

# Focus on Organic Growth and Dividends

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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
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# Today's agenda

**A**

**Harry Roels**

**Highlights of 2006, RWE's strategy going forward**

**B**

**Klaus Sturany**

**Divisional performance and Group results 2006**

**C**

**Harry Roels**

**Outlook for 2007, mid-term financial targets**

# Key messages

## Performance 2006

- Operating result +14%; organic growth +17%
- Net profit +72% due to one-off effects
- € 680 m cost reduction programme concluded

## Financial Position

- Increasing transparency by setting up a CTA/Pensionsfonds\*
- New definition of net debt
- Return of cash to shareholders

## Strategy

- Focus on organic growth
- Largest capex programme in the Group's history
- Strengthening of gas position

## Outlook 2007 and mid-term financial targets

- Strong fundamentals persist
- Positive outlook for 2007
- Continued growth of profit in 2008 planned

\* Separate legal entity under the supervision of the German Federal Financial Supervisory Authority (BaFin); legal standing differs from that of typical UK and US pension funds.

# RWE Group results FY 2006

January – December € million	2006	2005	Change in %
External revenue	44,256	39,487*	+12.1
EBITDA	7,861	7,095*	+10.8
Operating result	6,106	5,371*	+13.7
Net income	3,847	2,231	+72.4
Recurrent net income	2,466	2,257	+9.3
Cash flow from operating activities	6,783	5,304	+27.9
Capex	4,494	3,667	+22.6
Free cash flow	2,289	1,637	+39.8
EPS (€)	6.84	3.97	+72.3

\* Restated number: Thames Water reported as “Discontinued Operations” retroactively

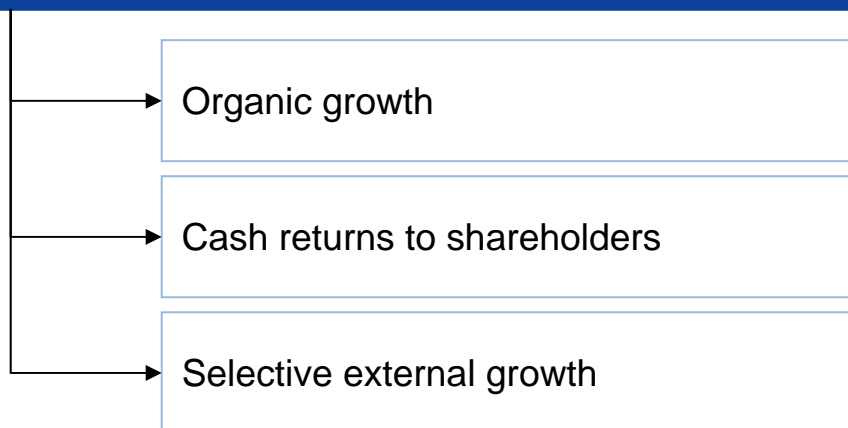
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# We have achieved or beaten our mid-term targets

	Target	Achieved	
Operating result	5% organic CAGR	11.6% CAGR 2004 - 2006	✓
Dividend	>15% CAGR 2004 - 2006	41% CAGR 2004 -2006	✓
ROCE	14% by 2006	18.7%	✓
Cost reduction + synergies	€ 680 m by 2006	Fully achieved	✓

# Utilisation of financial flexibility

The disposal of the Water Division will further enhance the financial flexibility of the Group. We aim to utilise it by way of



# Strong levers for organic profit growth

## Price development

- Strong wholesale electricity prices in our core markets
- Value oriented retail strategy

## Growth & efficiency enhancing capex

- Power generation in Germany, UK, NL and CEE
- Upstream exploration & production projects for RWE Dea
- Gas grids and storage facilities

## Consumption growth

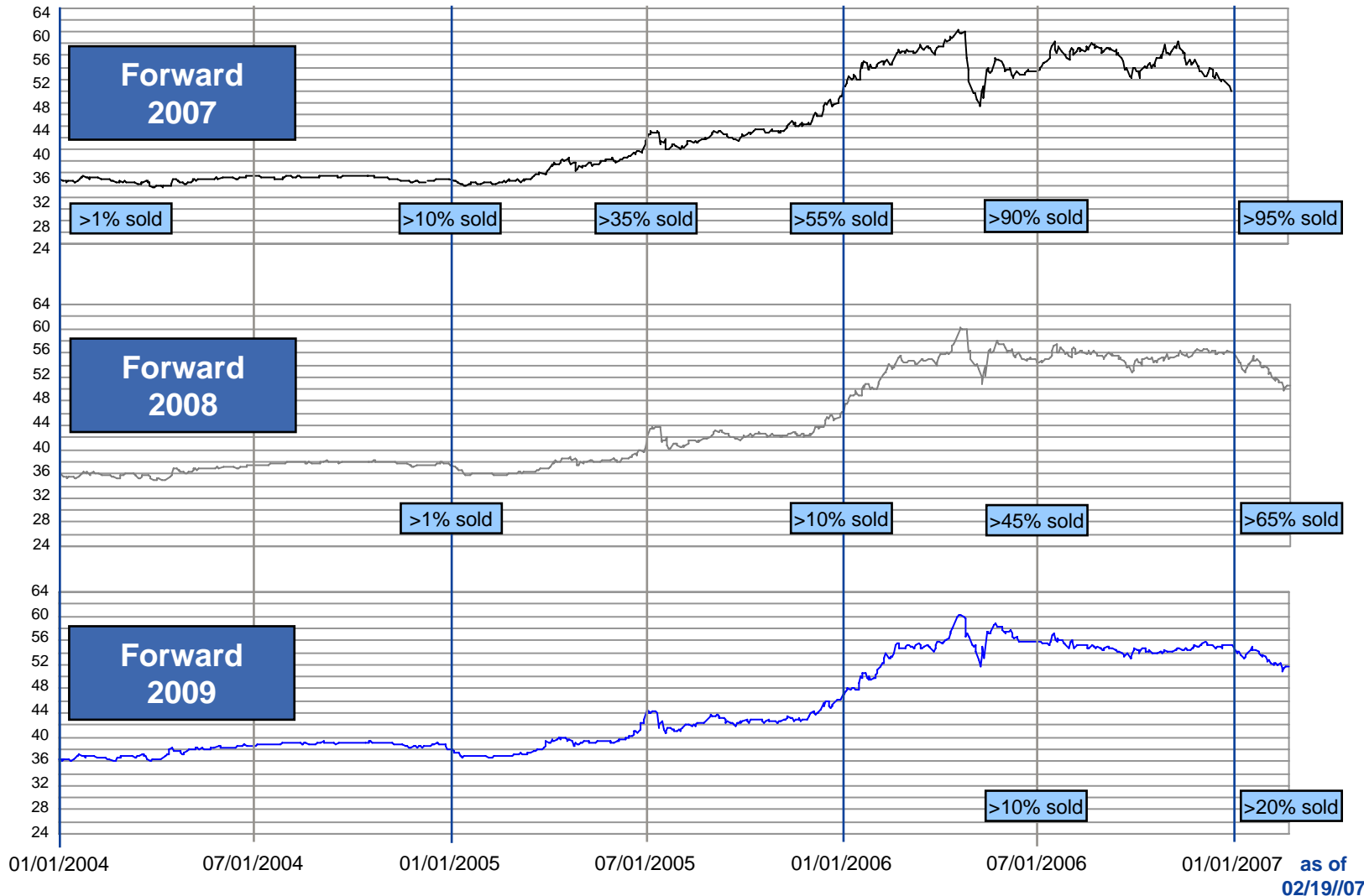
- Strong position in growing CEE markets plus catching up of wholesale prices with Western European levels

## Efficiency enhancement

- We have set up a new programme of €600 m p.a. by 2010
- 100% accretive to operating result

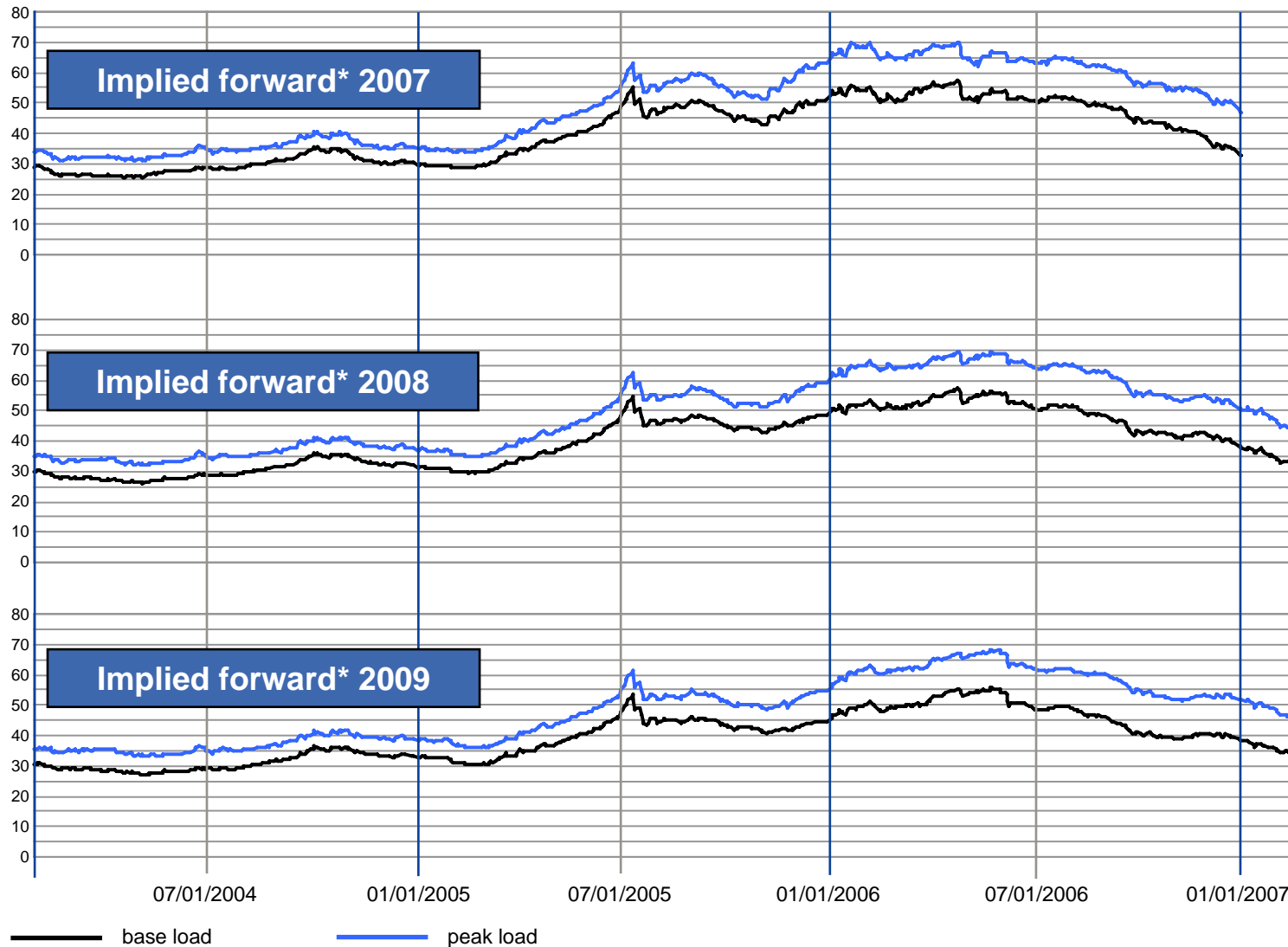
# RWE Power: Attractive spreads locked in

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



# RWE npower: Attractive spreads locked in

Implied UK base and peak forwards\* (in £/MWh)



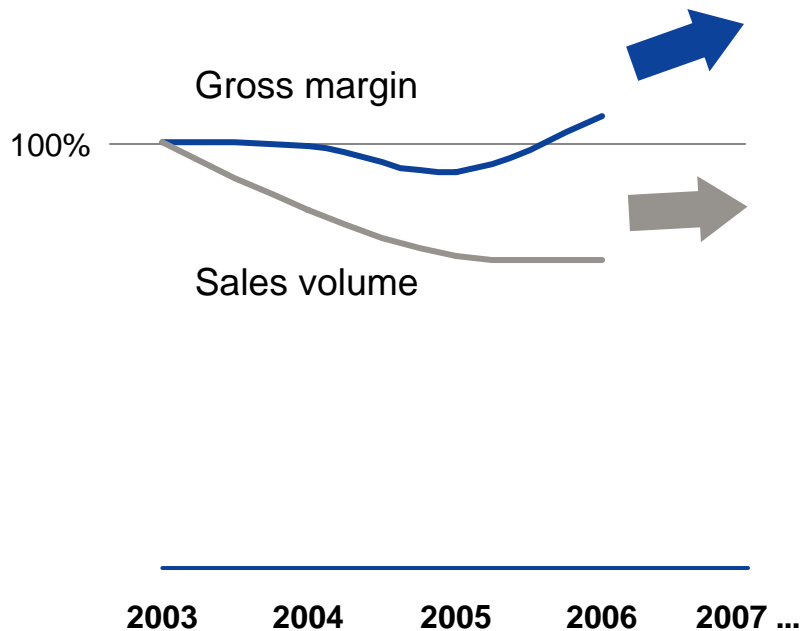
as of  
02/19/07

\* implied forward = Yearly prices composed from UK seasonal contracts

# RWE Energy has successfully implemented a value-oriented retail strategy

## Development of volume and gross margin\*

– RWE Energy Electricity Germany –



## Value-oriented retail strategy

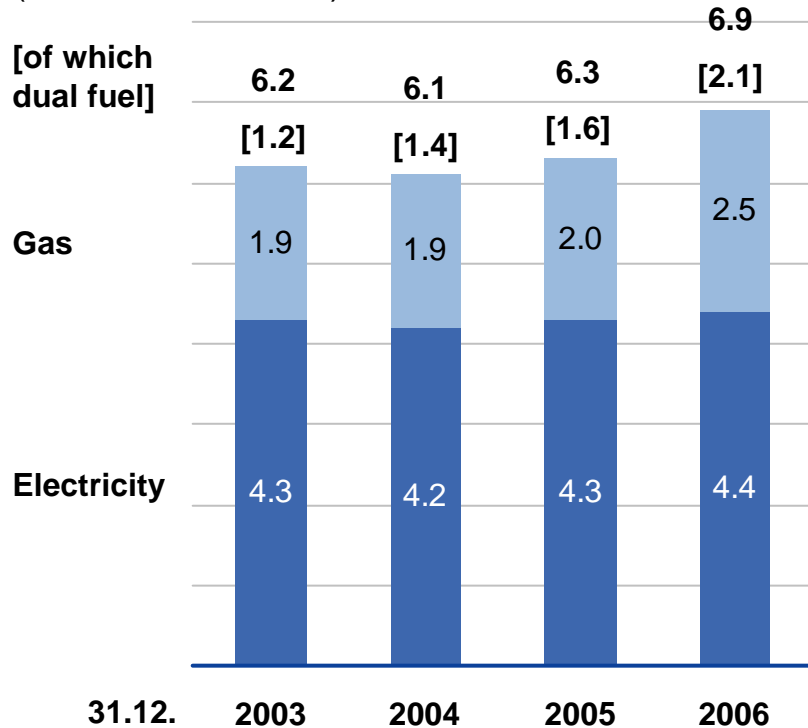
- Across all customer segments: value-orientation results in increasing total gross margin
- Stabilization of sales volumes achieved
- With the phasing out of tariff approval in July 2007, competition will increase but so should margins
- The challenge for RWE Energy is to retain retail customers with attractive services/products at positive margins and in parallel to prepare the ground for acquiring new customers

\* Gross margin: Revenues – (governmental charges + energy procurement + grid fees)

# RWE npower: value oriented retail strategy with growing customer numbers

## Development of customer numbers

(in million accounts)

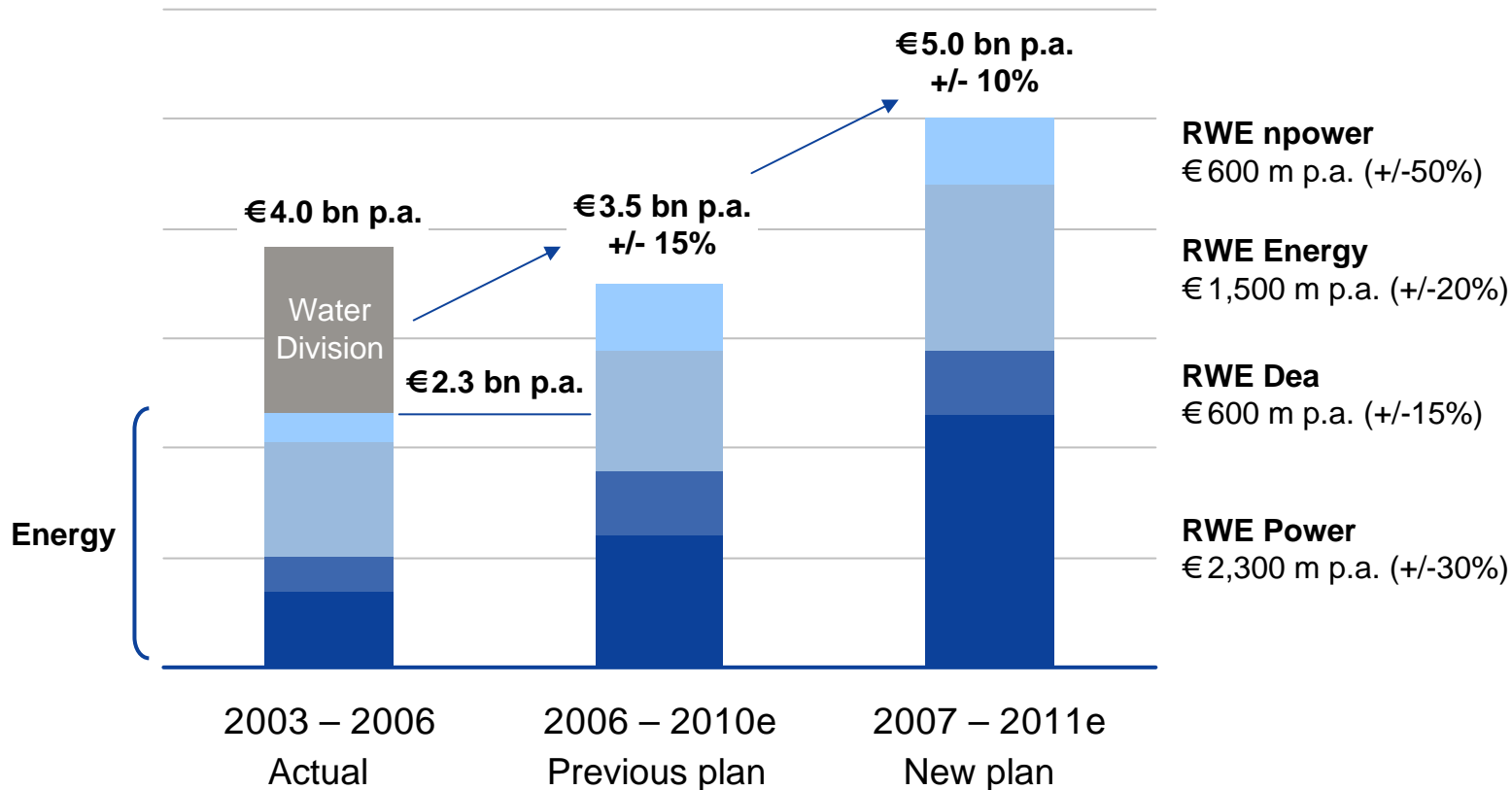


## Value-oriented retail strategy

- Price volatility in wholesale gas and power prices has continued
- Competition remains intense
- However, RWE npower has increased customer numbers by 700,000 since Dec. 2003
- The number of dual fuel customers increased by 75% since 2003
- Successful branding and price proposition

RWE npower is continuing to build a value oriented customer portfolio

# Mid-term capex programme significantly stepped up: Growth takes centre stage



➤ Approximately 40% of the total programme is dedicated to growth and efficiency enhancement, thereby creating additional value.

# Major investment projects

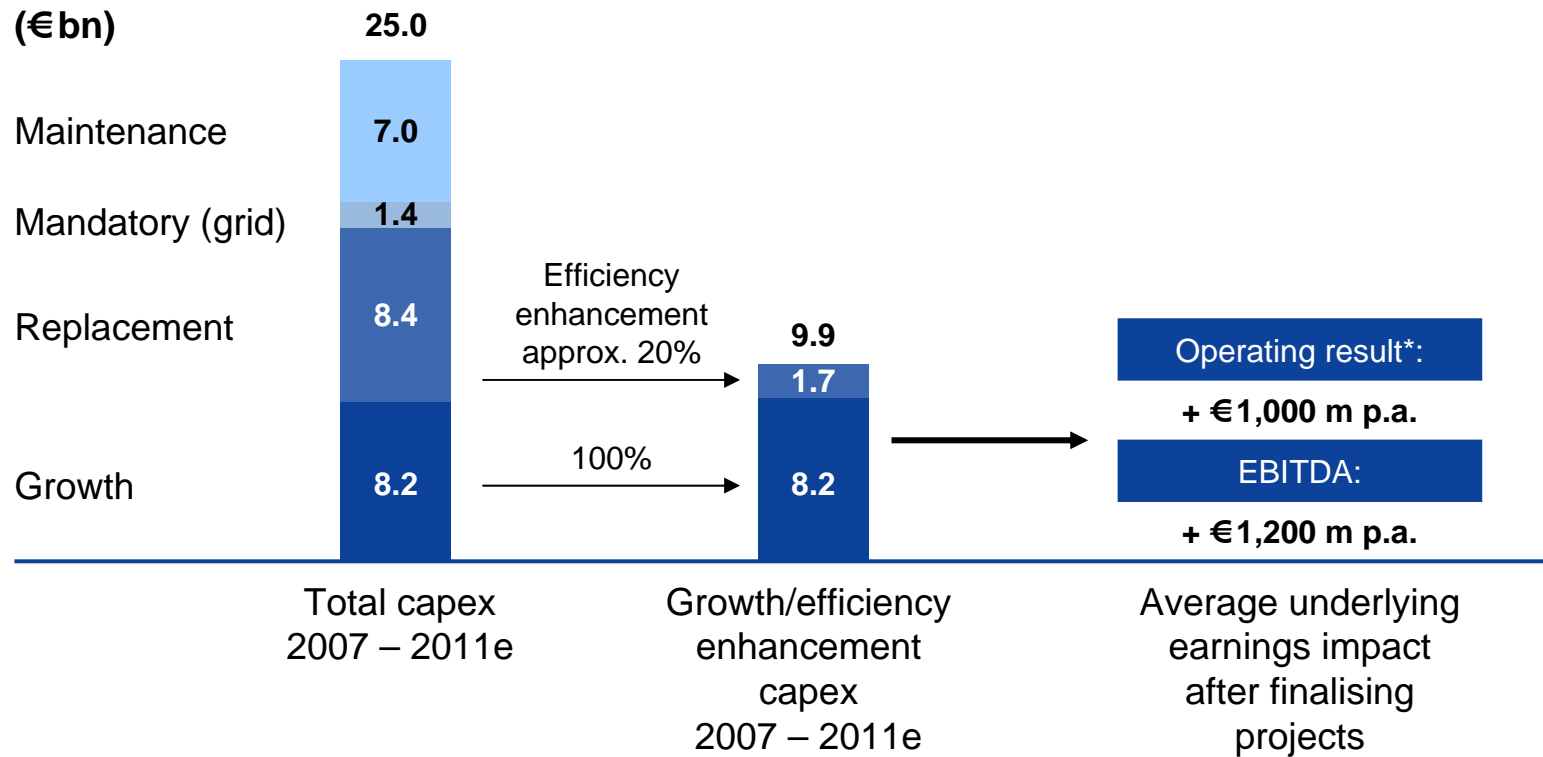
Project (€ bn)	Horizon	Capex	of which	
			Growth	Efficiency <sup>1</sup>
<b>Germany</b>				
Power plant BoA 2/3 (lignite - 2,100 MW)	2006 – 2010	2.2		0.7
Power plant Hamm (hard-coal – 1,530 MW)	2008 – 2012	2.0		0.4
Power plant Ensdorf (hard-coal – 1,530 MW)	2008 – 2012	2.0		0.4
CCGT Lingen (peak gas – 875 MW)	2007 – 2009	0.5		0.2
CO <sub>2</sub> free power plant (450 MW)	2011 – 2014	1.0		0.2
		<b>7.7</b>		<b>1.9</b>
<b>UK</b>				
CCGT Pembroke and/or Staythorpe (up to 2,000 MW)	2007 – 2009	1.2	1.2	
Renewable energies <sup>2</sup>	2007 – 2011	0.7	0.7	
		<b>1.9</b>	<b>1.9</b>	
<b>Other international projects</b>				
Hard-coal fired power plant NL (1,560 MW)	2007 – 2012	2.2	2.2	
Dea exploration and production projects	2007 – 2011	2.2	0.6	
Gas grids and storage projects <sup>3</sup>	2007 – 2011	2.0	2.0	
		<b>6.4</b>	<b>4.8</b>	
<b>Total</b>		<b>16.0</b>	<b>6.7</b>	<b>1.9</b>

<sup>1</sup> Higher efficiency due to new technologies (simplified calculation)

<sup>2</sup> Mainly UK but also including other international projects

<sup>3</sup> Mainly international

# How growth and efficiency enhancement capex will impact our underlying earnings performance

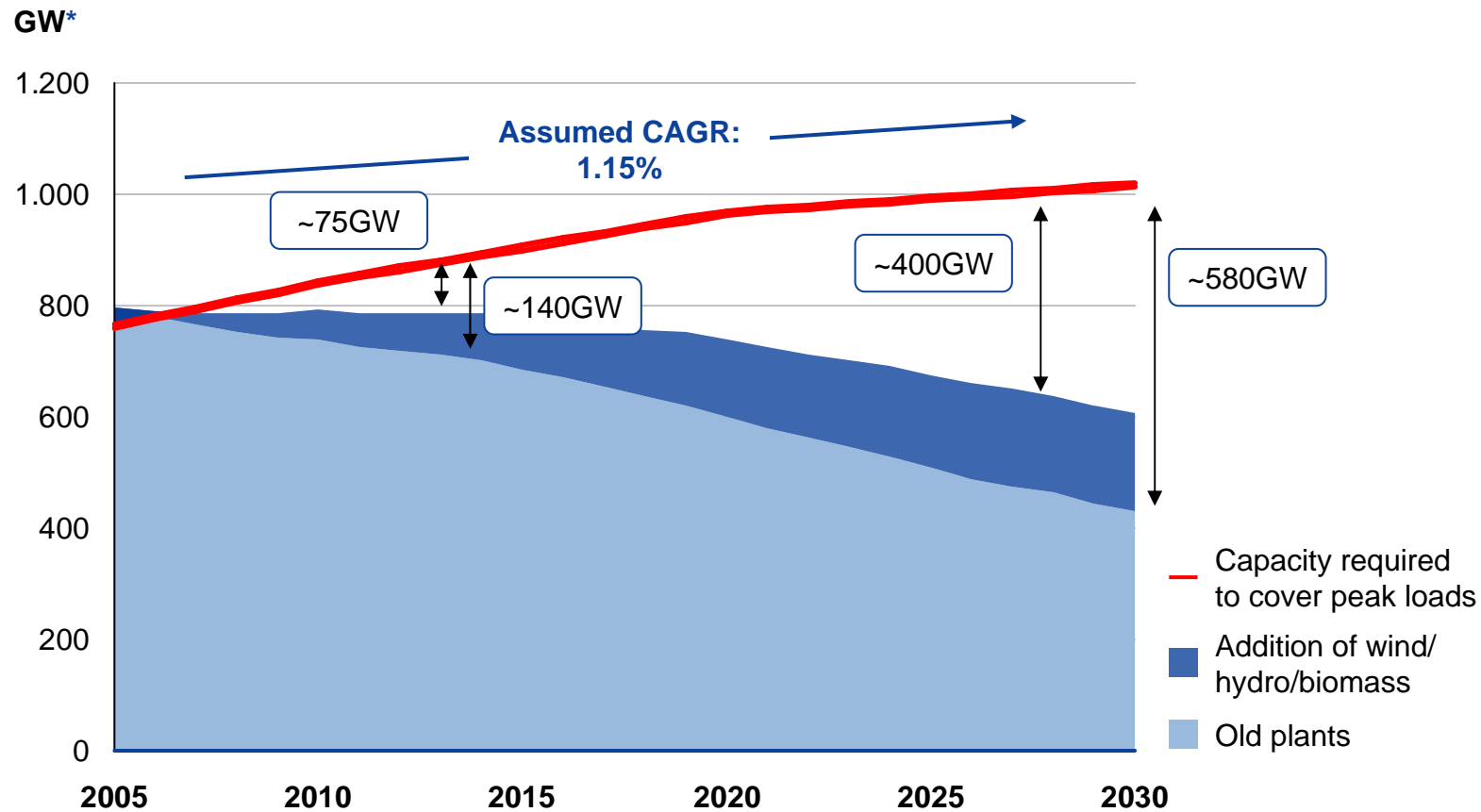


\* Average impact. Depending on depreciation period, operating result lower in early years and higher in later years

# Generation capacity in Europe will stay tight!

- Different sources (Union for the Coordination of Transmission of Electricity (UCTE), Cambridge Energy Research Associates (CERA), IEA) expect capacity bottleneck
- Drivers for capacity bottlenecks
  - Overageing power plants
  - High gas prices (driven by high oil prices)
  - Supply constraints for power plant components
  - Lengthy approval procedures for interconnector extensions
  - Political risks threatening investment plans for power plants and networks
  - Special drivers:
    - Nuclear phase out in Germany
    - Large Combustion Plant Directive (LCPD) in UK
    - Increased peak-load demand in France
    - Volatile hydro reservoir levels in Spain, Scandinavia, Austria, Switzerland

# Old power plants throughout Europe result in a massive need for new build by 2030



\* EU 27, Norway, Switzerland

Source: Boston Consulting Group, EURPROG, UCTE, RWE, 2006

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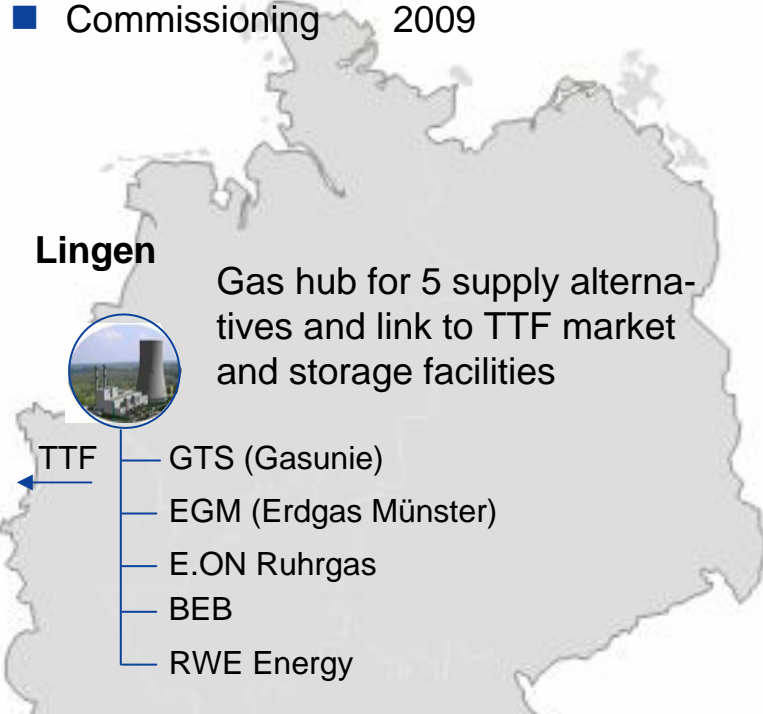
# Selective investment in hard coal plants attractive despite increasing carbon risks

- If the current oil /gas and CO2 price levels prevail hard coal plants (HC) are likely to operate in base load. New CCGTs will only operate profitably in a mid merit / peak load position. Therefore new HC benefits from price setting, less efficient, older HC and gas plants. The impact of higher CO2 prices will be dampened by increasing power prices.
- Power prices will be supported by high demand for newly built capacity; renewables unable to replace conventional generation capacity reliably. Currently, HC is the best option for replacement in terms of availability, efficiency and cost.
- Balanced fuel mix: Coal prices are much less volatile than oil/gas prices, therefore HC supports a sustainable power price level. Furthermore, fuel cost for new HC accounts for a much smaller part of full production cost than for a CCGT.
- Free allocation of CO2 emission rights likely to decrease over time – early mover advantage for current HC projects likely.
- Site specific advantages (e.g. synergies with existing infrastructure, grid connection, coal logistics, cooling) also play a key role for HC new build – not all sites are economically feasible.

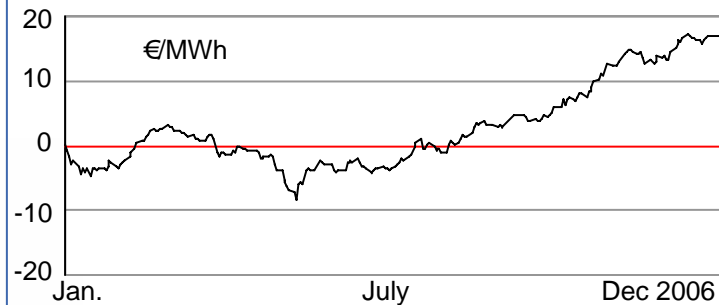
# Exploiting attractive market opportunities – Our new CCGT power plant project in Lingen

## Peak load CCGT project Lingen

- Net capacity            875 MW
- Efficiency                > 58%
- Investment              €0.5 bn
- Commissioning        2009

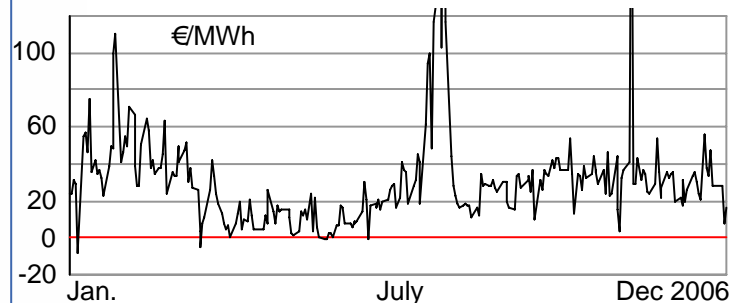


## German clean spark spreads – Cal 07 power baseload vs. Cal 07 TTF gas in 2006







Spreads not sufficient for base load CCGTs in Germany.

## German clean spark spreads – Daily power peakload vs. daily TTF gas



Spot market volatility provides options for flexible peak load CCGTs in Germany.

# CEE markets show opportunities for attractive growth

CEE markets	Electricity		Gas	
	Volume <sup>1</sup> (TWh)	Growth <sup>2</sup> % p.a.	Volume <sup>1</sup> (bcm)	Growth <sup>2</sup> % p.a.
Poland 	145	2.8%	15	1.2%
Czech Rep. 	75	2.7%	10	1.6%
Romania	59	2.5%	18	1.4%
Bulgaria	42	2.7%	5	5.1%
Slovakia 	28	0.0%	7	3.7%
Hungary 	35	2.1%	15	1.6%
Slovenia	13	2.3%	1	2.6%
Croatia	16	2.0%	3	n/a
Serbia	35	3.0%	3	n/a
Other RWE core markets	Volume <sup>1</sup> (TWh)	Growth <sup>2</sup> % p.a.	Volume <sup>1</sup> (bcm)	Growth <sup>2</sup> % p.a.
Germany	562	0.4%	90	1.9%
UK	413	1.5%	100	0.5%
Benelux	209	2.0%	62	0.9%

<sup>1</sup> Total sales to end customers

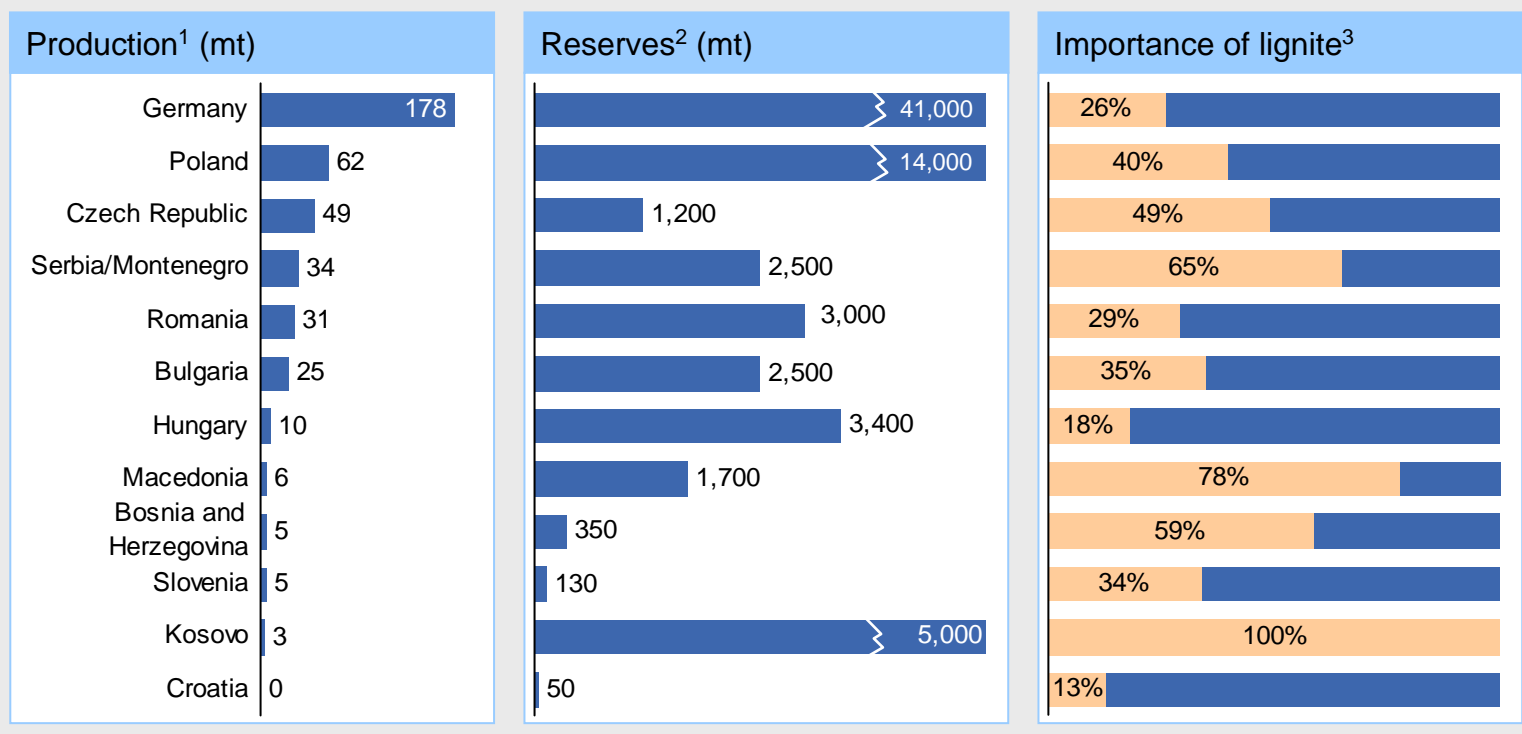
<sup>2</sup> Annual expected growth 2005 – 2010

Source: European Union/CARDS (Community Assistance for Reconstruction, Development and Stabilisation), RWE estimates, VDEW/VDN

# Lignite opportunities for RWE in CEE countries



## Lignite coal in selected CEE countries and Germany, 2005



➤ Our lignite position and experience gives us a competitive advantage for upcoming privatization projects in CEE countries.

<sup>1</sup> Source: "Energy Statistics of OECD and Non-OECD Countries", Edition 2006

<sup>2</sup> Source: "Euracoal"; RWE

<sup>3</sup> Share of lignite in total power generation; Source: VDEW, RWE

# RWE's integrated gas position – strong platform for growth

## Europe's largest gas companies (2005)

(Gas sales volume in bcm)

ENI (ITA)	86	
E.ON (GER)	84	
Gasterra (NED)	81	
GdF (FRA)	68	
Centrica (GBR)	39	
RWE <sup>1</sup> (GER)	34	
Wintershall (GER)	33	
Gas Natural (ESP)	29	
Distrigaz (BEL)	18	
VNG (GER)	15	

## RWE's key gas figures (2006)

Gas sales volume (bcm)	33.5
External gas revenue (€ bn)	12.1
Customers <sup>2</sup> (million)	10.2
Gas and oil reserves / resources in m bbl oe	1,068
Gas and oil production in thousand bbl oe/day	125
Storage capacity (in bcm)	6.1
Pipelines (in km)	116,505

Equity gas/oil production at RWE Dea (upstream)

6.5 bcm



(17%)

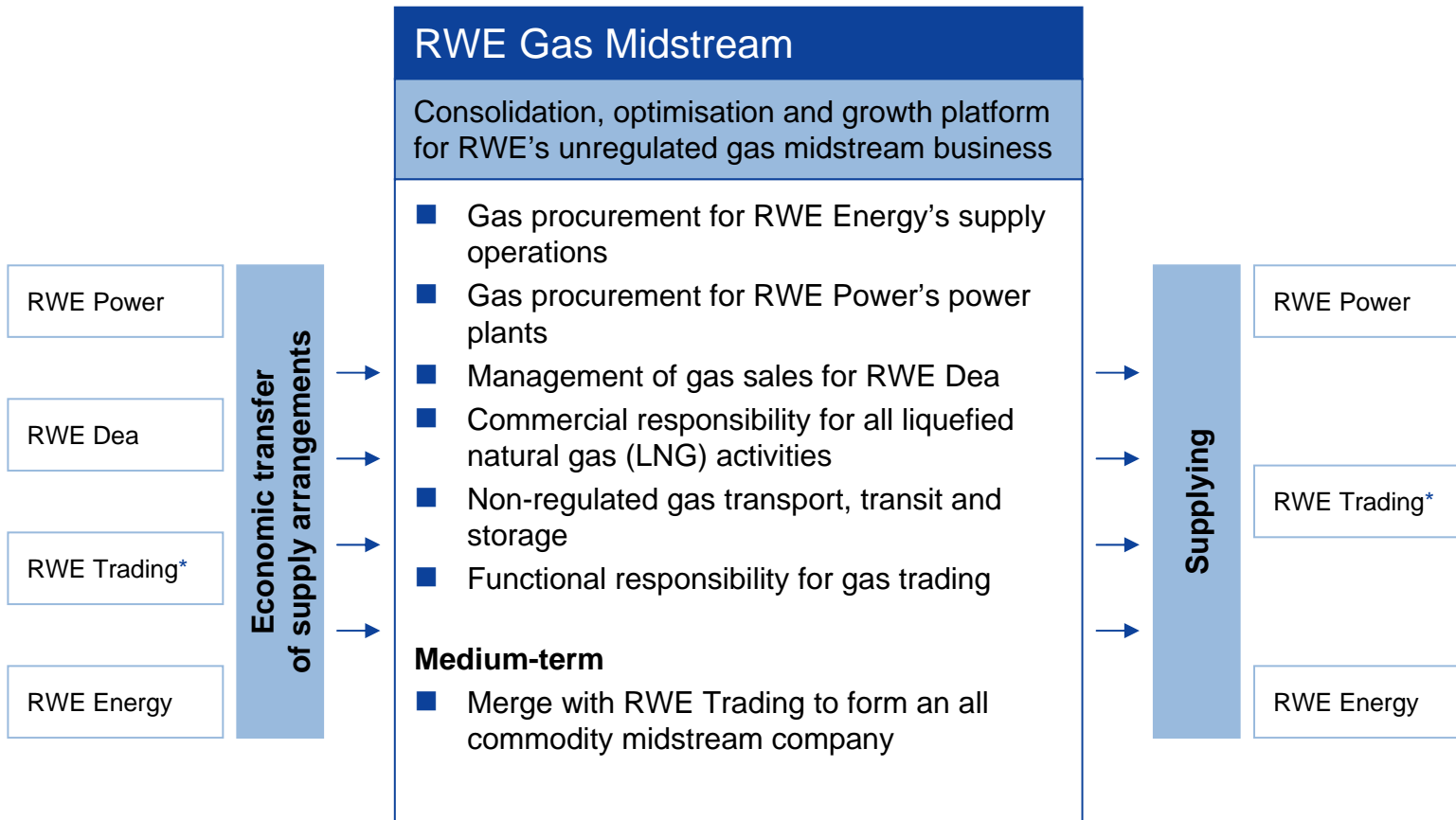
Gas fired power generation and gas sales (downstream)

39 bcm

<sup>1</sup> RWE: 2006

<sup>2</sup> Including participations ≥ 20%

# RWE Gas Midstream: full integration of the Group's midstream activities



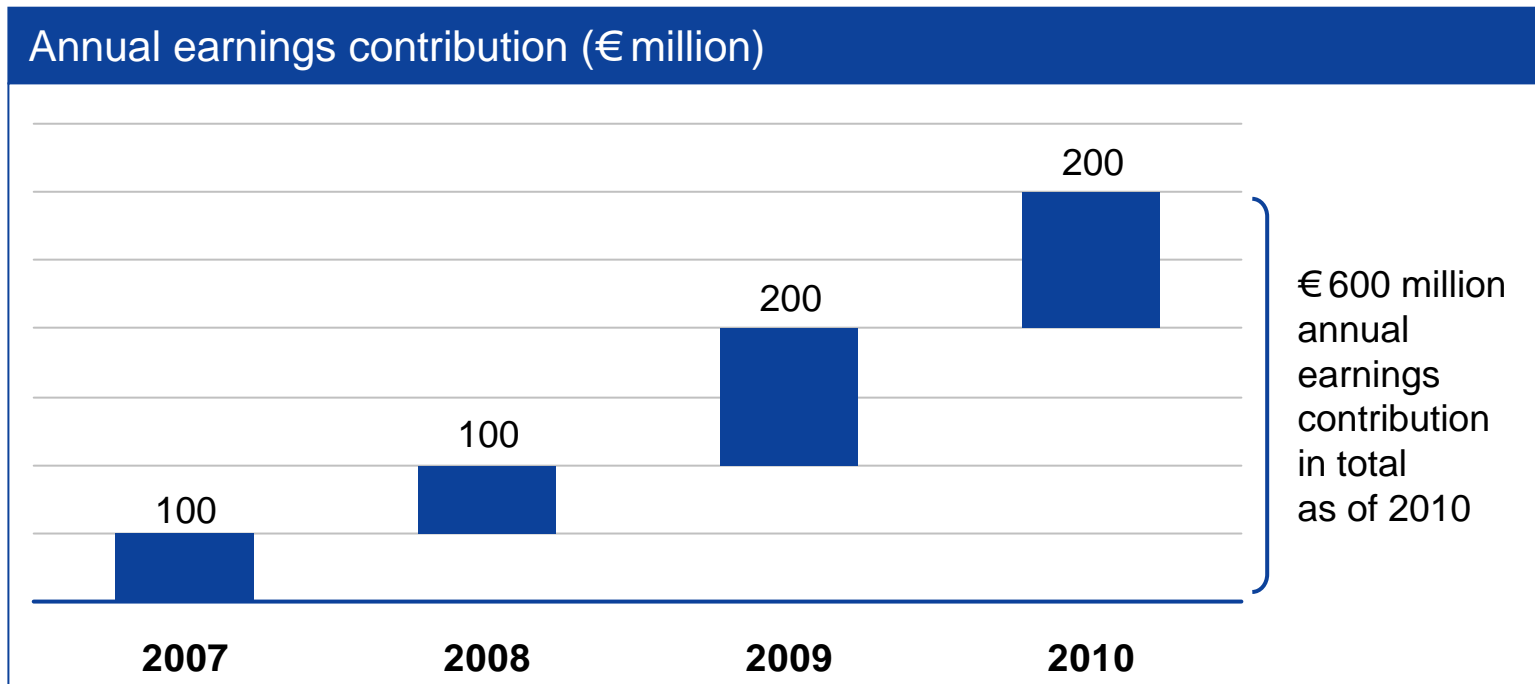
\* RWE Trading is the outlet for Gas Midstream into the traded wholesale markets and RWE Trading sources gas for RWE npower

# Strengthening our European gas position

## Current initiatives

- Acquisition of Saar Ferngas
- Renewal of gas contract with Gazprom (gas supply of 9 bcm p.a. and transit through 2035)
- Working on liquefaction in Egypt to export RWE Dea's equity gas
- Substantial gas find by our joint venture with BP in Egypt (> 26 bcm for 100%)
- LNG project "Gate" (10% stake in regasification terminal in Rotterdam)
- LNG project "Adria" in Croatia (11% stake in a regasification terminal at the Croatian Adriatic coast)
- Cooperation with Excelebrate Energy to exclusively market all their LNG landed in the UK
- Project to connect our German and Czech gas transportation systems

# New efficiency enhancement targets



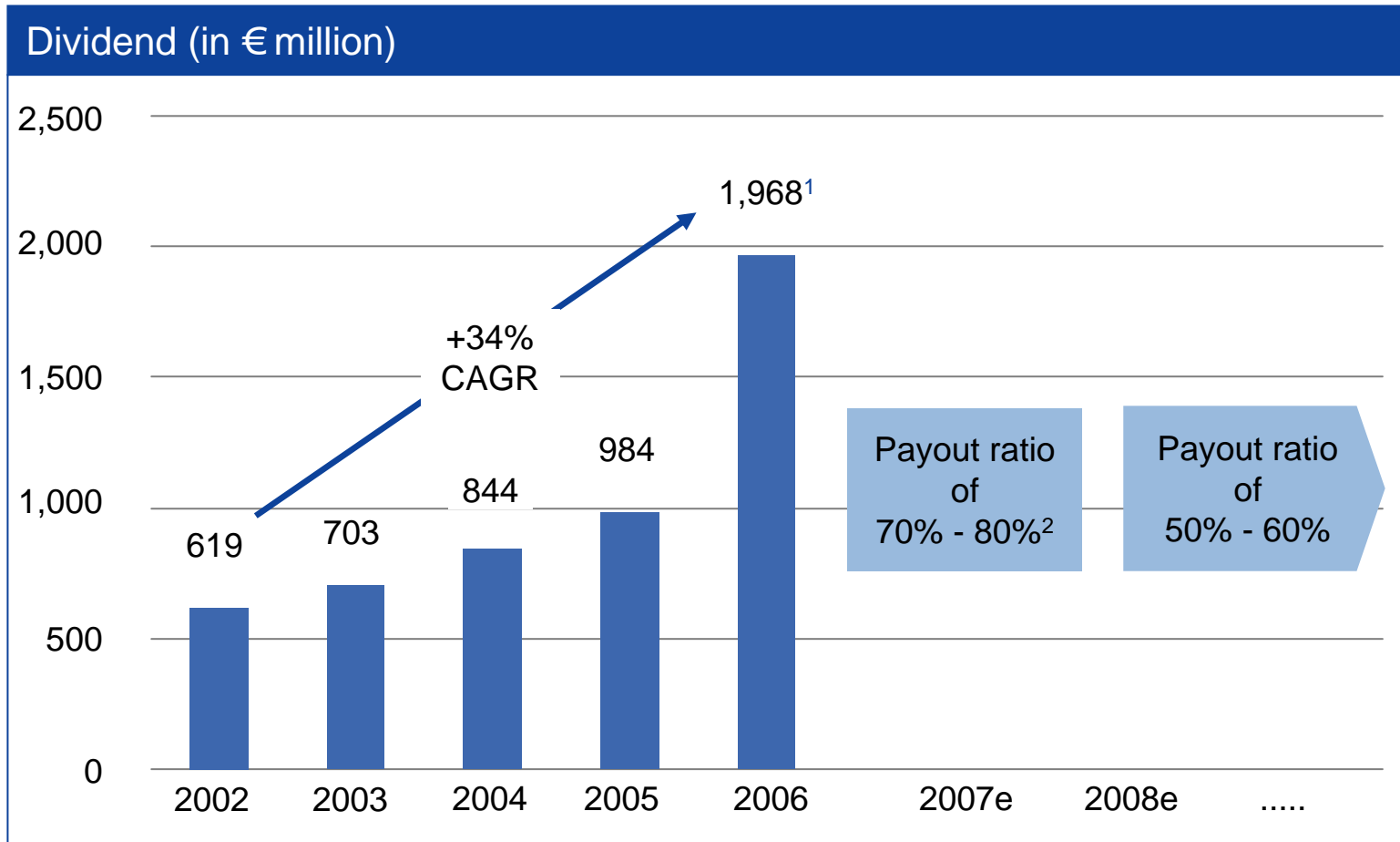
- Efforts will mainly focus on cost reductions from internal benchmarking processes and higher availability and increase in efficiency of our generation assets
- Efficiency gains will be fully accretive to operating result
- In addition, we aim to compensate for the cost inflation between 2007 and 2010

# External growth: Strategy and perspectives

- We will stick to our strategy:
  - Targets have to make strategic sense (markets, synergies)
  - Targets have to fulfil our strict financial criteria
- M&A market is currently a sellers' market with stretched valuations, therefore patience is required
- Cash deals or asset swaps resulting from larger M&A or takeovers may be of interest

**Size is not a strategy – value is!**

# Shareholder-friendly dividend policy to continue

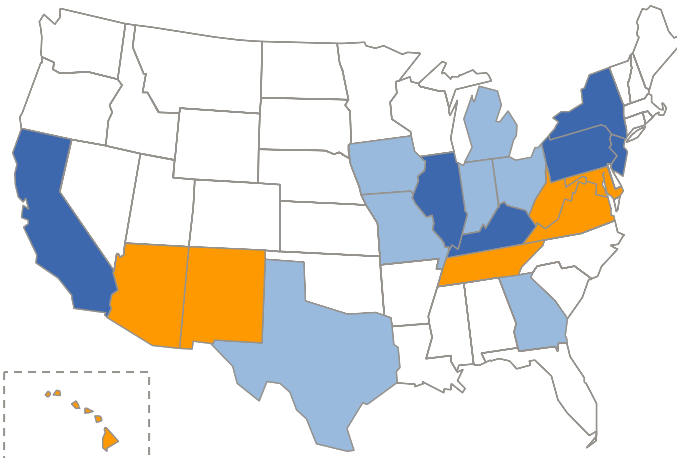


1 Upon approval of Annual General Meeting on April 18, 2007

2 The prerequisite is a successful IPO of the majority of American Water

# Update on water disposal

## States in which American Water has regulated operations



- Disposal approval granted
- Disposal approval pending
- No disposal approval necessary

## Update on planned disposal of American Water

- Petitions for regulatory approvals filed in 13 states – seven approvals already received
- Necessary corporate functions (refinancing, risk management and internal control) established
- Successful private placement of \$ 900 million senior unsecured notes in December 2006
- We are striving to launch an IPO of American Water in 2007. However, the timing is subject to market conditions, the regulatory approval process, the implementation of Sarbanes Oxley Act requirements, and the SEC registration process

# EU published integrated energy and climate package (January 10, 2007)

## EU commission has expressed its views on:

- How competition can be improved (including the findings of the Sector Inquiry)
- How further steps can be taken to tackle climate change

## Main items are:

- Ownership unbundling of electricity and gas networks
- Strengthen cooperation of national regulatory bodies and improve regulatory power at European level
- Increase transparency
- Improve access to gas storage facilities by regulatory means
- Improve cooperation of national and international Transport System Operators (TSOs)
- Further EU commitment to reduce CO<sub>2</sub> by 20% by 2020 autonomously; that reduction should be increased to 30% as part of a satisfactory **global** agreement (the long-term target by 2050 could be 50% below the emissions of 1990)

# Fully committed to liberalized markets, we have proposals to improve competition

## General topics

- Strengthen co-operation of grid operators nationally as well as cross-border
- Improve market transparency
- Support energy efficiency programmes

## Electricity:

- Invest in new generation capacity, shares in power plants for industrial and municipal customers
- Enhance grid capacity nationally as well as internationally
- Acceleration of non-discriminatory grid access for new generation capacity
- Germany-wide product offers – “eprimo\*” for households (also gas)

## Gas:

- Aim to build new storage and transport capacity
- Develop new gas sources for Germany either by LNG or by pipeline
- Simplify entry-exit model
- Reduce number of market areas to improve gas trading
- Support the initiation of a gas exchange – RWE could provide market maker function

\* Cartel approval still outstanding

# Today's agenda

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B

Klaus Sturany

**Divisional performance and Group results 2006**

C

Harry Roels

Outlook for 2007, mid-term financial targets

# RWE group results FY 2006



January – December € million	2006	2005*	change in %
EBITDA	7,861	7,095	+10.8
Operating result	6,106	5,371	+13.7
Non-operating result	-414	-634	+34.7
Financial result	-2,035	-1,581	-28.7
Income from continuing operations before tax	3,657	3,156	+15.9
Taxes on income	-982	-1,086	+9.6
Income from continuing operations	2,675	2,070	+29.2
Income from discontinued operations	1,338	385	+247.5
Minority interest	166	224	-25.9
Net income	3,847	2,231	+72.4
Recurrent net income	2,466	2,257	+9.3
Average No. of shares (million)	562.4	562.4	–
EPS (€)	6.84	3.97	+72.3

\* Restated figures: Thames Water reported as Discontinued Operations retroactively.

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# Performance of RWE Power



January – December € million	Operating Result			EBITDA		
	2006	2005	Change in %	2006	2005	Change in %
	<b>2,744</b>	<b>2,112</b>	<b>+29.9</b>	<b>3,372</b>	<b>2,800</b>	<b>+20.4</b>
Power Generation	2,132	1,667	+27.9	2,574	2,158	+19.3
RWE Dea	612	445	+37.5	798	642	+24.3

## ■ Power Generation (incl. RWE Trading)

- Higher realised electricity prices and higher volumes (+€ 810 million),
- Significant burden from unplanned outage of Biblis nuclear power plant in Q4,
- Fuel costs increased by € 70 million,
- Costs for purchasing CO<sub>2</sub> certificates nearly doubled from € 40 million to € 80 million.

## ■ RWE Dea up 38% due to high oil and gas prices and increased gas production.

# Performance of RWE Energy



January – December € million	Operating Result			EBITDA		
	2006	2005	Change in %	2006	2005	Change in %
	<b>2,506</b>	<b>2,507</b>	<b>0.0</b>	<b>3,177</b>	<b>3,142</b>	<b>+1.1</b>
German regions	1,427	1,609	-11.3	1,856	1,954	-5.0
International regions	403	381	+5.8	495	476	+4.0
Electr. + gas transm.	761	452	+68.4	952	621	+53.3
RWE Solutions	-27	113	-123.9	-23	132	-117.4

- German regions: first impact from German grid regulation were partially compensated for by cost reduction and efficiency programmes.
- International regions: approved higher tariffs in the Czech Republic.
- Electricity and gas transmission: higher allowed margins in the Czech gas business more than compensated for the cuts in grid fees by the German regulator.
- RWE Solutions: deconsolidated in Q3.

# Performance of RWE npower



January – December € million	Operating Result			EBITDA		
	2006	2005	Change in %	2006	2005	Change in %
	<b>512</b>	<b>437</b>	<b>+17.2</b>	<b>658</b>	<b>561</b>	<b>+17.3</b>

- Power generation: Benefited from improved wholesale prices and higher income from short term position management. Costs for covering the shortfall of CO<sub>2</sub> certificates rose from € 130 million to € 170 million.
- Supply: Increased pressure on margins. Rising electricity and gas purchase prices could only be passed through to end customers either only in part, or with a delay.

# Performance of Water Division

January – December € million	Operating Result			EBITDA		
	2006	2005	Change in %	2006	2005	Change in %
	<b>425</b>	<b>586*</b>	<b>-27.5</b>	<b>689</b>	<b>816*</b>	<b>-15.6</b>

- After deconsolidation of Thames Water the Water Division reflects the 2006 numbers of American Water only.
- Year on year comparison additionally affected by one-off effects such as the transfer of RWE Aqua (mainly including the minority stake in Berlinwasser) to RWE Energy.
- Performance of American Water negatively affected by higher operating costs and depreciation which will be passed on to customers as American Water is seeking recovery through rate cases.

\* Figures restated. Thames Water and the other water activities sold in 2006 are not included. RWE Aqua still included in the figures for 2005.

# Non-operating result

January – December € million	2006	2005	Change (absolute)
Capital gains	463	272	191
Impairment losses	-6	-759	753
Restructuring/others	-871	-147	-724
<b>Total</b>	<b>-414</b>	<b>-634</b>	<b>220</b>

- Capital gains: sale of 25% stake in oil producer KazGerMunai in Kazakhstan, shares in the technology division of uranium enricher Urenco and real estate.
- Impairment losses: last year impacted by charge for American Water.
- Restructuring/others:
  - Provisions for measures taken because of German grid regulation (€ 180 m),
  - Provisions in connection with old-age part-time arrangements at RWE Power (€ 90 m),
  - Amortization of RWE npower's customer accounts (€ 327 m),
  - Income from release of nuclear provisions more than halved to € +164 m.

# Financial result

January – December € million	2006	2005	Change in %
Net interest result	-722	-742	+2.7
Interest accretion to long-term provisions	-1,143	-1,247	+8.3
Other financial result	-170	408	-
<b>Total</b>	<b>-2,035</b>	<b>-1,581</b>	<b>-28.7</b>

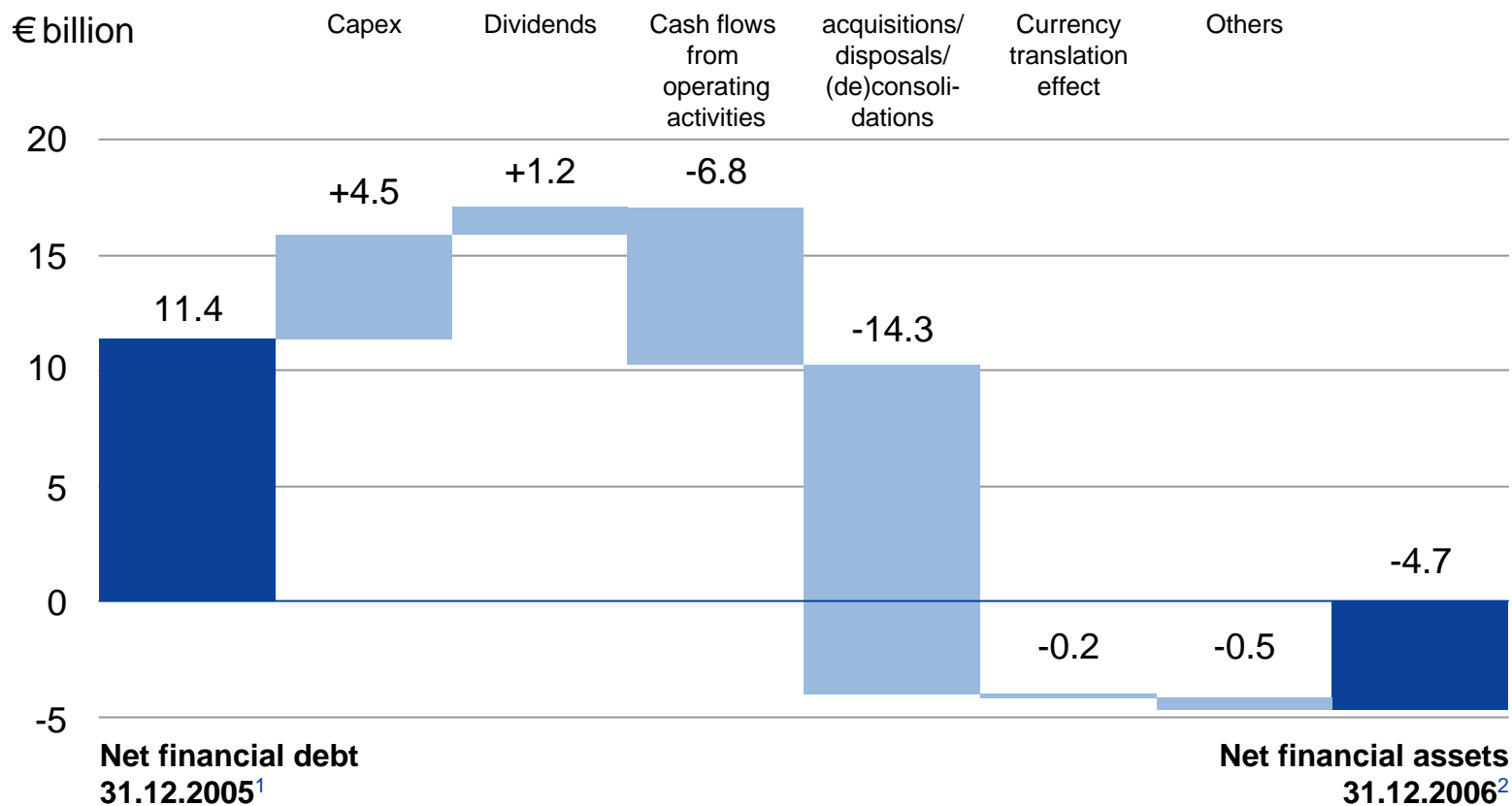
- Other financial result: down due to significant book gains from the sale of securities in the previous year.

# RWE cash flow statement



January – December € million	2006	2005	Change (absolute)
Income	4,013	2,455	1,558
Depreciation, amortization, impairment losses and write-backs	3,025	3,795	-770
Changes in provisions	1,300	-279	1,579
Changes in deferred taxes	293	148	145
Disposal gains	-1,368	-1,005	-363
Other non-cash items	54	-14	68
<b>Funds from operations</b>	<b>7,317</b>	<b>5,100</b>	<b>2,217</b>
Changes in working capital and other balance sheet items	-534	204	-738
<b>Cash flows from operating activities</b>	<b>6,783</b>	<b>5,304</b>	<b>1,479</b>
Capex on fixed assets	-4,494	-3,667	-827
<b>Free cash flow</b>	<b>2,289</b>	<b>1,637</b>	<b>652</b>

# Development of net financial debt



<sup>1</sup> Exchange rates of €1 = \$1.18; £0.69

<sup>2</sup> Exchange rates of €1 = \$1.32; £0.67

# Setting up a Contractual Trust Arrangement (CTA) and Pensionsfonds\*

## RWE will externalise the pension provisions into a CTA and Pensionsfonds\*

- Reasons for setting up a CTA/Pensionsfonds\*:
  - Increased transparency allowing better international comparison
  - Increased transparency of funding for pension liabilities
  - Additional protection of pensions against insolvency
  
- Timing for the process:
  - Q1 2007 transfer of approx. €7.8 bn assets into the CTA
  - Later this year, transfer of a portion from the CTA into the Pensionsfonds\* to cover the pension liabilities of the retired employees
  - Remaining on-balance sheet pension liabilities (€3.8 bn) will be transferred into the CTA/Pensionfonds\* in the following years
  
- Neutral from Rating Agencies' perspective

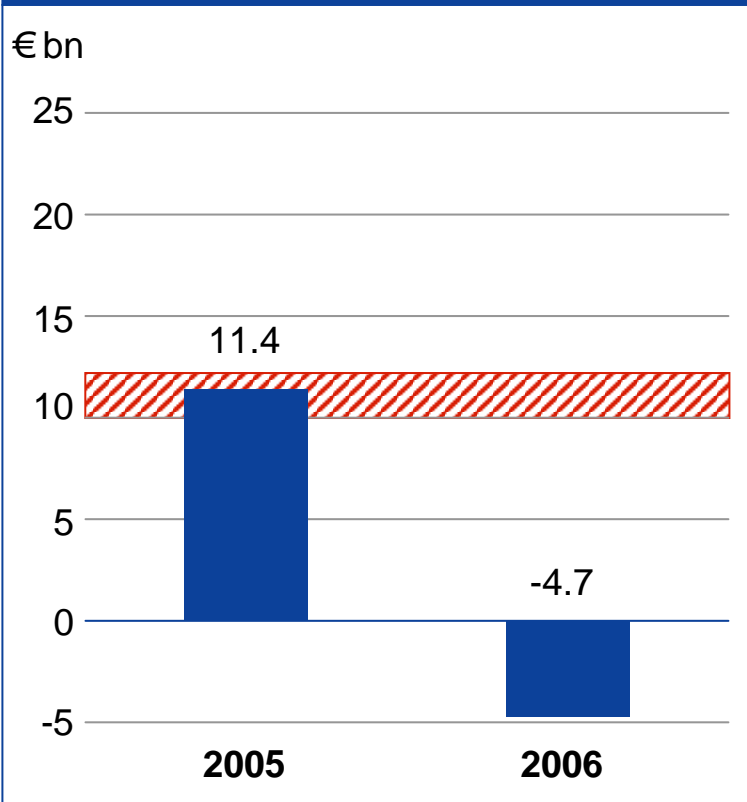
\* Separate legal entity under the supervision of the German Federal Financial Supervisory Authority (BaFin); legal standing differs from that of typical UK and US pension funds.

# New definition of net debt

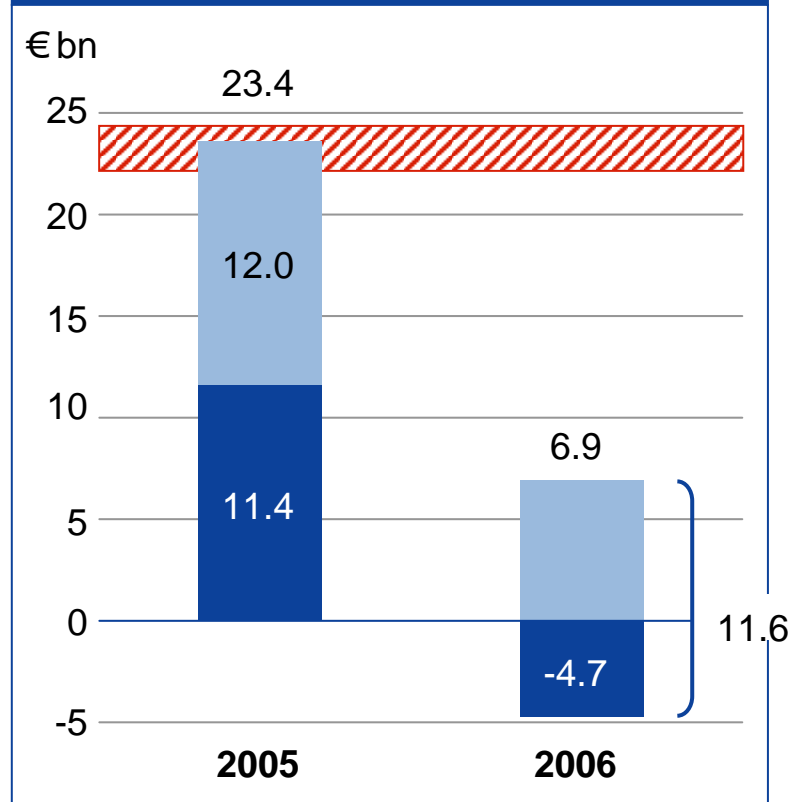
January – December € million	31.12.2006	31.12.2005	Absolute change
Cash and cash equivalent	2,794	1,431	1,363
Marketable securities	17,835	11,356	6,479
Other financial assets	3,473	3,603	-130
<b>Gross financial assets</b>	<b>24,102</b>	<b>16,390</b>	<b>7,712</b>
Bonds, notes payable, bank debt, commercial paper	18,308	24,982	-6,674
Other financial debt	1,074	2,846	-1,772
<b>Gross financial debt</b>	<b>19,382</b>	<b>27,828</b>	<b>-8,446</b>
<b>Net financial debt (+) / assets ('-')</b>	<b>-4,720</b>	<b>11,438</b>	<b>-16,158</b>
Provisions for pensions and similar obligations	11,584	11,997	-413
<b>Net debt (+) / assets ('-')</b>	<b>6,864</b>	<b>23,435</b>	<b>-16,571</b>

# New cap for net debt

Old cap of "net financial debt"  
at € 10 – 12 bn



New cap of "net debt" at  
€ 22 – 24 bn after CTA



Net financial debt (+), assets (-)

Pension provisions

# Today's agenda

A

Harry Roels

Highlights of 2006, RWE's strategy going forward

B

Klaus Sturany

Divisional performance and Group results 2006

C

Harry Roels

**Outlook for 2007, mid-term financial targets**

# Outlook for 2007

	Reported 2006 <sup>1</sup> € million	Pro forma 2006 <sup>2</sup> € million	2007 forecast <sup>2</sup>
EBITDA	7,861	7,172	+5% - 10%
Operating result	6,106	5,681	ca. +10%
RWE Power	2,744	2,744	↗
RWE Energy	2,506	2,506	↘
RWE npower	512	512	↗
Water Division	425	DCO <sup>2</sup>	DCO <sup>2</sup>

<sup>1</sup> Exchange rates of (€ 1 =) USD 1.26; GBP 0.68

<sup>2</sup> Pro forma: Water Division discontinued operations (DCO)

# Outlook for 2007

	Reported 2006 <sup>1</sup> € million	Pro forma 2006 <sup>2</sup> € million	2007 forecast <sup>2, 3</sup>
External revenue	44,256	42,554	↗
Operating result	6,106	5,681	ca. +10%
Net income	3,847	3,847	↘
Recurrent net income	2,466	2,466	ca. +10%
Capex on fixed assets	4,494	2,910 <sup>4</sup>	ca. € 4 bn <sup>4</sup>

<sup>1</sup> Exchange rates of (€1 =) USD 1.26; GBP 0.68

<sup>2</sup> Pro forma: Water Division discontinued operations (DCO)

<sup>3</sup> Based on exchange rates of €/GBP = 0.70

<sup>4</sup> Adjusted for Water capex

# New mid-term targets



\* The prerequisite is a successful IPO of the majority of American Water.

# Back-ups



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

- German NAP II was notified to the EU commission by end of June 2006. Key elements:
  - Emission cap: 482 million t p.a.; compliance factor (cf) of 85%; no auctioning
  - 14 years of full allocation for new plants and “transfer rule” for replacement plants
  - 12% cap on utilisation of certificates derived from CDM/JI
- In November 2006, Federal Environment Ministry announced reduction in cap to 465 million t p.a. (cf: 71%).
- On November, 29, the EU Commission required a further reduction to 453 million t p.a. (estimated cf: 65-67%). Furthermore, allocation guarantees contained in the NAP I may not be implemented in NAP II.
- Mid February 2007, the Federal Environment Ministry drafted an adjusted proposal for NAP II:
  - New proposed emissions cap: 453 million t p.a. + 3 million t for gas by-products
  - Transfer rule will be replaced by a benchmark system; two best available technology (BAT) benchmarks are envisaged: a) 750 g CO<sub>2</sub>/kWh for coal and b) 365 g CO<sub>2</sub>/kWh for gas
  - Plants build 2003 or later will get a utilization factor of 7,500 h; older plants get historic average utilization 2000 – 2005
  - Only general commitment to continue the benchmark system beyond 2012
  - CDM/JI cap increased to 20%
  - Next milestone will be discussion in the cabinet on March 7, 2007.

# 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 and submitted it to the EU Commission on August 21.
- On November 29 the EU Commission announced that it accepted the UK NAP II with only minor adjustments. A revised installation-level allocation list was published on December 18.
- Key elements:
  - Emission cap for CO<sub>2</sub> certificates: 237 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
  - The allocation to the electricity sector, including the new entrant reserve, is 107.4 mil t p.a. compared with 136.9 mil t p.a. in phase I
  - Allocation to RWE npower is 12.4 mil t p.a. compared with 15.8 mil t p.a. in phase I (excl. CHP)

# Setting up a Contractual Trust Arrangement (CTA) and Pensionsfonds\* I

## What is the impact on the balance sheet?

- Assets: 'Marketable securities' and 'Cash & cash equivalents' will decrease
- Liabilities: 'Pension provisions' will decrease
- Underfunding or overfunding of the CTA / Pensionsfonds\* will be addressed on the balance sheet as 'pension provisions' or 'pension asset' respectively.
- Actuarial losses and gains that may arise after initial funding date will be reported off-balance-sheet in the notes, unless they pass certain thresholds (see comment under impact on P&L)

➤ Reduction of balance sheet total

## What is the impact on the P&L?

- 'Interest and similar income' on approx. € 8 bn (later € 12 bn) assets will decrease
- 'Interest accretion to non-current provisions' on approx. € 8 bn (later € 12 bn) assets will decrease (current discount rate 4.5% Germany, 5.10% – 5.90% international)
- To the extent that either underfunding or overfunding occurs from actuarial losses or gains, it will be accounted for in the notes. 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.

➤ Neutral impact on P&L as long as 'expected return on plan assets' equals to actual investment returns yielded in the past

\* Separate legal entity under the supervision of the German Federal Financial Supervisory Authority (BaFin); legal standing differs from that of typical UK and US pension funds.

# Setting up a Contractual Trust Arrangement (CTA) and Pensionsfonds\* II

## What is the impact on the cash flow statement?

- Cash-outs for initial funding. These will – according to common accounting practice - not affect the cash-flow from operating activities, however
- Reduced cash-flow from income on assets because of lower volume held in the balance sheet
- Cash-out for pensioners will decrease and after full funding will disappear
- Cash-outs for annual contributions to the funds.

➤ Neutral impact over the lifetime of the provisions. But the downside effects (increase in cash-outs for annual contributions and shortfall of cash-relevant income on assets) will exceed the shortfall of cash-out for pensioners in the early years.

\* Separate legal entity under the supervision of the German Federal Financial Supervisory Authority (BaFin); legal standing differs from that of typical UK and US pension funds.

# RWE Group electricity production



January – December in TWh	Germany	UK	Other Internat.	Total 2006	Total 2005
Lignite	67.9		5.0	72.9	76.0
Nuclear	47.3			47.3	45.1
Hard coal	50.8	20.8		71.6	64.0
thereof contracts	31.1			31.1	29.5
Gas	9.9	14.4		24.3	27.3
Water and others	5.9	1.3	0.4	7.6	7.1
thereof contracts	2.5			2.5	2.5
<b>Subtotal</b>	<b>181.8</b>	<b>36.5</b>	<b>5.4</b>	<b>223.7</b>	<b>219.5</b>
Electricity purchases*	61.2	23.5	21.4	106.1	98.3
<b>Total</b>	<b>243.0</b>	<b>60.0</b>	<b>26.8</b>	<b>329.8</b>	<b>317.8</b>

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

# RWE Group electricity sales volume



January – December in TWh	Ger- many	UK	Po- land	Hun- gary	Others	Total 2006	Total 2005
Private and commercial	29.3	22.3	3.3	5.6	0.6	61.1	61.9
Industrial and corporate	52.4	34.1	2.9	5.4	0.1	94.9	100.3
Distributors/power utilities	69.1		1.3	4.8	0.5	75.7	66.1
Electricity trading <sup>1</sup>	80.4					80.4	70.8
<b>Total</b>	<b>231.2</b>	<b>56.4</b>	<b>7.5</b>	<b>15.8</b>	<b>1.2</b>	<b>312.1<sup>2</sup></b>	<b>299.1<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

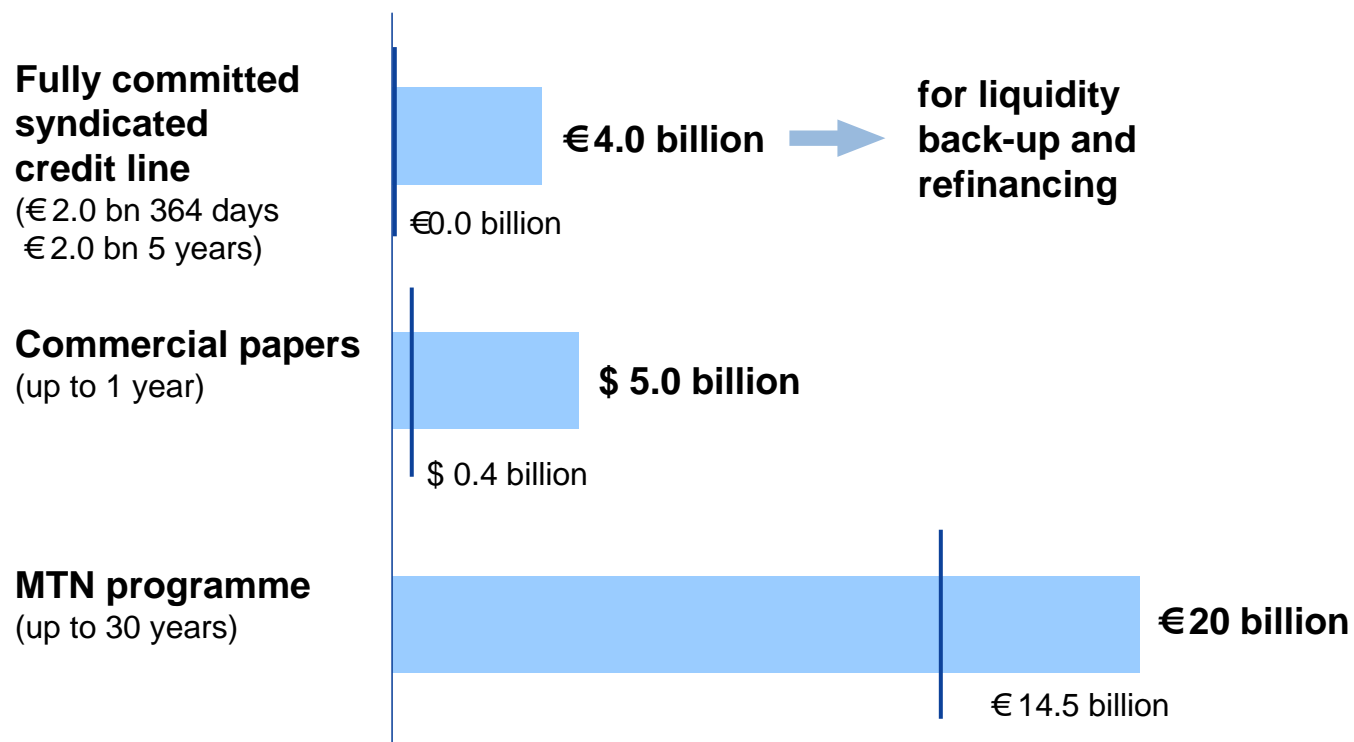
# RWE Group gas sales volume



January – December in TWh	Ger- many	Czech Rep.	UK	Others	Total 2006	Total 2005
Private and commercial	27.2	36.3	41.4	7.0	111.9	113.2
Industrial and corporate	51.1	44.2	9.6	17.7	122.6	116.0
Distributors/power utilities*	105.7	15.9	4.8	0.0	126.4	127.6
<b>Total</b>	<b>184.0</b>	<b>96.4</b>	<b>55.8</b>	<b>24.7</b>	<b>360.9</b>	<b>356.8</b>

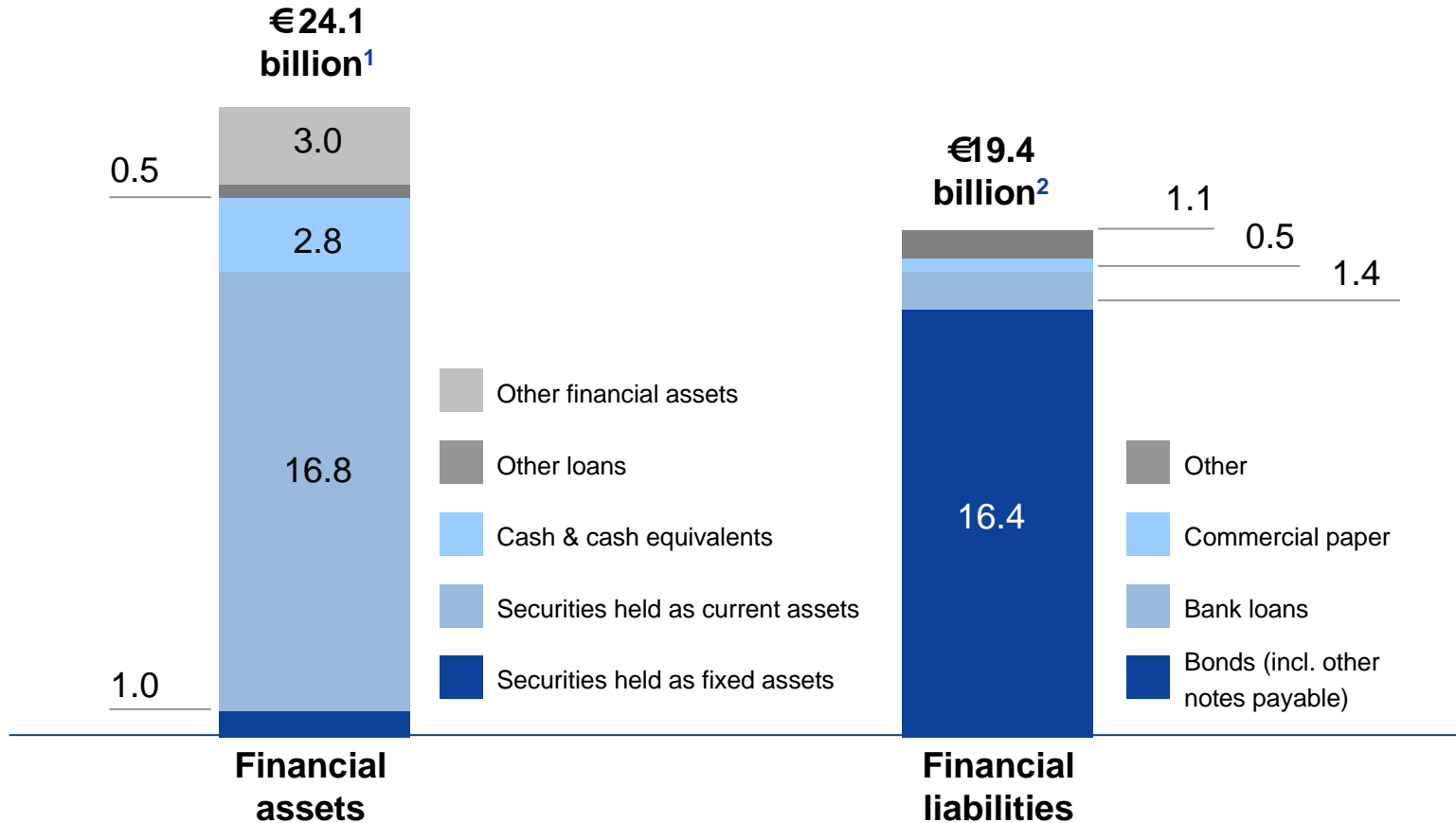
\* Incl. gas trading

# RWE AG: flexible funding structure



Amounts used as of 12/31/2006.

# Financial assets and liabilities (as at 12/31/2006)



<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>

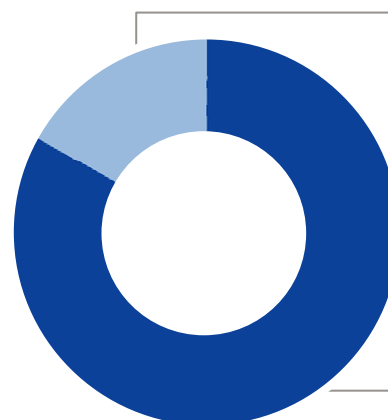
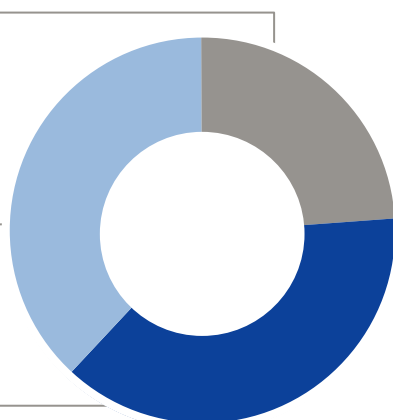
Gross financial debt as of December 31, 2006: € 19.4 billion

€/Others **24%**

Floating **17%**

\$ **38%**

£ **38%**



Long term financed (> 1 Year): 83% of gross financial debt

Short term financed (< 1 Year): 17% of gross financial debt

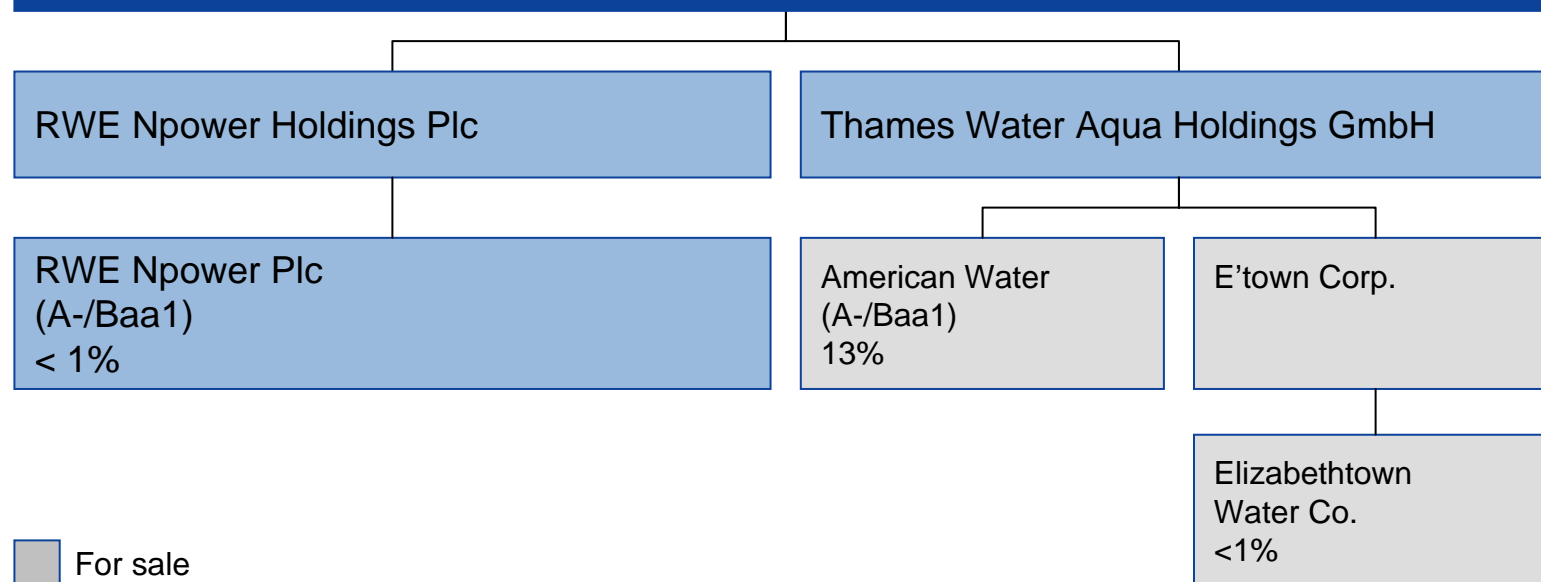


With debt in foreign currencies we hedge the translation risk of our international activities.

\* Including cross-currency swaps.

# Structural subordination in the RWE Group

RWE AG (A+/A1)/RWE Finance B.V./Consolidated German Subsidiaries<sup>1</sup>  
86%



As of December 31, 2006

<sup>1</sup> 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.

# Reminder...

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Investor Relations > Calendar
- **Annual Report**  
Investor Relations > Financial Reports > Annual Report
- **Interim Report**  
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
- **RWE bonds as seen by analysts (overview of latest analyst ratings)**  
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