

Sale of Thames Water

Analyst and Investor Conference Call
Essen, October 23, 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

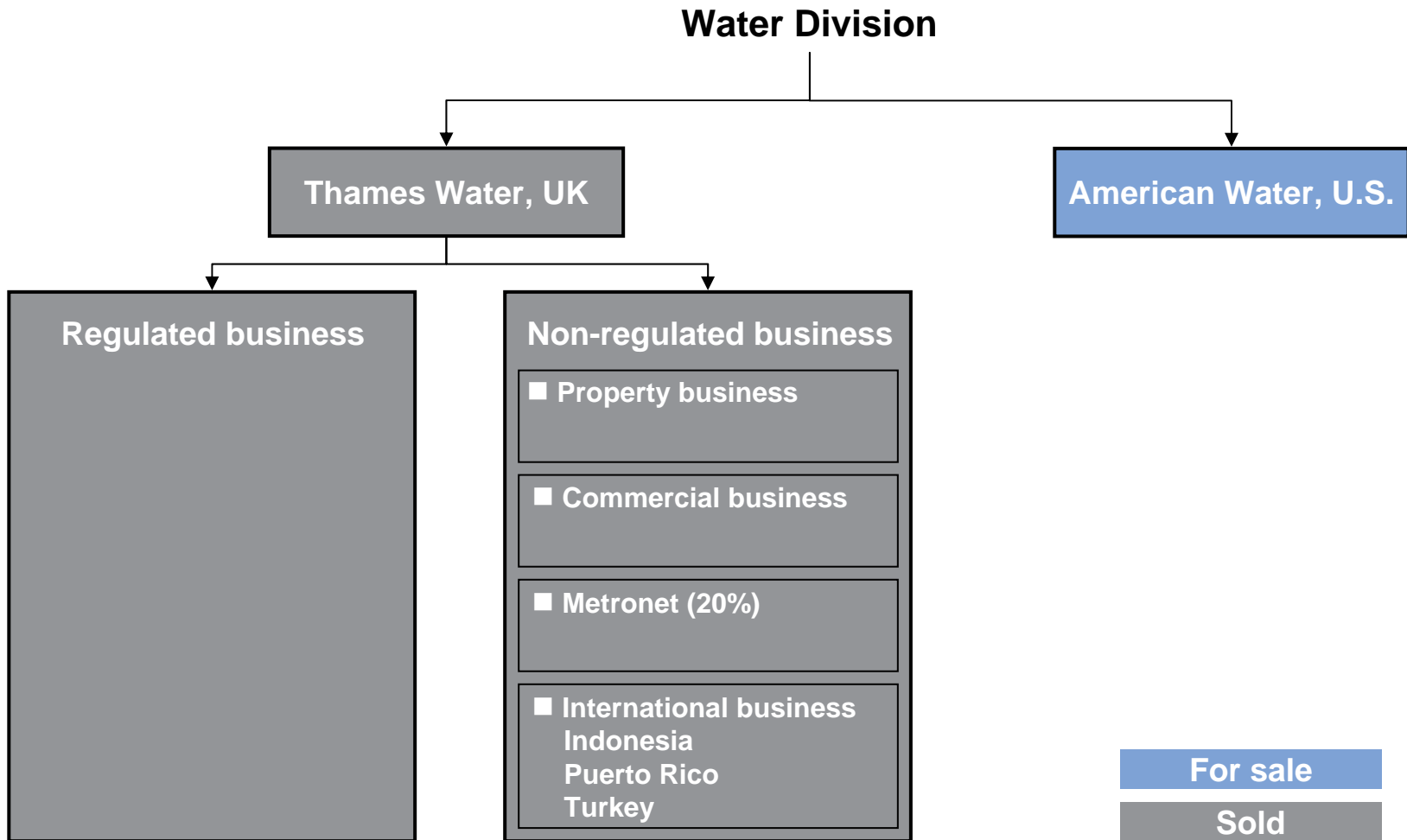
are forward-looking statements. Also words such as “anticipate”, “believe”, “estimate”, “intend”, “may”, “will”, “expect”, “plan”, “project” “should” and similar expressions are intended to identify forward-looking statements. The forward-looking statements reflect the judgement of RWE’s management based 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.

Transaction details

- 100% of share capital of Thames Water Holdings plc was sold to Kemble Water Ltd, a consortium led by Macquarie's European Infrastructure Funds
- Purchase price amounts to GBP 4.8 bn (€7.2 bn*)
- Implied enterprise value of GBP 8.0 bn (€11.9 bn*) including pro forma net debt of GBP 3.2 bn (€4.7 bn*)
- Transaction will result in a book gain of approx. €0.7 bn
- Total cash effect of GBP + 0.7 bn from Thames Water investment for RWE over the total period
- Approval of the Supervisory Board of RWE AG received on 21 October, antitrust approval expected by early December, closing soon thereafter

* based on an exchange rate of GBP/EUR 0.67

Thames Water was sold entirely



Redeployment of Cash

- We seek to grow externally while remaining committed to strict financial hurdles
- We will step up capex to support organic growth
- The dividends for 2006 and 2007 will reflect our strong business performance (payout ratio increase to 70 - 80% planned).
- Significant changes in rating agencies' models affect our headroom (full inclusion of long-term provisions in net debt, stricter hurdles due to perception of reinvestment risk)
- We have decided to set up a Contractual Trust Agreement (CTA) and a pension fund in the order of € 8 bn in 2007

Changes in Rating Agencies' Models

		2002	2003	2004	2005	2006 ³
RWE stated	net debt	15.5	17.8	12.4	11.4	9.5
	EBITDA	7.2	8.5	8.4	8.3	-
Moody's	net debt	37.8	39.3	31.7	34.3	33.0 ²
	FFO/net debt	13%	14%	16%	16%	-
S&P	net debt ¹	16.4	31.4	32.7	34.1	33.0
	FFO/net debt ¹	29%	17%	17%	15%	-
S&P Moody's	ratings ⁴	A+ (SO) A1 (NO)	A+ (NO) A1 (NO)	un- changed	A+ (NO) A1 (SO)	un- changed

¹ Own calculation based on S&P methodology

³ as at June 30

² Own calculation using Moody's methodology

⁴ SO = stable outlook; NO = negative outlook

Sale of Thames Water: Impact on Financial Reporting

- Deconsolidation as of December 2006 (subject to closing)
- Reporting of Thames Water in RWE accounts:
 - 2006 “discontinued operations”: Thames Water only reflected in net profit
 - 2005 “discontinued operations”: P&L figures will be restated, but net profit remains unchanged; balance sheet and cash flow statement remain unchanged

Pro-forma data excluding Thames Water

P&L 2005

€million	RWE	Thames	RWE ex. Thames
External revenue	41,819	2,331	39,488
EBITDA	8,324	1,228	7,096
Operating result	6,201	830	5,371
Net income attribut. to RWE shareholders	2,231	388	1,843*

Balance sheet 30 June 2006

€million	RWE	Thames	RWE ex. Thames
Net financial debt	9,450	4,491	ca. -2.200**
Carrying amount of goodwill	15,173	2,818	12,356
Provisions	32,594	273	32,321

* Reported net income figure will not change due to the effect that “income from discontinued operations” are part of net income

** Including purchase price of approx. €7.2 bn for Thames Water and GBP/EUR 0.67