important criterion for evaluating capital expenditure. Value added—in addition to free cash flow—is also our yardstick for determining bonus payments for RWE Group executives.

RWE Group—capital costs	
Risk-free interest rate	5.0 %
Market premium	5.0 %
Beta factor	0.7
Cost of equity after tax	8.5 %
Cost of debt before tax	5.75 %
Tax rate for debt	29.3 %
Tax shield	–1.65 %
Cost of debt after tax	4.1 %
Proportion of equity	40 %
Proportion of debt	60 %
Capital costs after tax	**5.8 %**
Tax rate for blanket conversion	35 %
Capital costs before tax	**9.0 %**

RWE Group—determining value added 2005[1]		
Operating result	€ million	**6,201**
Intangible assets / property, plant and equipment[2, 3]	€ million	52,372
+ Investments including loans	€ million	4,523
+ Inventories[3]	€ million	2,057
+ Trade accounts receivable	€ million	7,870
+ Other assets incl. prepaid expenses	€ million	10,759
– Non-interest-bearing provisions[4]	€ million	9,726
– Non-interest-bearing liabilities[5]	€ million	25,252
+ Adjustments to average capital employed[6]	€ million	–464
Capital employed	€ million	**42,139**
ROCE	%	14.7
Relative value added	%	5.7
Absolute value added	€ million	2,408

1 Balance sheet items each with average figures for December 31, 2004 and 2005.
2 RWE npower's figure was adjusted to account for deferred tax liabilities relating to the capitalized customer base.
3 Assets capitalized in accordance with IAS 16.15 are not taken into account since these assets do not employ capital. This relates to €268 million in non-current assets and €94 million in inventories.
4 Including tax provisions and other provisions; excluding non-current provisions of €1,142 million.
5 Including trade liabilities, income tax liabilities, other liabilities, deferred income and prepayments received. Also includes deferred tax liabilities of RWE Thames Water amounting to €2,947 million.
6 Including adjustments made to average capital employed due to first-time consolidations and deconsolidations during the fiscal year. This relates primarily to RWE Umwelt and "Assets / Liabilities held for sale." The impairment loss recognized for American Water was not netted against capital employed. Therefore, it did not have an impact on value added in 2005.

Supervisory Board

Dr. Thomas R. Fischer
Düsseldorf
Chairman
Chairman of the Board of Management of WestLB AG
- Audi AG
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- Hapag-Lloyd AG
- HSH Nordbank AG
- Amvescap plc
- DekaBank Deutsche Girozentrale
- Deutscher Sparkassen Verlag GmbH
- KfW – Kreditanstalt für Wiederaufbau

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Chairman of ver.di Vereinte Dienstleistungs-gewerkschaft
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- IBM Central Holding GmbH

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- Allianz Global Investors AG
- Allianz Immobilien GmbH (Chairman)
- Bayer AG

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- RWE Solutions AG

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Eschweiler
– since August 1, 2005 –
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Simone Haupt
Hagen
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Chairman of the General Works Council of RWE Systems AG

Ralf Hiltenkamp*
Arnsberg
– until April 10, 2005 –
Chairman of the General Works Council of RWE Umwelt Westfalen-Ruhr GmbH

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Former Chief Administrative Officer, Osnabrück Rural District
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- Georgsmarienhütte Holding GmbH

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Oberursel-Oberstedten
Trade Union Secretary of IG Metall
- Audi AG
- Heidelberger Druckmaschinen AG
- Siemens AG

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Essen
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- Allianz Versicherungs-AG
- Dresdner Bank AG
- GEA Group AG
- Hapag-Lloyd AG
- HOCHTIEF AG
- TUI AG
- Société Electrique de l'Our S. A.

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- Harpen AG
- KEB Holding AG (Chairman)
- WestLB AG
- Klinikum Dortmund gGmbH (Chairman)
- Schüchtermann Schiller'sche Kliniken KG
- Sparkasse Dortmund (Chairman)

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Mülheim an der Ruhr
– since January 4, 2005 –
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- ▪ Mülheimer Wohnungsbau e. G. (Chairman)
- ▫ Beteiligungsholding Mülheim an der Ruhr GmbH
- ▫ Flughafen Essen / Mülheim GmbH (Chairman)
- ▫ medl GmbH (Chairman)
- ▫ Mülheimer & Business GmbH (Chairman)
- ▫ Ruhrgebiet Tourismus Management GmbH

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- ▫ EMG Essen Marketing GmbH Gesellschaft für Stadtwerbung, Touristik und Zentrenmanagement (Chairman)
- ▫ Entwicklungsgesellschaft Universitätsviertel Essen mbH (Chairman)
- ▫ Essener Wirtschaftsförderungsgesellschaft mbH (Chairman)
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- ▫ Messe Essen GmbH (Chairman)
- ▫ Sparkasse Essen (Chairman)

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- ▪ RWE Power AG
- ▫ Stadtwerke Lingen GmbH

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Frechen
M.A. in mining engineering

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- ▪ DaimlerChrysler AG
- ▪ Linde AG (Chairman)
- ▪ Metro AG
- ▪ TUI AG

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- ▪ RWE Dea AG

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Bochum
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- ▪ RWE Westfalen-Weser-Ems AG

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Beersel
Professor, Nyenrode University
- ▪ Münchener Rückversicherungs-Gesellschaft AG
- ▫ Agfa-Gevaert N. V.
- ▫ Anglo American plc
- ▫ De Persgroup
- ▫ Koninklijke Philips Electronics N. V.
- ▫ SIBELCO N. V.
- ▫ SOLVAY S. A.
- ▫ Vivendi Universal S. A.

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Goch
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Erwin Winkel*
Niederzier
– until July 31, 2005 –
Chairman of the General Works Council of RWE Power AG
- ▪ RWE Power AG

▪ Member of other mandatory supervisory boards.
▫ Member of comparable domestic and foreign supervisory bodies of commercial enterprises.
* Information valid as of the date of retirement from the Supervisory Board.

Supervisory Board Committees

Executive Committee of the Supervisory Board

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Frank Bsirske
Dr. Paul Achleitner
Dieter Faust – since September 16, 2005 –
Dr. Wolfgang Reiniger – since February 22, 2005 –
Günter Reppien
Dr. Manfred Schneider
Uwe Tigges
Erwin Winkel – until July 31, 2005 –

Mediation Committee in accordance with Sec. 27, Par. 3 of the German Co-Determination Act (MitbestG)

Dr. Thomas R. Fischer (Chairman)
Frank Bsirske
Dr. Manfred Schneider
Uwe Tigges

Executive Board Personnel Affairs Committee

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Klaus-Dieter Südhofer

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Dr. Dietmar Kuhnt
Dr. Gerhard Langemeyer
Günter Reppien
Bernhard von Rothkirch
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Executive Board

Harry Roels

Essen

CEO of RWE AG

■ RWE Energy AG (Chairman)
■ RWE Power AG (Chairman)
▪ RWE Npower Holdings plc (Chairman)
▪ RWE Thames Water plc (Chairman)
▪ RWE Trading GmbH (Chairman)

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Grevenbroich

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■ RAG AG
■ RheinEnergie AG
■ RWE Rhein-Ruhr AG (Chairman)
■ RWE Westfalen-Weser-Ems AG (Chairman)
■ STEAG AG
▪ RWE Energy Nederland N. V.
▪ RWE Npower Holdings plc
▪ STOEN S. A. (Chairman)
▪ VSE a. s.

Alwin Fitting

Westhofen

– since August 1, 2005 –

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■ Harpen AG
■ RWE Energy AG

*Dr. Gert Maichel**

Dortmund

– until February 22, 2005 –

Executive Vice-President of RWE AG

■ Harpen AG (Chairman)
■ RAG AG
■ RWE Dea AG (Chairman)
■ RWE Energy AG
■ TÜV Rheinland Holding AG
▪ RWE Npower Holdings plc
▪ RWE Trading GmbH
▪ Société Electrique de l’Our S. A.

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■ Hannover Rückversicherung AG
■ Heidelberger Druckmaschinen AG
■ RAG AG
■ RWE Energy AG
■ RWE Power AG
■ RWE Systems AG (Chairman)
▪ Österreichische Industrieholding AG
▪ RWE Npower Holdings plc
▪ RWE Thames Water plc

Jan Zilius

Cologne

Executive Vice-President of RWE AG

■ Harpen AG (Chairman)
■ RAG AG
■ RWE Dea AG (Chairman)
■ RWE Energy AG

■ Member of other mandatory supervisory boards.
▪ Member of comparable domestic and foreign supervisory bodies of commercial enterprises.
* Information valid as of the date of retirement from the Executive Board.

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Alfred Freiherr von Oppenheim
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– deceased on January 5, 2005 –

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Duisburg-Essen University, Essen Campus

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Dr. Jürgen Weber
Frankfurt am Main
– until January 31, 2005 –
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Wilhelm Werhahn
Neuss
Personally liable partner in Wilh. Werhahn KG

Group Business Committee

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Executive Vice-President of RWE AG

Jan Zilius
CEO of RWE Power AG
Executive Vice-President of RWE AG

Dr. Klaus Sturany
Executive Vice-President of RWE AG

Alwin Fitting
Executive Vice-President of RWE AG

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Andrew Duff
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Dr. Georg Schöning
CEO of RWE Dea AG

Huib Morelisse
Head of Corporate Development at RWE AG

Glossary

BAFA price. Germany's Federal Office of Economics and Export Control (BAFA) uses reports made by hard coal buyers to determine the price paid in Germany for hard coal including all costs incurred from the German border to the buyer. The price of power plant hard coal is published by BAFA quarterly and annually in shipping tons and tons of hard coal units.

Barrel. International unit of measurement for trading petroleum, available in "imperial" and US variants. A US barrel corresponds to 158.987 litres.

Combined heat and power generation. Heat which is not used in conventional thermal power generation plants is captured and used as steam or hot water. This increases the fuel efficiency of a power plant.

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 twelve months.

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.

Debt issuance programme. Contractual master and model documents for the issuance of bonds on the domestic and foreign market. It can be used as a flexible financing vehicle to issue long-term debt.

EBITDA. Earnings before interest, taxes, depreciation and amortization.

Entry-exit system. Enables the flexible trading of gas in gas grids. Quantities of gas can be booked independent of individual transactions more simply than before. Entry-exit systems are a prerequisite for liquid gas markets and thus enable trades without gas transmission.

Equity accounting. Method for accounting for entities whose assets and liabilities cannot entirely be 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.

European Energy Exchange (EEX). The German energy exchange, headquartered in Leipzig.

Forward trading. Trading scheme that works like an exchange for conducting trades at a fixed point in time in the future. This means that the conclusion of the contract and its fulfilment (delivery and payment) do not occur at the same time.

Hard coal unit (HCU). Reference value for the assessment of the energy content of various energy carriers. One kilogram HCU corresponds to 29,308 kilojoules.

Inflation-adjusted historic cost accounting. Method for calculating grid fees. Inflation-adjusted historic cost accounting depreciates assets at historic cost and applies a nominal interest rate when determining the return on capital. Also see "Regulatory current cost accounting."

LNG = liquefied natural gas. In cases where it is difficult or unprofitable to transmit gas through pipelines from remote locations, the gas is liquefied to reduce the space it occupies. LNG is transported in special ships to consumer countries where it is then converted back into gas.

Megawatt (MW). Unit of measurement of electric output.
1 megawatt = 10^3 kilowatts, 1 gigawatt = 10^6 kilowatts, 1 terawatt = 10^9 kilowatts.

Proprietary trading. Buying and selling a commodity with the object of making a profit. In contrast to trading, e.g. electricity in order to facilitate the sale of a long position to the market in an orderly fashion.

Rating. Standardized 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.

Regulatory current cost accounting. Method for calculating grid fees. This method takes into account imputed depreciation on the current cost of non-current assets and applies a real interest rate when determining the return on equity capital. Interest on debt is directly recorded as an expense (cf. "Inflation-adjusted historic cost accounting").

Single A rating. See "Rating."

Spot market. General term for markets where payment and delivery are effected immediately on conclusion of the transaction (cf. "Spot trading").

Spot trading. Trades on international exchanges in return for immediate payment and delivery taking into account the settlement periods customary on exchanges (usually two days).

Spread. Difference between the buying and selling price. As regards bonds, the spread represents the difference in yield on bonds from different issuers.

Stock appreciation right (SAR). Rights to partake of the increase in a company's value. SARs are paid as the difference between the company's value at the beginning and the end of the term, generally once pre-determined hurdles have been reached or periods have elapsed. SARs grant the right to receive payment of the difference between the exercise price and the market price at the exercise date.

Value-at-risk method. Method for measuring the loss that might occur from a risk position, assuming a certain probability and that the position is held for a certain period of time.

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Imprint

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Phone 011 49 1801 45 12 80 (from the USA)

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RWE promotes the use of paper from forests maintained according to the principle of sustainability. The inner pages of this annual report are made of PEFC-certified pulp.

RWE is member of DIRK, the German Investor Relations Association.

Five-year overview* RWE Group		2005	2004	2003	2002	2001 TFY[1]
External revenue	€ million	41,819	42,137	43,875	46,633	33,301
Income						
EBITDA	€ million	8,324	8,400	8,476	7,241	3,637
Operating result	€ million	6,201	5,976	5,551	4,504	2,029
Income from continuing operations before tax[2]	€ million	3,828	3,935	2,123	2,722	1,143
Net income[2]	€ million	2,231	2,137	953	1,050	621
Earnings per share[2]	€	3.97	3.80	1.69	1.87	1.10
Return on equity	%	21.3	23.8	10.4	13.5	7.3
Return on revenue	%	14.9	15.1	10.2	10.7	6.4
Value management[3]						
Return on Capital Employed (ROCE)	%	14.7	13.5	10.4	10.4	11.1
Value added	€ million	2,408	1,998	781	395	307
Capital employed	€ million	42,139	44,480	53,961	44,293	37,860
Cash flow / capital expenditure / depreciation and amortization						
Cash flows from operating activities	€ million	5,304	4,928	5,289	5,933	1,021
Free cash flow[4]	€ million	1,637	1,499	927	1,838	–1,274
Capital expenditure	€ million	4,143	3,737	9,762	16,985	3,706
Property, plant and equipment	€ million	3,667	3,429	4,362	4,095	2,295
Depreciation, amortization, impairment losses and asset disposals[5]	€ million	4.098	7,051	6,819	6,655	3,144
Free cash flow per share	€	2.91	2.67	1.65	3.27	–2.27
Workforce						
Workforce at end of fiscal year[6]		85,928	97,777	127,028	131,765	155,634
Asset / capital structure[7]						
Non-current assets	€ million	70,344	65,406	66,731	69,170	57,581
Current assets	€ million	37,778	27,964	32,411	31,103	33,868
Balance sheet equity	€ million	13,117	11,193	9,065	8,924	11,129
Non-current liabilities	€ million	64,302	60,321	61,327	64,384	54,000
Current liabilities	€ million	30,703	21,856	28,750	26,965	26,320
Balance sheet total	€ million	108,122	93,370	99,142	100,273	91,449
Net financial debt	€ million	11,438	12,385	17,838	15,494	1,126
Capital-to-assets ratio	%	12.1	12.0	9.1	8.9	12.2

Five-year overview* RWE Aktiengesellschaft		2005	2004	2003	2002	2001 TFY[1]
Dividend / dividend payment						
Dividend payment	€ million	984[8]	844	703	619	562
Dividend per share	€	1.75[8]	1.50	1.25	1.10[9]	1.00[10]
Market capitalization / rating						
Market capitalization at end of fiscal year	€ billion	34.9	22.6	17.5	13.7	23.6
Long-term credit rating						
Moody's		A1	A1	A1	A1	Aa3
(outlook)		(stable)	(negative)	(negative)	(negative)	(negative)
Standard & Poor's		A+	A+	A+	A+	AA–
(outlook)		(negative)	(negative)	(negative)	(stable)	(negative)

* Part of the Review of Operations.

1 Truncated fiscal year for the Group from July to December 2001.
2 As a result of the change in International Financial Reporting Standards, the figures for 2004 and 2005 do not include goodwill amortization.
3 Figures for 2004 to 2005 are based on a new method. Please refer to pages 186 et seqq. of RWE's 2004 annual report.
4 Cash flows from operating activities minus capital expenditure on property, plant and equipment.
5 In accordance with IAS 1, as of 2005 excluding financial assets.
6 Full time equivalent.
7 Balance sheet structure in accordance with IAS 1 as of December 31, 2004; 2001 to 2003: non-current assets = fixed assets including deferred taxes, 2001 to 2003: current assets = inventories, accounts receivable and other assets, marketable securities, cash and cash equivalents, prepaid expenses.
8 Proposed dividend for RWE AG's 2005 fiscal year, subject to approval by the April 13, 2006 Annual General Meeting.
9 Includes € 0.10 bonus.
10 Dividend for RWE AG's 2001 fiscal year (January to December).

Financial Calendar 2006 / 2007*

04 / 13 / 2006	Annual General Meeting
04 / 18 / 2006	Ex-dividend date
05 / 15 / 2006	Interim report for the first quarter of 2006 with analyst conference call
08 / 10 / 2006	Interim report for the first half of 2006 ▪ Press conference ▪ Analyst conference
11 / 09 / 2006	Interim report for the first three quarters of 2006 with analyst conference call
02 / 23 / 2007	Annual report for fiscal 2006 ▪ Press conference ▪ Analyst conference
04 / 18 / 2007	Annual General Meeting
04 / 19 / 2007	Ex-dividend date
05 / 15 / 2007	Interim report for the first quarter of 2007 with analyst conference call
08 / 09 / 2007	Interim report for the first half of 2007 ▪ Press conference ▪ Analyst conference
11 / 14 / 2007	Interim report for the first three quarters of 2007 with analyst conference call

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

◁ Five-year overview (Part of the Review of Operations)

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