

# “Strong 2006 performance despite regulatory risks”

Conference call H1 2006  
August 10, 2006

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# Forward Looking Statement



This presentation contains certain forward-looking statements within the meaning of the US federal securities laws. Especially all of the following statements:

- Projections of revenues, income, earnings per share, capital expenditures, dividends, capital structure or other financial items;
- Statements of plans or objectives for future operations or of future competitive position;
- Expectations of future economic performance; and
- Statements of assumptions underlying several of the foregoing types of statements

are forward-looking statements. Also words such as “anticipate”, “believe”, “estimate”, “intend”, “may”, “will”, “expect”, “plan”, “project” “should” and similar expressions are intended to identify forward-looking statements. The forward-looking statements reflect the judgement of RWE’s management based on factors currently known to it. No assurances can be given that these forward-looking statements will prove accurate and correct, or that anticipated, projected future results will be achieved. All forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. Such risks and uncertainties include, but are not limited to, changes in general economic and social environment, business, political and legal conditions, fluctuating currency exchange rates and interest rates, price and sales risks associated with a market environment in the throes of deregulation and subject to intense competition, changes in the price and availability of raw materials, risks associated with energy trading (e.g. risks of loss in the case of unexpected, extreme market price fluctuations and credit risks resulting in the event that trading partners do not meet their contractual obligations), actions by competitors, application of new or changed accounting standards or other government agency regulations, changes in, or the failure to comply with, laws or regulations, particularly those affecting the environment and water quality (e.g. introduction of a price regulation system for the use of power grid, creating a regulation agency for electricity and gas or introduction of trading in greenhouse gas emissions), changing governmental policies and regulatory actions with respect to the acquisition, disposal, depreciation and amortization of assets and facilities, operation and construction of plant facilities, production disruption or interruption due to accidents or other unforeseen events, delays in the construction of facilities, the inability to obtain or to obtain on acceptable terms necessary regulatory approvals regarding future transactions, the inability to integrate successfully new companies within the RWE Group to realise synergies from such integration and finally potential liability for remedial actions under existing or future environmental regulations and potential liability resulting from pending or future litigation. Any forward-looking statement speaks only as of the date on which it is made. RWE neither intends to nor assumes any obligation to update these forward-looking statements. For additional information regarding risks, investors are referred to RWE’s latest annual report and to other most recent reports filed with Frankfurt Stock Exchange or SWX Swiss Exchange and to the material furnished to the US Securities and Exchange Commission by RWE.

# Today's agenda

**A**

**Harry Roels**

**Highlights of H1 2006, Update on Group topics,  
Outlook 2006**

**B**

**Klaus Sturany**

**Group results H1 2006 and divisional performance**

# Highlights H1 2006

## Performance

- Operating result + 19%; adjusted for deconsolidation and f/x effects + 19%
- Net profit + 16%
- Cost reduction: € 120 million out of € 230 million achieved

## Financial Position

- Net financial debt at €9.5 bn despite high dividend payment
- A1/A+ Ratings confirmed by Moody's and Standard & Poor's

## Strategy / Portfolio

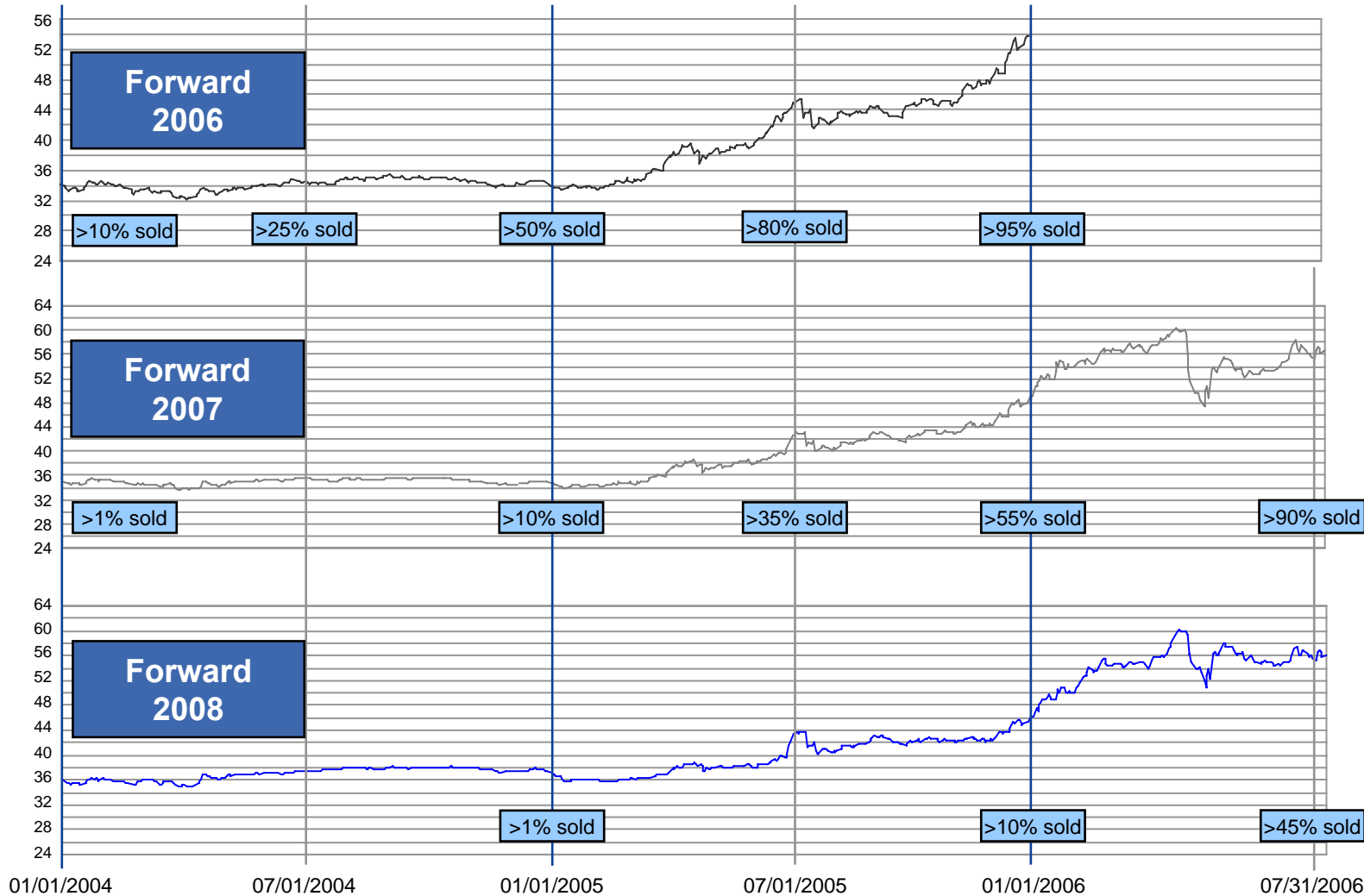
- Planned water sales on track
- Position in downstream gas strengthened
- Entry into LNG
- Sale of RWE Solutions

## Outlook 2006

- Earnings guidance – German regulation a key unknown

# German power market: Prudent forward selling secures profit growth in NAP 1 period and beyond

Forward selling of RWE Power in the German market (baseload forwards in €/MWh)



as of  
08/07/2006

# Update on planned disposal of RWE Thames Water and American Water

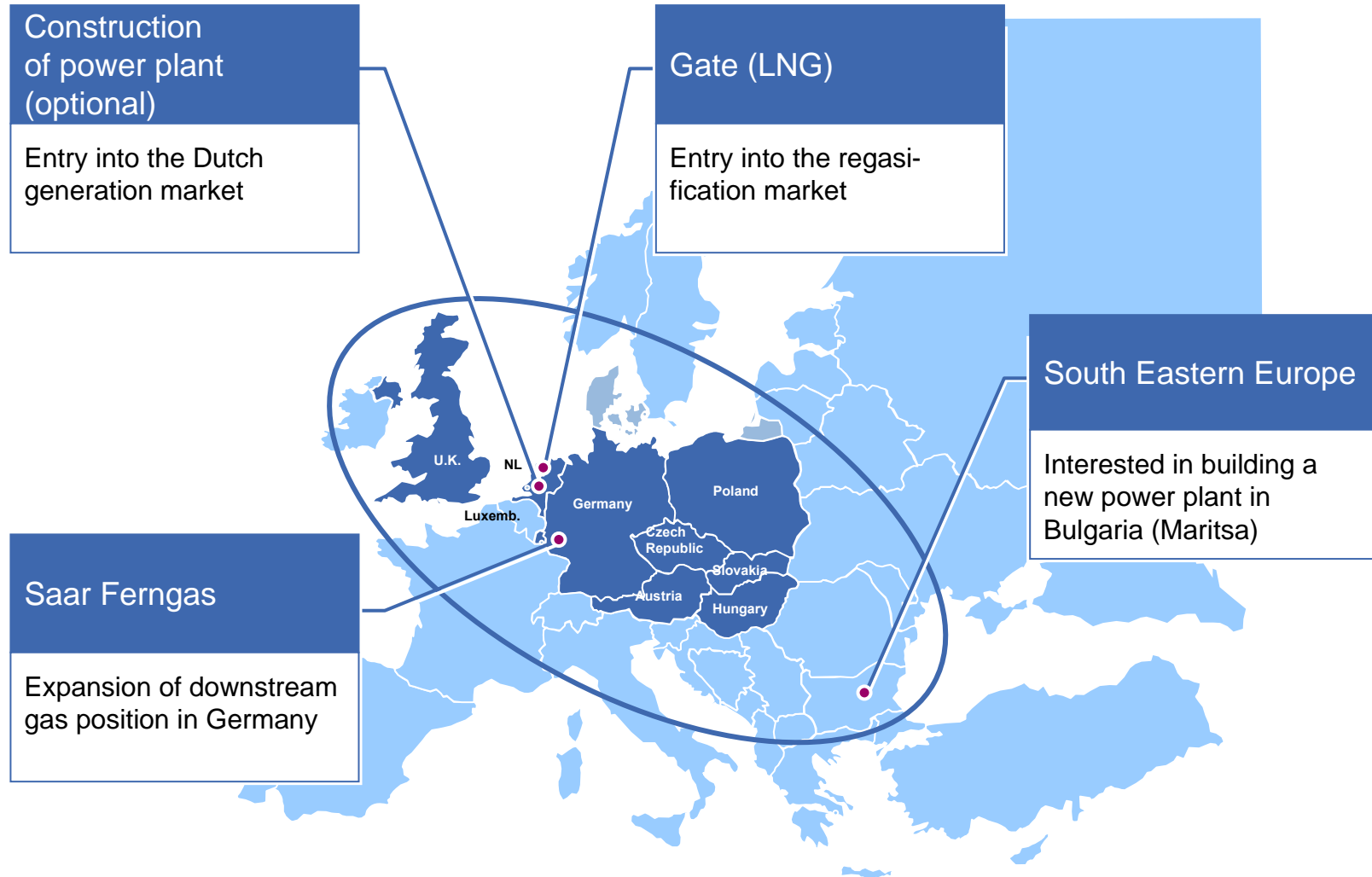
## American Water

- Petitions for regulatory approvals filed in 13 states – two approvals already received
- Projects for refinancing as well as risk management and internal control (in line with Sarbanes-Oxley-Act requirements) also on schedule
- IPO expected in 2007

## Thames Water

- Dual track approach: IPO or sale to long-term financial investors
- Corporate functions being re-established and Board strengthened
- Conclusion of sale expected in 2007 – before IPO of American Water

# Recent initiatives for growth



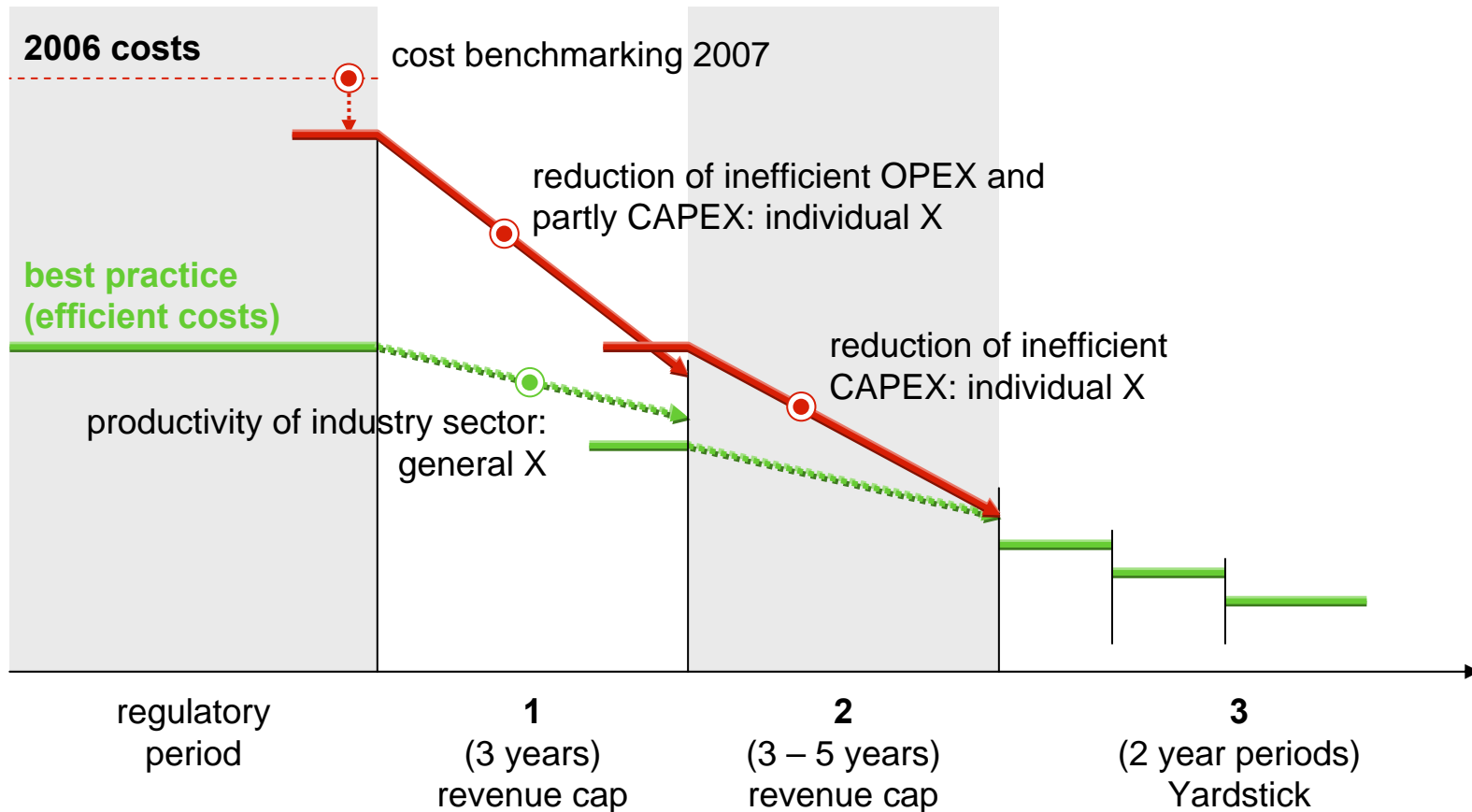
# Update on German grid regulation

- Approval letter for electricity transmission company (TSO) received
  - Some 9% cut of transmission grid fees as of August, 1st 2006 to December 31st, 2007
  - Negative full year impact of ca. € 90 million (based on revenue of ca. € 1bn)
  
- Approval letters for electricity distribution companies (DSOs) still pending

# Update on German grid regulation: Incentive regulation

- Incentive regulation – Federal Network Agency has released its recommendations on June, 30th. Main points are:
  - Additional price cut proposed before beginning of incentive regulation (as of January, 1st 2008)
  - General efficiency increase of 1.5 – 2% (general X-factor) envisioned for all costs (exception royalties)
  - Short regulatory periods (three and three to five years)

# Update on German grid regulation: Incentive regulation – How the “X-factors” work




# Update on Emissions Trading: The new German National Allocation Plan (NAP II)

- The German NAP II was notified to the EU commission by end of June 2006
- Key elements:
  - Emission cap for CO2 certificates: 482 mil t p.a. from 2008 – 2012 will be allocated to emitters in the energy and industry sector free of charge
  - No auctioning, but energy intensive industry will be granted more certificates and utilities will get less
  - Compliance factor of 85% for utilities compared to emissions of base period 2000 – 2005
  - 14 years of full allocation for new plants;  
Replacement plants: 4 years historical emissions of old plant + 10 years full allocation  
“4 + 14” rule maintained for replacement plants that are currently built and approved
  - Standard load factor of 7,500 h/year for lignite-, hard coal- and gas-fired plants
  - 12% cap on utilisation of certificates derived from CDM/JI
  - Approval of EU Commission is expected by end of September 2006
- For further details please see our fact book on NAP II

# Update on Emissions Trading: Current status of UK Governmental draft (NAP II)

- The UK published a drafted NAP II in March 2006; following public consultation, the Government announced further details of the NAP at the end of June
  
- Key elements:
  - Emission cap for CO<sub>2</sub> certificates: 238 mil t p.a. from 2008 – 2012 compared with 245 mil t p.a. in phase I
  - Auctioning is set at 7% of total allocation, all of which will be taken from the electricity sector
  - Allocations to individual sectors will be in line with business as usual except for the electricity sector which will bear the entire shortfall in the total allocation
  - 8% cap on utilisation of certificates derived from CDM/JI
  - NAP II is expected to be submitted to the EU commission in late August or early September
  
- For further details please see our fact book on NAP II

# Outlook for 2006

	2005 <sup>1</sup> € million	2006 forecast <sup>2</sup>
<b>External revenue</b>	41,819	
<b>Operating result</b>	6,201	+5% - 10%
<b>Net income</b>	2,231	ca. +10% *
<b>Recurrent net income</b>	2,257	+10% - 20%
<b>ROCE</b>	14.7%	>14%
<b>Capex on fixed assets</b>	3,667	ca. € 4.5 – 4.8 bn

<sup>1</sup> Exchange rates of (€1 =) USD 1.24; GBP 0.68

<sup>2</sup> Based on exchange rates of (€1 =) USD 1.25; GBP 0.70.

\* excluding potential further restructuring provisions as a consequence of German grid fee regulation

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**Group results H1 2006 and divisional performance**

# RWE group results



January – June € million	2006	2005	change in %
<b>EBITDA</b>	<b>5,072</b>	<b>4,439</b>	<b>+14.3</b>
<b>Operating result</b>	<b>4,104</b>	<b>3,455</b>	<b>+18.8</b>
<b>Non-operating result</b>	<b>-449</b>	<b>-7</b>	<b>-</b>
<b>Financial result</b>	<b>-992</b>	<b>-1,052</b>	<b>+5.7</b>
<b>Income from continuing operations before tax</b>	<b>2,663</b>	<b>2,396</b>	<b>+11.1</b>
<b>Taxes on income</b>	<b>-913</b>	<b>-841</b>	<b>-8.6</b>
<b>Income from continuing operations</b>	<b>1,750</b>	<b>1,555</b>	<b>+12.5</b>
<b>Income from discontinued operations</b>	<b>16</b>	<b>-</b>	<b>-</b>
<b>Minority interest</b>	<b>107</b>	<b>128</b>	<b>-16.4</b>
<b>Net income</b>	<b>1,659</b>	<b>1,427</b>	<b>+16.3</b>
<b>Recurrent net income</b>	<b>1,920</b>	<b>1,354</b>	<b>+41.8</b>
<b>Average No. of shares</b> (million)	<b>562.4</b>	<b>562.4</b>	<b>-</b>
<b>EPS</b> (€)	<b>2.95</b>	<b>2.54</b>	<b>+16.1</b>

# Divisional performance

January - June € million	Operating Result			EBITDA		
	2006	2005	Change In%	2006	2005	Change In%
<b>RWE Power</b>	<b>1,690</b>	<b>1,313</b>	<b>+28.7</b>	<b>1,979</b>	<b>1,606</b>	<b>+23.2</b>
Power Generation	1,338	1,089	+22.9	1,543	1,320	+16.9
RWE Dea	352	224	+57.1	436	286	+52.4
<b>RWE Energy</b>	<b>1,723</b>	<b>1,451</b>	<b>+18.7</b>	<b>1,984</b>	<b>1,769</b>	<b>+12.2</b>
German regions	1,019	939	+8.5	1,167	1,104	+5.7
International regions	262	217	+20.7	312	271	+15.1
Electr. & Gas	512	318	+61.0	600	393	+52.7
Transmission	-16	-11	-45.5	-6	5	-220.0
RWE Solutions	-16	-11	-45.5	-6	5	-220.0
<b>RWE npower</b>	<b>274</b>	<b>210</b>	<b>+30.5</b>	<b>331</b>	<b>260</b>	<b>+27.3</b>
<b>Water Division</b>	<b>555</b>	<b>619</b>	<b>-10.3</b>	<b>894</b>	<b>924</b>	<b>-3.2</b>
Regulated UK business	304	308	-1.3	519	519	-
North America	208	216	-3.7	341	336	+1.5
Other markets	43	95	-54.7	34	69	-50.7
<b>Others / consolidation</b>	<b>-138</b>	<b>-138</b>	<b>-</b>	<b>-116</b>	<b>-120</b>	<b>+3.3</b>
<b>Total</b>	<b>4,104</b>	<b>3,455</b>	<b>+18.8</b>	<b>5,072</b>	<b>4,439</b>	<b>+14.3</b>

# Non-operating result

January – June € million	2006	2005	change (absolute)
Capital gains	34	198	-164
Impairment losses	-	-	-
Restructuring / others	-483	-205	-278
<b>Total*</b>	<b>-449</b>	<b>-7</b>	<b>-442</b>

\* For calculating recurrent net income the non-operating result (minus a 39% lump-sum tax on restructuring/others) is subtracted from net income.

# Financial result

January – June € million	2006	2005	change in %
Net interest	-444	-473	+6.1
Interest accretion to long-term provisions	-584	-604	+3.3
Other financial result	36	25	+44.0
<b>Total</b>	<b>-992</b>	<b>-1,052</b>	<b>+5.7</b>

# RWE cash flow statement



January – June € million	2006	2005	change (absolute)
Income from continuing operations after tax	1,750	1,555	+195
Depreciation, amortization, impairment losses and write-backs	1,443	1,423	+20
Changes in provisions	348	-257	+605
Changes in deferred taxes	105	161	-56
Disposal gains	-266	-375	+109
Other non-cash items	68	-68	+136
<b>Funds from operations</b>	<b>3,448</b>	<b>2,439</b>	<b>+1,009</b>
Changes in working capital and other balance sheet items	-89	526	-615
<b>Cash flows from operating activities of continuing operations</b>	<b>3,359</b>	<b>2,965</b>	<b>+394</b>
Capex on fixed assets	-1,590	-1,339	-251
<b>Free cash flow</b>	<b>1,769</b>	<b>1,626</b>	<b>+143</b>



# Outlook for 2006

Operating result	2005 <sup>1</sup> € million	2006 forecast <sup>2</sup>
<b>EBITDA</b>	8,324	↗
<b>Operating result</b>	6,201	+5% - 10%
<b>RWE Power (incl. RWE Trading)</b>	2,112	↗
<b>RWE Energy</b>	2,507	↘
<b>RWE npower</b>	437	→
<b>Water Division</b>	1,416	↘

<sup>1</sup> Exchange rates of (€1 =) USD 1.24; GBP 0.68

<sup>2</sup> Based on exchange rates of (€1 =) USD 1.25; GBP 0.70

# Back-ups



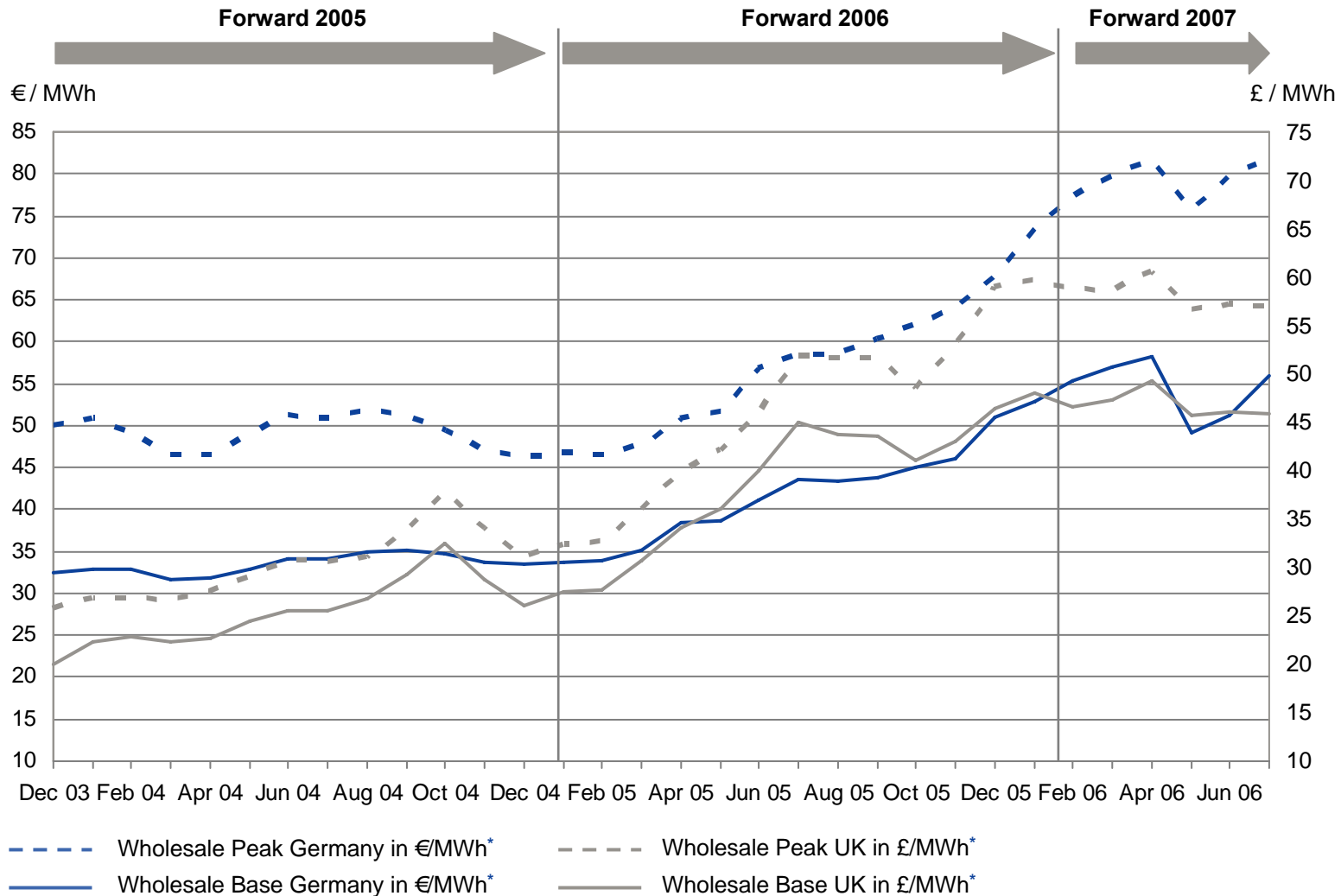
# Currency effects 2006 versus 2005

€ million		Δ to	thereof Δ
January - June	2006	2005	currency
External revenue	24,331	+3,604	-10
EBITDA	5,072	+633	+6
Operating result	4,104	+649	+3
Net income	1,659	+232	+2

€ billion		Δ to	thereof Δ
	06/30/2006	12/31/2005	currency
Net financial debt	9.5	-1.9	-0.3

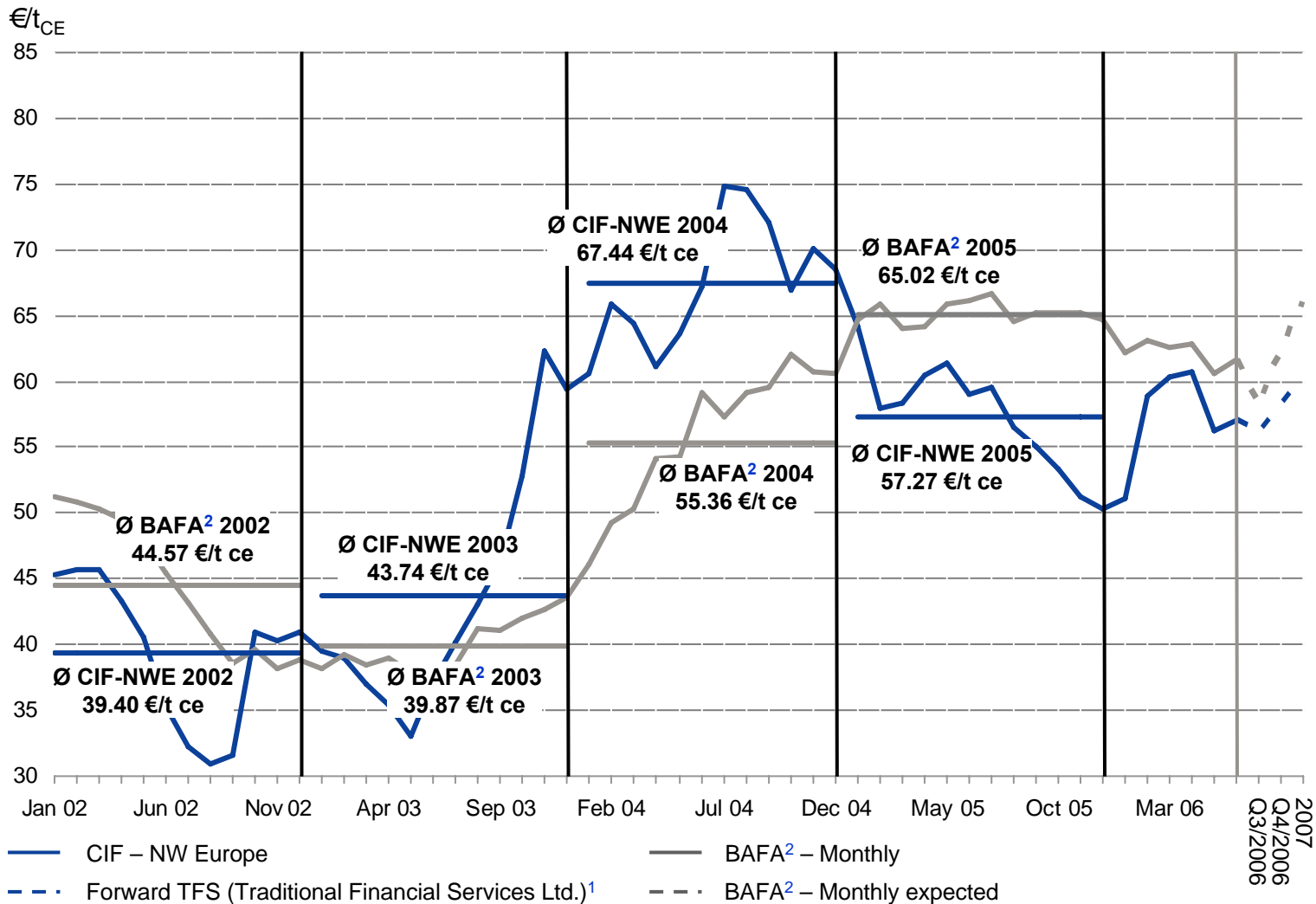
Currency exchange rates (1 €=):	P&L (average)		Balance Sheet	
	2006	2005	06/30/2006	12/31/2005
GBP	0.69	0.68	0.69	0.69
USD	1.24	1.28	1.27	1.18

# Electricity Price in Germany and UK



\* At the end of the relevant month.

# Coal price development



<sup>1</sup> As of August 4, 2006.

<sup>2</sup> Bundesamt für Wirtschaft und Ausfuhrkontrolle (Federal Office of Economics and Export Control).

# RWE Group electricity production



January – June in TWh	Germany	UK	Other Internat.	Total 2006	Total 2005
<b>Lignite</b>	<b>34.7</b>		<b>2.6</b>	<b>37.3</b>	<b>39.1</b>
<b>Nuclear</b>	<b>26.0</b>			<b>26.0</b>	<b>23.3</b>
<b>Hard coal</b>	<b>25.3</b>	<b>11.2</b>		<b>36.5</b>	<b>33.1</b>
thereof contracts	15.4			15.4	14.7
<b>Gas</b>	<b>4.8</b>	<b>5.9</b>		<b>10.7</b>	<b>12.2</b>
<b>Water and others</b>	<b>3.0</b>	<b>0.9</b>	<b>0.3</b>	<b>4.2</b>	<b>3.7</b>
thereof contracts	1.2			1.2	1.3
<b>Subtotal</b>	<b>93.8</b>	<b>18.0</b>	<b>2.9</b>	<b>114.7</b>	<b>111.4</b>
<b>Electricity purchases*</b>	<b>28.9</b>	<b>12.5</b>	<b>10.8</b>	<b>52.2</b>	<b>49.7</b>
<b>Total</b>	<b>122.7</b>	<b>30.5</b>	<b>13.7</b>	<b>166.9</b>	<b>161.1</b>

\* Net, excluding trading. Purchases for physical deliveries to customers only.

# RWE Group electricity sales volume



January – June in TWh	Ger- many	UK	Po- land	Hun- gary	Others	Total 2006	Total 2005
Private and commercial	15.7	11.7	1.7	2.7	0.3	32.1	32.4
Industrial and corporate	25.7	17.1	1.5	2.4		46.7	48.7
Distributors / power utilities	33.8		0.7	3.0	0.3	37.8	32.8
Electricity trading <sup>1</sup>	41.7					41.7	37.7
<b>Total</b>	<b>116.9</b>	<b>28.8</b>	<b>3.9</b>	<b>8.1</b>	<b>0.6</b>	<b>158.3<sup>2</sup></b>	<b>151.6<sup>2</sup></b>

<sup>1</sup> Net of electricity purchased from third parties.

<sup>2</sup> Difference between electricity production and electricity sales volume due to grid losses, own consumption of lignite mines and pumping electricity.

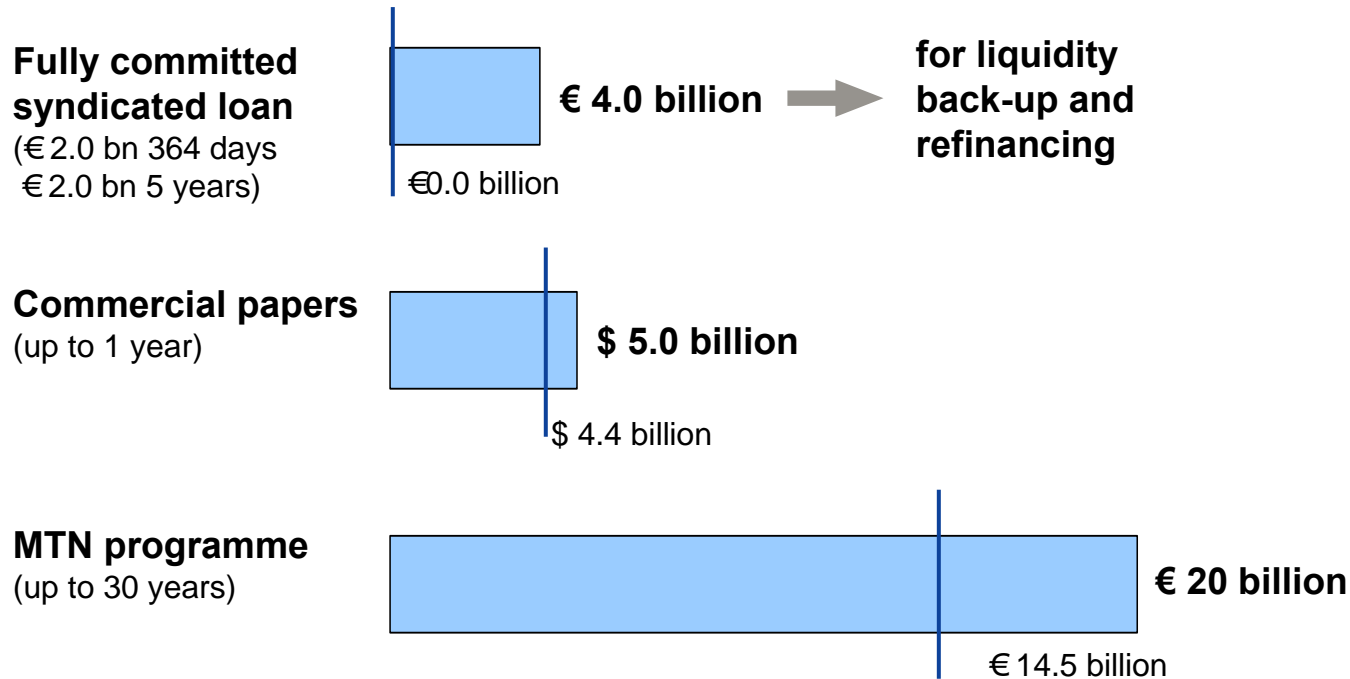
# RWE Gas sales volume



January – June in TWh	Ger- many	Czech Rep.	UK	Others	Total 2006	Total 2005
Private and commercial	18.3	24.3	25.1	4.6	72.3	68.8
Industrial and corporate	27.7	24.5	5.0	9.6	66.8	58.8
Distributors / power utilities*	65.5	10.2	1.8	0.0	77.5	74.3
<b>Total</b>	<b>111.5</b>	<b>59.0</b>	<b>31.9</b>	<b>14.2</b>	<b>216.6</b>	<b>201.9</b>

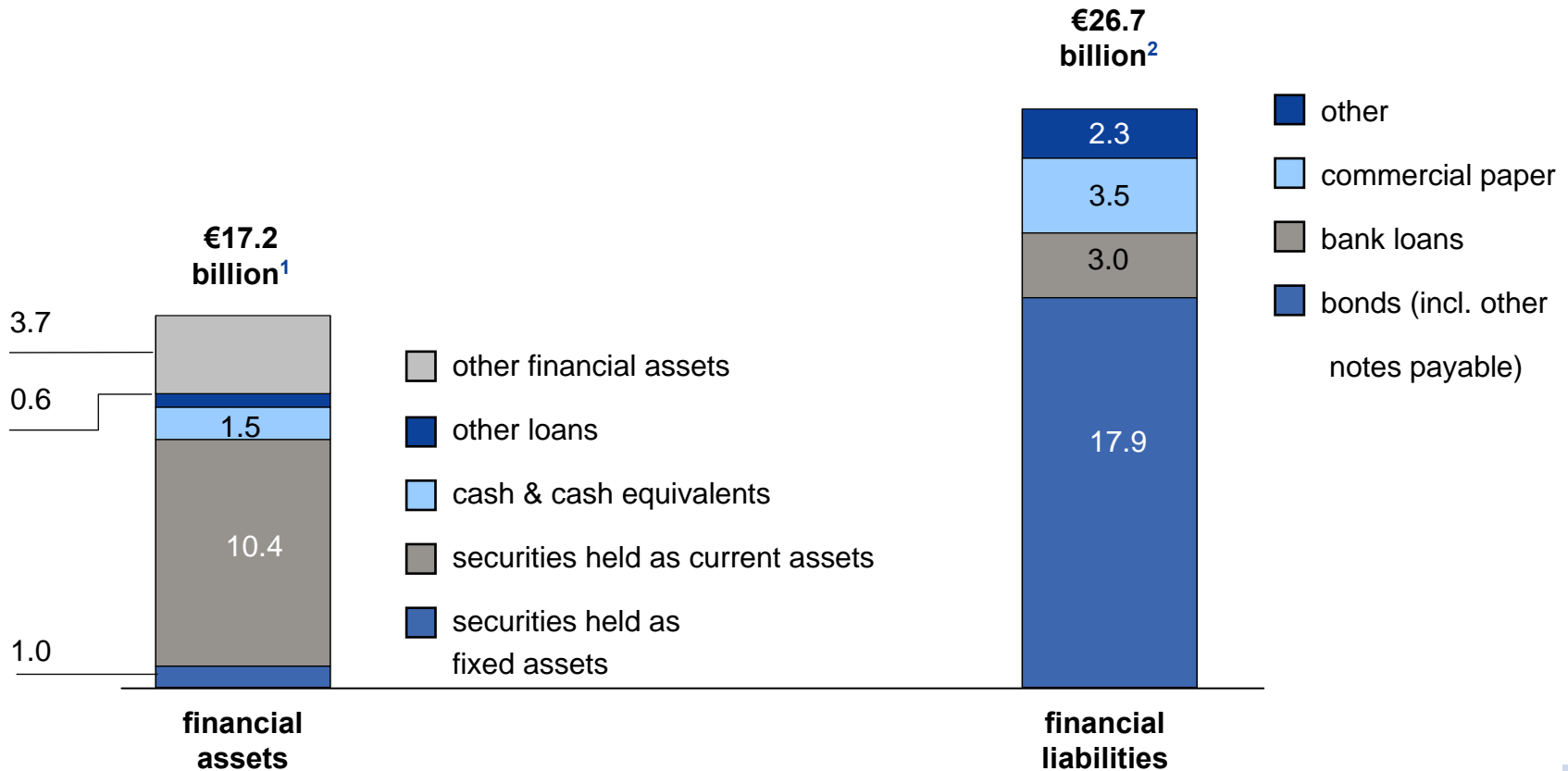
\* Incl. gas trading

# RWE AG: flexible funding structure



Amounts used as of 06/30/2006.

# Financial assets and liabilities (as of 06/30/2006)

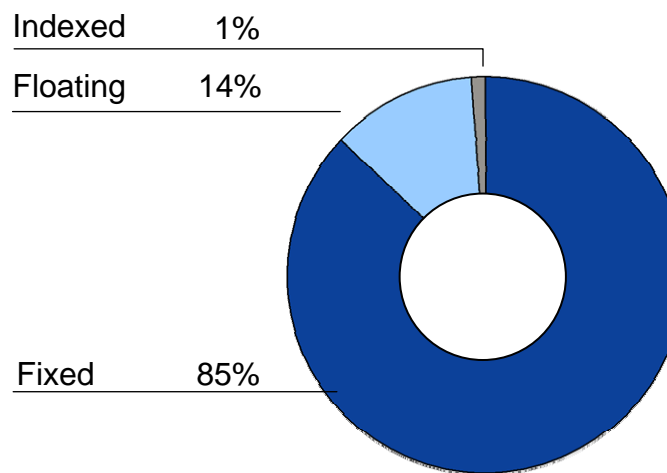
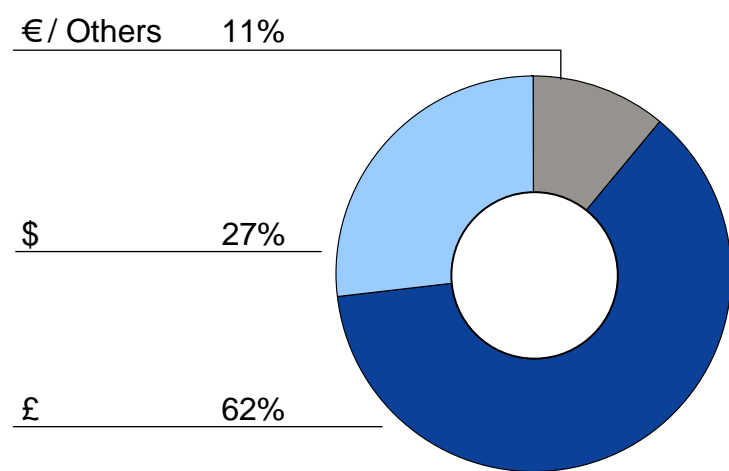


<sup>1</sup> December 31, 2005: € 16.4 billion.

<sup>2</sup> December 31, 2005: € 27.8 billion.

# Gross financial debt currency and interest exposure<sup>1</sup>

Gross financial debt as of June, 2006: € 26.7 billion

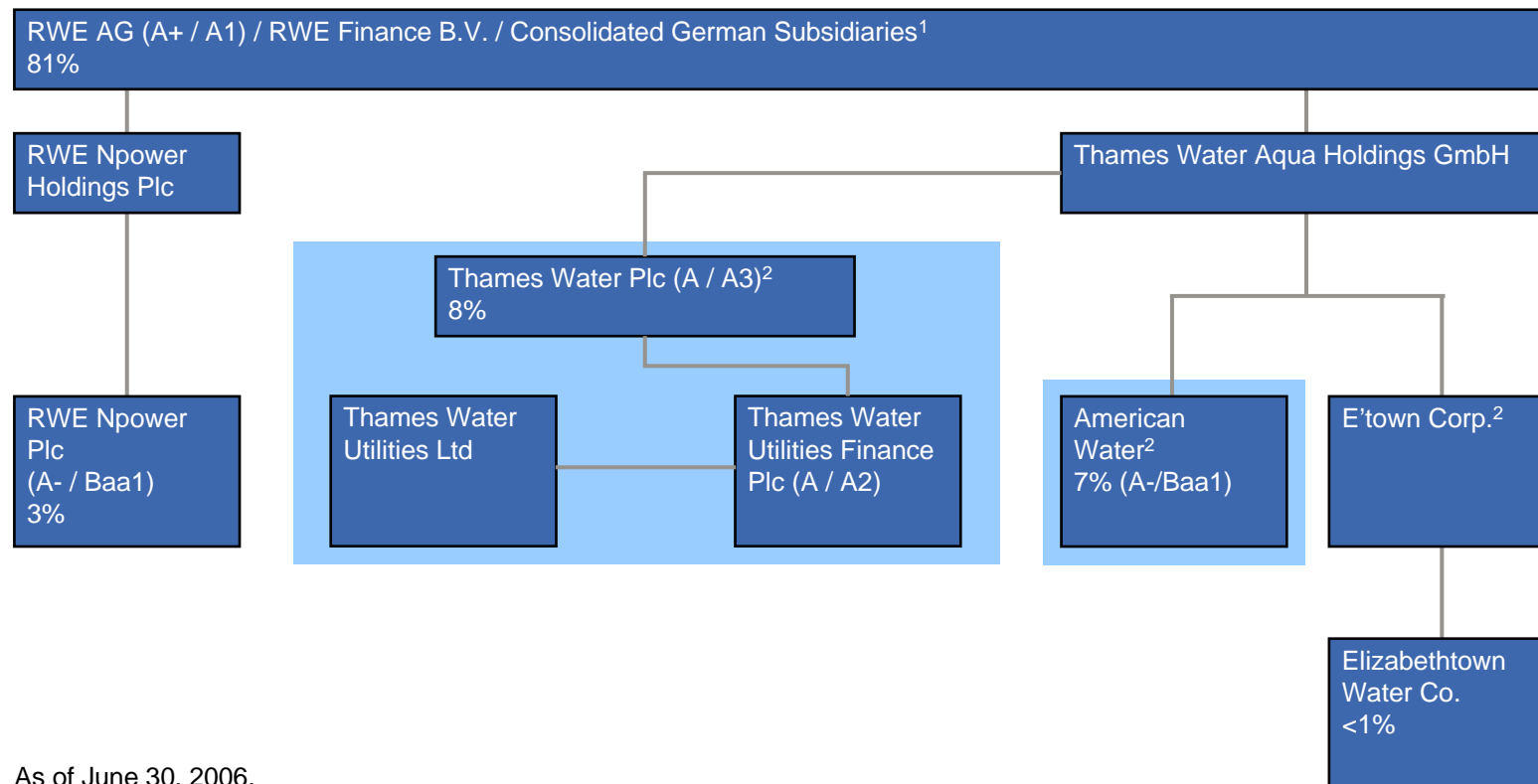


Long term financed (> 1 Year): 72% of gross financial debt  
 Short term financed (< 1 Year): 28% of gross financial debt

**With debt in foreign currencies we hedge the translation risk of our international activities.**

<sup>1</sup> Including cross-currency swaps.

# Structural subordination in the RWE Group



As of June 30, 2006.

1 Associated by profit & loss sharing agreement.

Note: Structure simplified; percentages indicate quantity of group external gross financial debt held at entity/group of entities (highlighted in light blue) including bonds, bank loans, leases.

2 planned sale

# Reminder...

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Investor Relations > Financial Reports > Interim Reports
- **Factbook (300 pages on our company and its divisions)**  
Investor Relations > Presentations > Factbook > RWE Facts & Figures
- **RWE as seen by analysts (overview of latest analyst earnings estimates)**  
Investor Relations > Shares > RWE as seen by analysts
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Investor Relations > Bonds > Credit Analyst's Estimates