

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				Total
	Fixed compensation	Variable compensation	Non-cash and other remuneration	Payment for exercise of mandates	
€ '000					
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				Total
	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	
€ '000					
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 in € '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
Fiting	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 as 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
Wirtschaftsprüfer
(German Public Auditor)

Dr. N. Schwieters
Wirtschaftsprüfer
(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 Erőmű 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 Művek Rt. (ELMŰ), 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. (EMÁSZ), 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 Oubragas 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 Energieversorgungsleistungen 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 §1	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
Fővárosi Gázművek 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

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Düsseldorf

Chairman

Chairman of the Board of Management of WestLB 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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Berlin

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Chairman of ver.di Vereinte Dienstleistungsgewerkschaft

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- IBM Central Holding GmbH

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- RWE Solutions AG

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Eschweiler

– since August 1, 2005 –

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Hagen

– since April 11, 2005 –

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*Ralf Hiltenkamp**

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- Georgsmarienhütte Holding GmbH

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Oberursel-Oberstedten

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- Heidelberger Druckmaschinen AG
- Siemens AG

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

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Dortmund

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

Dagmar Mühlenfeld

- Mülheim an der Ruhr
 - since January 4, 2005 -
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- Mülheimer Wohnungsbau e. G. (Chairman)
 - Beteiligungsholding Mülheim an der Ruhr GmbH
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- RWE Power AG
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- RWE Westfalen-Weser-Ems AG

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 - Vivendi Universal S. A.

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- Goch
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- 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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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)

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Frank Bsirske
Dr. Manfred Schneider
Uwe Tigges

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Dr. Gerhard Langemeyer
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Uwe Tigges – since April 14, 2005 –

Executive Board

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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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– since August 1, 2005 –

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– until February 22, 2005 –

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- RAG AG
- RWE Dea AG (Chairman)
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- RWE Npower Holdings plc
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- RWE Power AG
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- Österreichische Industrieholding AG
- RWE Npower Holdings plc
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- 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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– until January 31, 2006 –
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Frankfurt am Main
– until January 31, 2005 –
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Wilhelm Werhahn

Neuss
Personally liable partner in Wilh. Werhahn KG

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CEO of RWE AG

Berthold A. Bonekamp

CEO of RWE Energy AG

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

CEO of RWE Npower Holdings plc

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.

Index

A

Accounting policies	104 et seqq.
American Water	34, 44, 50 et seqq., 58, 75 et seq., 77
Amortization	51, 94, 96, 104, 123 et seqq., 128, 131
Annual General Meeting	10, 63, 85, 138
Auditor's report	82 et seq., 172

B

Balance sheet	61 et seq., 95
Boards and committees	82, 178 et seqq.
Bonds	8, 11, 57 et seq., 147 et seq.
Business performance	38 et seqq., 121, 171

C

Capital costs	176 et seq.
Capital expenditure	31, 54 et seq., 56 et seqq., 78, 81, 96, 158
Cash and cash equivalents	57, 62, 95, 137, 162
Cash flow	10, 56 et seqq., 60, 86, 96, 161 et seqq.
Cash flow hedges	113, 137 et seq., 152
Cash flow statement	60, 96, 161 et seqq.
Code of conduct	84, 87
Combined heat and power technology	27
Compensation model for the Executive and Supervisory Boards	164 et seqq.
Concessions	104, 124, 128, 163
Consolidation principles	102, 104 et seqq.
Corporate Governance	84 et seqq.
Cost	104 et seqq., 128, 131 et seq.
Cost-cutting programmes	53
Currency translation	103, 153
Current assets	61 et seq., 96

D

Deconsolidations	45, 46, 48, 58 et seqq., 64
Deferred income	112, 117, 150
Deferred taxes	51, 95 et seq., 101, 106 et seqq., 117, 126, 134 et seqq.
Depreciation	45, 58 et seq., 94, 96, 105, 123 et seqq.
Dividend	9 et seq., 34, 52, 57, 63, 77, 83, 96 et seqq., 138, 151
Dividend proposal	10, 63, 138

E

Earnings	38 et seqq., 45 et seqq., 62 et seq.
Earnings per share	10, 52, 151
EBITDA	45 et seq., 54 et seq., 57, 76, 158 et seq.
Economic Advisory Board	168, 182
Economic environment	25 et seqq., 73
Electricity tax	94, 121
Emissions trading	26 et seq., 29 et seq., 31 et seqq., 71, 118
Employee shares	89
Environmental protection	91
Equity	61, 95, 97
Event after the close of the fiscal year	36
Executive Board	4 et seqq., 36, 86 et seq., 98, 164 et seqq.
Executive board compensation	86 et seq., 164 et seqq.
Executives	88 et seq., 138 et seqq.

F

Fair value hedges	112 et seq., 152
Financial assets	54 et seq., 57, 59, 62 et seq., 95, 106
Financial instruments	97, 112 et seq., 119, 151 et seqq.
Financial result	51 et seq., 125 et seq.
Free cash flow	49, 60, 86, 164

G

Gross domestic product (GDP)	25 et seq., 73
Group Business Committee	24, 183

I

Impairment loss	6, 50 et seqq., 94, 96, 102, 104 et seqq., 129 et seq.
Impairment test	82, 102, 104, 129 et seqq.
Income from investments	45 et seq., 124 et seq., 158, 161
Income statement	63, 94
Inventories	95, 108, 136
Investment property	95 et seq., 106, 132
Investments accounted for using the equity method	94 et seq., 99 et seqq., 106, 124 et seq.
Investor Relations	11

L

Lease	105, 112, 120, 155
Liabilities	57, 61, 69 et seq., 96
Loans	107, 114, 117, 122, 125 et seq., 134
Long-term incentive plan	86 et seq., 89, 138 et seq.
Loss carryforwards	51 et seq., 107, 127, 135 et seq.

M

Market capitalization	10
Material investments	173 et seq.
Minority interest	52, 94 et seq., 97, 138

N

Net financial debt	57, 78, 162 et seq.
Net income	6 et seq., 10, 34, 50 et seq., 76, 94, 151, 173 et seq.
Net worth	62 et seq.
Non-current assets	62, 95 et seq., 101, 128 et seq., 135

O

Operating leases	155
Operating result	45 et seq., 54 et seq., 76, 158 et seq., 161 et seq.
Other operating expenses	124
Other operating income	121 et seq.
Outlook	73 et seq.
Overall economic situation	25 et seq.

P

Pension provisions	114, 145 et seq.
Percentage of completion method	107, 121
Procurement	27 et seq., 66 et seq.
Property, plant and equipment	54 et seq., 58 et seq., 95 et seq., 104 et seq., 131
Provisions (mining)	111, 125, 143, 145
Provisions (nuclear)	82, 125
Provisions for taxes	143, 145

R

Rating	11, 23, 56 et seq., 78
Receivables and other assets	61, 95, 107, 134
Regulation	32 et seq., 45, 71, 74 et seq., 77, 115
Related party disclosures	163 et seq.
Renewables	33, 38 et seq., 79, 90, 157
Research and development	64 et seq., 79, 129
Risk management	68 et seq., 151 et seq.
ROCE	49 et seq., 54 et seq., 74 et seq., 77, 109 et seq., 143 et seq., 176
Roll-forward of provisions	145
RWE AG	62 et seq.
RWE Thames Water	23, 34, 43 et seq., 55, 75

S

Sales revenue	42 et seq., 94, 121, 174
Scope of consolidation	99 et seq.
Segment reporting	157 et seq.
Share price development	9
Shareholder structure	10
Shares	8 et seq., 63, 89, 137 et seq., 151
Staff costs	94, 110, 122 et seq.
Statement by the Executive Board	98
Statement of compliance	84, 87
Stock option plans	109, 138 et seq., 165
Strategy	21 et seq.
Supervisory board compensation	85 et seq., 164 et seq.
Supervisory Board	80 et seq., 84 et seq., 164 et seq., 168, 178 et seq.
Supervisory Board Committees	180
Supervisory Board Report	80 et seq.
Sustainability	90 et seq.

T

Training	88
----------	----

V

Value at risk method	69 et seq., 70, 153
Value management	23, 49, 77, 176 et seq.

W

Water business	4 et seq., 21 et seq., 31, 34 et seq., 55, 75, 81
Workforce	54 et seq., 64 et seq., 78, 88 et seq.
Working capital	60, 96

Imprint

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Five-year overview ¹ 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 management³						
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 structure⁷						
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 ²	844	703	619	562
Dividend per share	€	1.75 ⁴	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.

RWE Aktiengesellschaft

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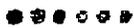
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