



# Corporate Responsibility. Report 2005





## About the report

The present report follows on from our Environmental Reports of 1998, 2000 and 2001 and from the first report on "Corporate Responsibility. 2003". It presents what the RWE Group has identified as key areas for sustainable action and how we are going to tackle these issues. The report therefore complements our annual Financial and Personnel Reports and at the same time constitutes our progress report for the United Nations Global Compact, especially as regards the implementation of the tenth universal principle on combating bribery and corruption.

**Internet.** The published version of the report can be viewed on our Internet site, which also features an additional section on "Responsibility" ([www.rwe.com/responsibility](http://www.rwe.com/responsibility)). The Internet also provides us with an opportunity to present individual accounts of commitment at operating company level. References embedded in the report are used to help access these individual stories: By going to [www.rwe.com/responsibility](http://www.rwe.com/responsibility) readers can select the page "online report links", where all references contained in the report are displayed with their respective reference number. The information you require is then only a click away.



*In the Internet we provide a list of all links displayed in this report together with their respective reference number.*

**Basic principles.** The report is based on and structured around our own key areas for action. Its content is organised in accordance with the guidelines issued by the Global Reporting Initiative (GRI). The index on the back cover lists the individual GRI reporting requirements. We have also obtained useful feedback from a variety of sources, including questionnaires sent out by sustainability rating agencies, various national and international reviews and the results of a workshop that we held with stakeholders following the publication of our last report in

April 2004. The report also follows the OECD Guidelines for Multinational Enterprises from the year 2000 (on "Information disclosure") and has been drawn up in accordance with our own code of conduct.

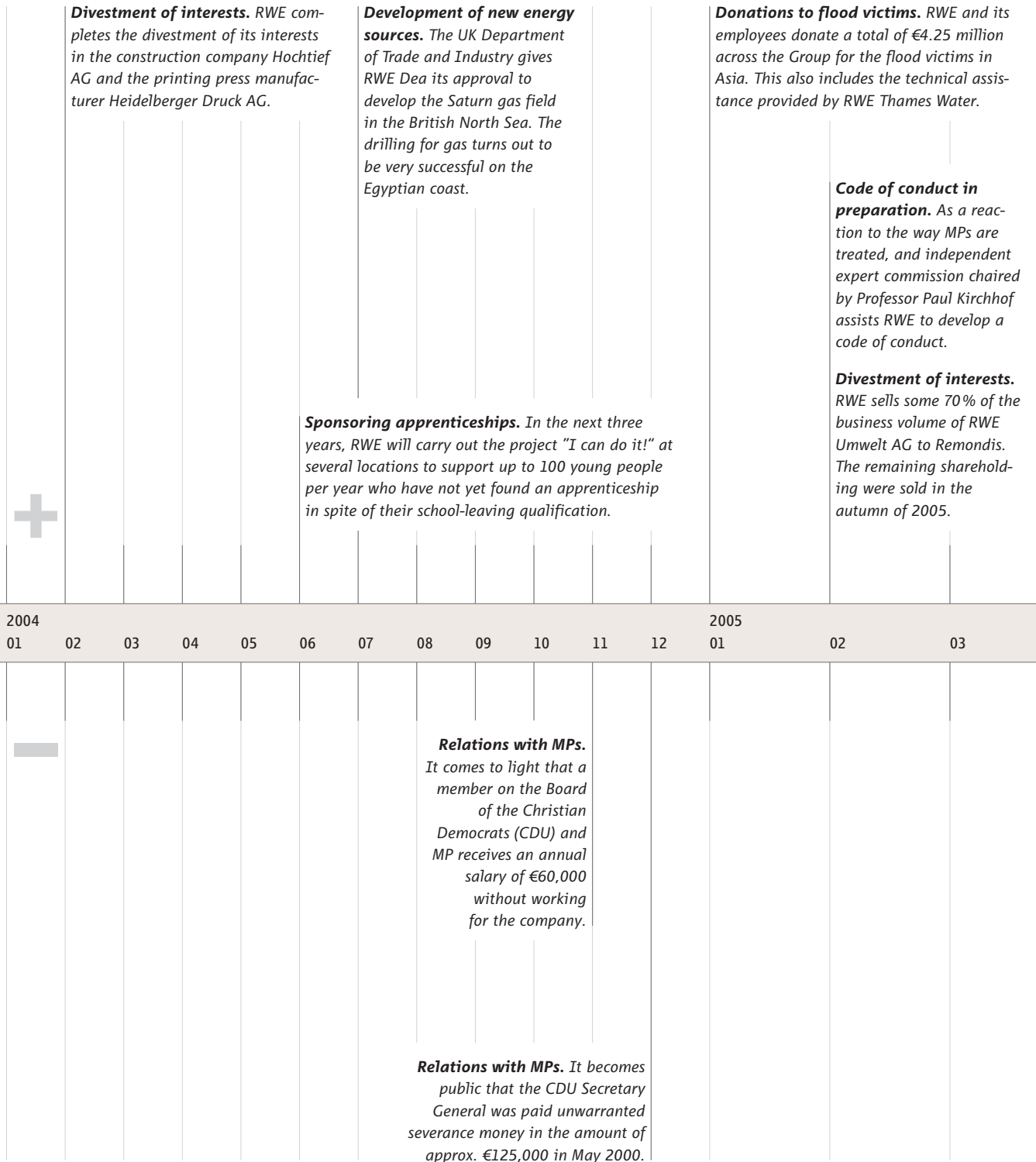
**Data.** Most of the information presented relates to Group activities in 2004 and 2005. Environmental data were provided by UBIS, our Group-wide environmental information and reporting system. This database includes all companies in which we have a greater than 50 percent holding (cf. "included companies", page 78), but no longer includes affiliates that were part of RWE Umwelt, whose sale was finally completed during the reporting year 2005. All financial data are given in €, while foreign currencies have been converted on the basis of annual average rates for 2005 (€1 = £0.68; €1 = \$1.24).

**Certificate of audit.** In order to achieve maximum credibility we have for the first time – and as announced – had the report verified in full by an external auditing company. The audit was undertaken according to standard IDW EPS 821 (Generally Accepted Assurance Standards for the Audit or Review of Sustainability Reports) as laid down by the German Institute of Chartered Accountants (IDW) and was carried out by staff from the accountancy firm PricewaterhouseCoopers. The auditor's report can be found on the back cover page.

**For reference.** The report is published in German and in English. The editorial deadline for publication was 28 February 2006.

Our next "Corporate Responsibility" report is due to appear in early 2008. A short interim report will be published on the Internet in early 2007.

# Good news and less good news 2004/2005









<p><b>Fuel cell model presented.</b> RWE Fuel Cells presents a new fuel cell model at the world's largest hydrogen and fuel cell exhibition in Hanover (Germany).</p> <p><b>Renaturation completed.</b> The river Inde in the Inden opencast mine (Germany) is directed to its new bed, thus being restored to a course designed according to ecological principles.</p>	<p><b>Power supply contract signed.</b> Trimet Aluminium AG has signed a new type of electricity supply contract with RWE, safeguarding cost-effective supplies to the energy-intensive aluminium smelter until 2009 and contributing towards preserving basic industry in Germany.</p>		<p><b>Resolution passed on the construction of a new lignite-fired power plant.</b> RWE resolves to build a new 2,100 MW twin-unit plant with optimised engineering at Neurath (Germany).</p>		<p><b>Hardship fund set up.</b> RWE sets up a voluntary hardship fund to assist people who were hit particularly hard by the power failures in the Münsterland region.</p> <p><b>RWE code of conduct takes effect.</b> The code of conduct compiled with the help of an independent expert commission becomes mandatory for the whole Group.</p>	<p><b>Resolution announced to withdraw from the US and UK water business.</b> RWE plans to withdraw from the water business in Great Britain and the USA by 2007.</p>		
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	<p><b>Fire at Frimmersdorf power plant.</b> Several units of the RWE Frimmersdorf power plant break down owing to a fire in the control room. Nobody is injured.</p>			<p><b>Protest against power plant construction.</b> The planned construction of a lignite-fired power plant by RWE comes under criticism from non-governmental organisations (NGOs).</p>	<p><b>Federal Antitrust Authority starts investigations.</b> The German antitrust authority starts investigating at RWE and other electricity utilities to what extent it is justified to include the costs of CO<sub>2</sub> certificates in the electricity prices.</p>	<p><b>Power interrupted.</b> In the service territory of the Münsterland region (Germany), 80 transmission towers break under extreme ice loads. Thousands of residential households and small businesses remain completely cut off from energy supplies for up to five days.</p>		
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# Foreword

## *Dear Readers,*

It was good to see that our 2005 Sustainability Report generated such a high level of interest. The purpose of the report is to document our responsibility to our employees and shareholders, as well as to society and the environment.

Sustainability means the planned development of our corporate business strategy. Sustainability is the key to the economic, ecological and social future of the corporation. We as a company are essentially committed to economic success and to achieve this we need to survive in a competitive environment. We rely on having as many customers as possible who prefer to buy our products and services on the market. And what is the market? It is the sum total of individual purchasing decisions that are based on a whole range of different criteria.

In the past, price and quality were the primary factors. While this is essentially still true, we are now seeing a number of new items being added to the "quality" shopping list. We are no longer measured just by classical values such as security of supply and the competitiveness of our prices. In a much more general sense our entrepreneurial conduct is now also assessed on the basis of social, ecological and – in some cases – ethical considerations. It is therefore no surprise that the decisions made by investors and customers are being based increasingly on the concept of sustainability. A clear sign indeed of the direction in which we are moving.

Of course there is nothing remarkable in stating that every company and every business is part of society. What is new is that our position in society is now branded by a series of hitherto unfamiliar expectations and demands. In short: the public have become more critical, more observant and more sensitive – and this is perhaps a good thing.

Energy is a valuable and finite resource and all who use it must adopt a responsible approach. We therefore welcome the objective dialogue now underway with a discriminating and perceptive public. We in turn have to adjust to this by aligning our corporate strategy accordingly and by becoming far more responsive towards our social environment. We have to be inspired by social and political developments, expectations and aspirations, but without sacrificing our identity. We should learn to observe how we see ourselves and others and how we ourselves are seen. This is the key to mutual trust and understanding. And society's trust is essential for our long-term success.

We know about our special environmental responsibilities. This is why we aim to commission the first industrial-scale CO<sub>2</sub>-free coal-fired power plant by the year 2014. This project will enable us to investigate on a commercial scale the feasibility of coal-fired power generation with downstream CO<sub>2</sub> sequestration and storage and will help pave the way for an eco-friendly coal-based power generation system for the future. The significant advantages that coal has to offer, namely security of supply and cost effectiveness, can therefore be exploited in the long term as part of a balanced fuel mix.

We also have responsibilities to our workforce. This primarily means personnel management and development, employee motivation and interaction between management levels. We need more than just a skilled workforce – we need to adopt a mode of behaviour in our social dealings with one another that is based on trust and respect. We need a working environment in which new and innovative ideas can flourish. An atmosphere that is conducive to incorporating and capitalising on economic, social, technical and ecological developments.



Harry Roels



Alwin Fitting

Last year, following a Group-wide opinion poll of the company’s employees, we carried out an initial corporate appraisal which in turn launched a broad discussion process. The value criteria used in this exercise were also put into effect last year and now serve as a basic guideline for our in-house and external relations. The introduction of a code of conduct has also provided us with a set of concrete rules that reflect – regardless of any judicial ruling – generally accepted ideas for correct behaviour.

The social expectations and demands being made of our company extend far beyond the personal level and now include our contribution to climate protection and the environment. At the same time we are being asked to provide safe, reliable and low-cost energy. There are also local and employment issues to be considered, notably with regard to the provision of training places. And in addition to all this there is the matter of the company’s social and cultural obligations. This all adds up to a set of wide-ranging demands. It is our responsibility to take these issues into account in an appropriate manner and to weld them all into an economically, ecologically and socially balanced whole. While there is certainly still much scope for improvement, we are convinced that we are on the right path and that this approach is already having a positive impact.

Sustainability is a far-sighted strategy serving both as a key to the long-term future of our company and as a commitment to our common responsibility. You can be certain that every member of the RWE AG Executive Board is fully and individually committed to the policy of sustainable corporate development.

Of course you will want to judge for yourselves just how much progress we have made on the issue of sustainability. The information you need is all there in the current Sustainability Report. Whether your conclusions are positive or otherwise we welcome any feedback as part of our ongoing commitment to an in-house dialogue ([info-responsibility@rwe.com](mailto:info-responsibility@rwe.com)).

Harry Roels  
Chief Executive Officer

Alwin Fitting  
Member of the Executive Board  
and in charge of Corporate Responsibility

## Focus on the core business

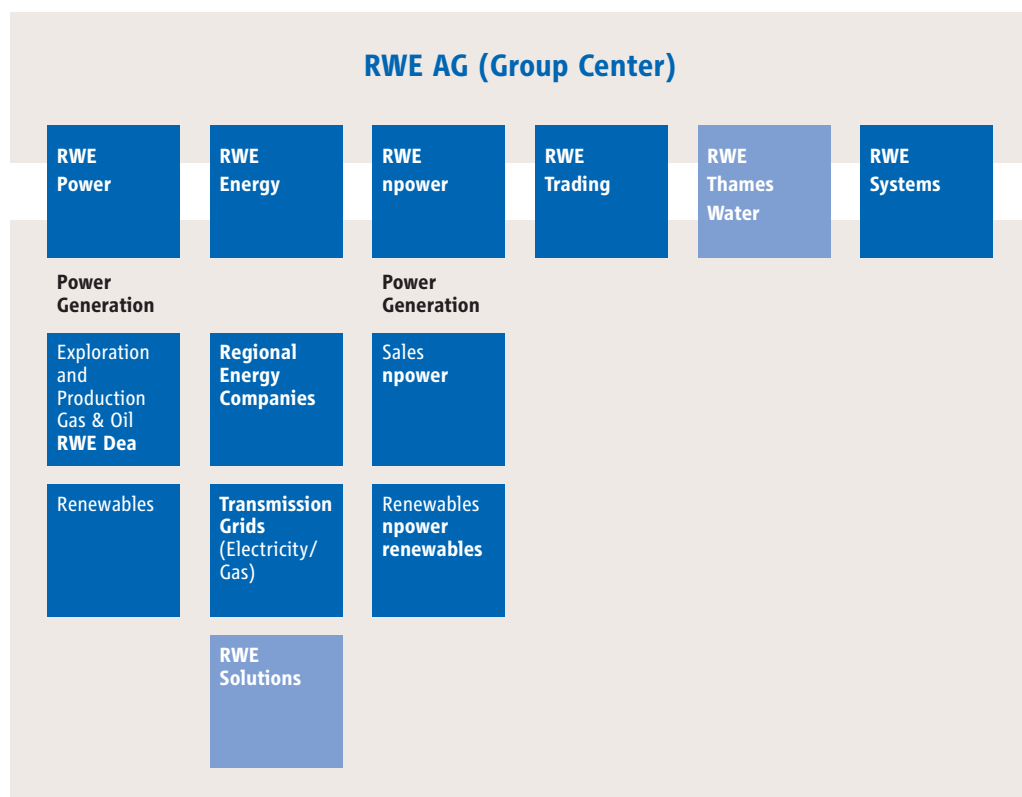
Our roots go back to “Rheinisch-Westfälisches Elektrizitätswerk Aktiengesellschaft” (RWE AG) founded in Essen (Germany) in 1898. Since the deregulation of energy markets began in the European Union (EU) in 1998, RWE has developed into a European Group with global commitments through takeovers and subsidiaries outside Germany. Today, we operate mainly in Germany, the United Kingdom, Central Eastern Europe and North America.

**Focus on electricity and gas.** In the 2004/2005 reporting period, we continued to sharpen our focus on the energy core business and sold the remaining interests in the business areas of environmental services, civil engineering and printing systems. Also, subject to the approval of the Supervisory Board, we plan to withdraw successively from the water business in the US and the UK by the end of 2007 in order to focus on the energy business in Europe.



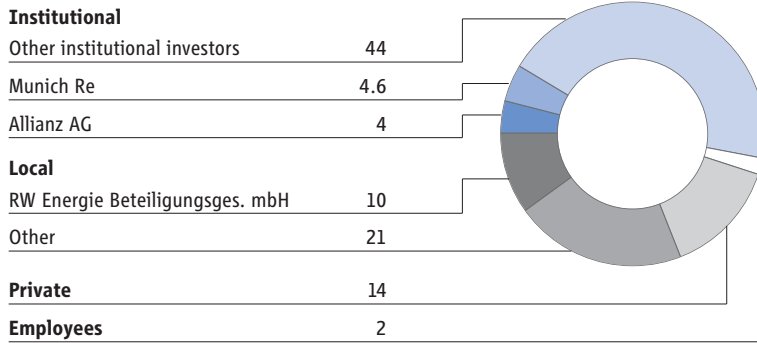
Our chronicle reports on our history spanning more than 100 years.

### RWE AG Group structure





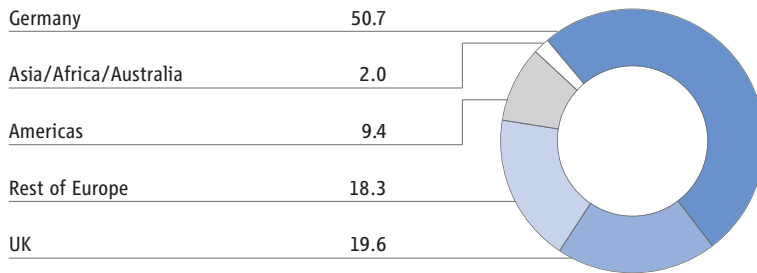
**RWE AG shareholders**  
percentage (31 Dec 2005)



Since the water business accounted for a major part of our activities in the 2004/2005 reporting period and will remain in our portfolio for the time being, it will be covered in depth in our reporting.

Our energy (electricity, gas) and water (water and sanitation) business generated almost €42 billion of revenue in fiscal 2005, thus confirming our position once again as a leading European multi-utility company: Every day, over 86,000 employees supply 20,1 million customers with electricity, 10.4 million with gas and worldwide around 56 million with water.

**RWE AG workforce by region 2005**  
percentage (31 Dec 2005: 85,928 employees in core businesses\*, 97.5 % of which are in OECD countries)



\* Including RWE Systems, Group Center, consolidated

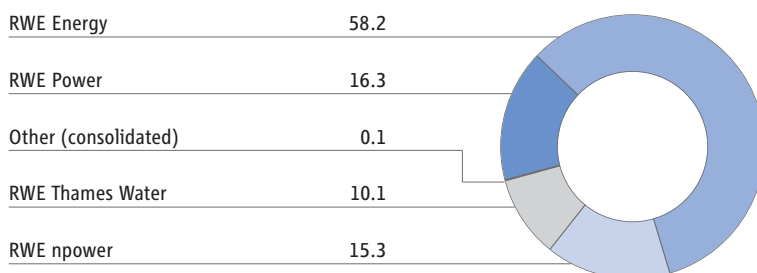
**Central Group management.** Since the reorganisation of our Group took effect in October 2003, RWE AG has been officially called the "Group Centre". This reflects our identity: The Group Centre is responsible for strategy, political contacts, controlling, finance, communication and HR management at Group level as well as for the sustainability strategy of the RWE Group.

The business of our operating companies is pooled under RWE AG: RWE Power AG (power generation as well as production of natural gas and oil by the subsidiary RWE Dea), RWE Energy AG (transmission, distribution and retail of electricity and gas, water and sanitation in continental Europe), RWE Npower plc (generation and retail of electricity and gas in the UK), RWE Trading GmbH (energy trading) and RWE Thames Water plc (water and sanitation mainly in the UK and the US).



Information on Group structure, participating interests, corporate governance and business segments is available on the Internet.

**RWE AG external revenue by business area 2005**  
percentage (€41.819 billion in core business\*)



\* Including RWE Systems, Group Center, consolidated

Within the RWE Group, RWE Systems is responsible for "Corporate Services". Its services include Group purchasing, IT, property and personnel recruitment.

**Latest development.** In November 2005, RWE decided to divest the water business in the UK and the US, subject to the final approval of the Supervisory Board. RWE is taking this step to focus its future core competencies on the consolidating energy and gas markets in Europe. Another important reason for this decision is the insufficient synergies between the North American and the British water business and the European energy activities. However, the continental European water business operated by RWE Energy is to remain within the Group.



*Our 2004 and 2005 annual reports provide information about the economic development in the period under review.*

In the 2004/2005 reporting period the RWE Group achieved or even exceeded its profit targets. Operating earnings for business year 2005 rose by 12 percent compared to 2003. At the same time we succeeded in reducing our net debts to €11.4 billion in 2003, enabling us to make further investments.

### **Our sustainability strategy**

By supplying households, small and mid-sized enterprises and industry with electricity, gas and water, we meet basic needs of our society. We recognise therefore that we have a special responsibility for long-term sustainable development, which we implement with our sustainability strategy. It is based on six core areas of action which we defined in 2003 through internal analysis and by responding to the requirements of our stakeholders. We are thus concentrating on those aspects of sustainable development which are currently most important given our activities and operating environment, our strengths and our weaknesses. The Executive Board of the RWE Group approved these focal areas for action and their continual development in October 2003.



*The full text of our sustainability strategy guidelines is available on the Internet.*

### **1. Climate protection: We make a significant contribution to climate protection and security of supplies.**

Our energy business is faced with the central challenge of efficiently ensuring security of supply, whilst making an effective contribution to climate protection. Currently we are making decisions on several billion euros worth of investments in new power plants. Some of these decisions will set our course for decades and are therefore being carefully reviewed. The construction of new highly efficient power plants will make an effective contribution to reducing CO<sub>2</sub> emissions. We will continue to develop power plant engineering aimed at reducing CO<sub>2</sub> emissions through a focused R&D programme (cf. chapter "Energy", page 21).

### **2. Social responsibility: We meet the responsibility we have to our employees and wider society.**

Demographic change, which will result in far-reaching changes in our employee structure, provides a particular challenge. Our Human Resources management is responding to this by developing an integrated HR strategy covering all phases of working life. We have also realigned our social commitment: We regard sponsorship as an effective tool to improve the brand image of RWE and the relation to the communities where we operate. Supporting the voluntary commitment of our employees also contributes to this and can have a positive impact on personnel development (cf. chapter "Workplace", page 59).

### **3. Stakeholder dialogue: We seek an open dialogue with our stakeholders.**

Our stakeholders are diverse – ranging from customers, business partners, authorities, investors, suppliers and employees to nation-

al and international non-governmental organisations (NGO). We seek an open dialogue with them, respond to their expectations and take account of them in our decision-making. At various points in this report, we take a concrete look at the way in which we conduct the dialogue with our stakeholders.

**4. Sustainability management: Transparent action and responsible leadership are Group-wide fundamental principles.**

An ongoing challenge for us has been expanding our Group-wide coordination of corporate responsibility management, building on our established approach to environmental management. The introduction of the RWE values and the RWE Code of Conduct were important milestones in the peri-

od under review. In other Group-wide fields like environmental management and industrial safety, too, we keep developing our management systems on an ongoing basis (cf. chapter "Strategy and management", page 12).

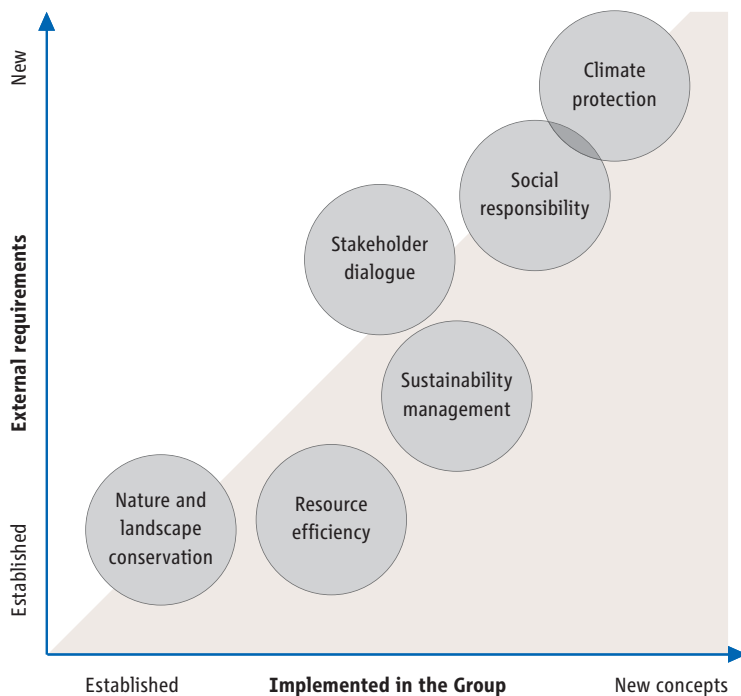
**5. Resource efficiency: We safeguard our future by using resources efficiently.**

Efficient use of resources is a key issue in all our business areas. Conserving energy both in our own company and working with our customers on actions to reduce CO<sub>2</sub> emissions. By reducing water losses, we make an important contribution to the security of supplies (cf. chapter "Water", page 37).

**6. Nature conservation and landscape protection: Nature and landscape conservation is an essential element of responsible action for us.**

The careful stewardship of nature and landscape is a visible sign to the community in the regions in which we operate that we take our responsibility seriously. Consideration of nature conservation and landscape protection is incorporated in our decision-making processes and all our activities, especially those which have a particularly strong impact on the environment such as opencast mining, maintenance of transmission line routes, power plant construction and operation, water abstraction and wastewater discharge (cf. chapter "Energy", page 33, and "Water", page 41).

**Areas for action promoting sustainable development at RWE**



# Strategy and management





The Mittelpate oil rig has been developing the largest German oil field since 1987. The fact that it is located within of the Wadden Sea national park of Schleswig-Holstein has been an obligation for us from the very beginning: A sustainable operations concept pools the requirements of biodiversity and environmental protection, efficient production and profitable operations. Since October 2005, the oil has been transported exclusively by pipeline – safely, fast and in an environmentally friendly manner.

## **Strategy and management:** **Living up to our principles, achieving our goals** *Performance, trust, customer focus, reliability and forward thinking: these five key principles are fundamental to our group policy and are to be applied to all business sectors, group companies, operating sites and work cultures.*



*The RWE corporate principles can be viewed on the Internet.*

In 2004 we set out these five principles in our common mission statement. During the period under review these concepts were discussed thoroughly with the workforce at operating company level in order to integrate them into the daily routine.

Our sustainability strategy also helps in applying these corporate principles. It is primarily driven by the specific challenges arising from our energy and water business. In a systematic evaluation process based on intensive internal and external surveys we have defined six key areas for action (cf. chapter "Group portrait" page 6/7).

These have been approved by the RWE Group's Executive Board, and instructions issued to develop them further. The Executive Board and the Coordination Committee for Corporate Responsibility (CR) are kept

regularly informed of our sustainability management activities and of the views of our stakeholders and they also undertake to initiate actions designed to reinforce responsible corporate management.

### **Our code of conduct**

The introduction of the RWE code of conduct in 2005 was clearly an important step forward. When the issue of salary payments and unwarranted severance money paid to two German MPs became public, the Executive Board resolved to take firm action and introduced a company code of conduct. We believe that internal guidelines for ethical and responsible business practices are now essential for any internationally active company. They provide a common foundation for diverse working cultures and form part of our risk management strategy.



**Prof. Dr Dr Karl Homann,**  
Chair of Business Ethics at  
the Ludwig-Maximilians-  
Universität Munich  
(Germany)

**»This is a cultural process that will take years.«**

Alwin Fitting, RWE Executive Board member and responsible for Corporate Responsibility discussed the RWE code of conduct and its implementation with Prof. Dr Dr Karl Homann, member of the Committee of Experts that compiled the code of conduct. Prof. Homann stressed the necessity of a code of this kind for building up a business culture governed by ethical rules. He agrees with Fitting that it is important for the Executive Board to set a good example. What Prof. Homann now requests is for the code to become integrated "in the organisational structure, the corporate statutes, in the reporting commitments and controlling".

Furthermore, it is important to acknowledge employees as individual persons so that they can feel free to express all their concerns without having to fear any drawbacks. "This is particularly true for those working in the field of acquisition as well as building and consultancy contracts."

According to Fitting this is an issue that is especially volatile in view of upcoming investments worth billions. Prof. Homann also encourages RWE to set an example in new markets. He predicts that "in terms of regulatory functions" companies worldwide will have to "assume significantly more responsibility than has hitherto been the case".



A full account of the discussion with Prof. Dr Dr Karl Homann can be found on the Internet.

The Executive Board set up an independent group of experts chaired by Professor Paul Kirchhof to support RWE in developing a code of conduct that would apply on a Group-wide basis. The expert group included:

**Lord Ralf Gustav Dahrendorf**, politician and publisher, Director of the London School of Economics and Political Science (ret.)

**Bishop Suffragan Franz Grave**, diocese of Essen, Chairman of the episcopal campaign "Adveniat"

**Prof. Dr Dr Karl Homann**, Professor of Philosophy and Economics at the Ludwig-Maximilians University in Munich

**Prof. Dr Paul Kirchhof**, Director of the Institute for Financial and Fiscal Law at the University of Heidelberg, Constitutional Court Judge (ret.)

**Prof. Dr Jürgen Strube**, Chairman of the Supervisory Board of BASF AG, member of the Council of Economic Advisers of RWE AG.

The draft submitted by the committee was discussed in detail with representatives of all relevant business units and employees during the summer of 2005. It was then revised and in October 2005 the Executive

Board approved the final version that is binding for the entire Group. The code of conduct ensures that our business activities are always carried out within the law and that they are in keeping with social and cultural standards and moral concepts. It therefore abides by the principles of the United Nations Global Compact, which we signed up to in 2003, and the OECD guidelines for multinational companies.

Copies of the code of conduct were distributed to every employee in December 2005. At the same time, information campaigns were initiated in all Group companies for the purpose of its implementation. Compliance Officers have also been appointed at Group Center and in all operating companies and these members of staff can be consulted at all times. Implementation of the code is supported by an independent law firm that acts as a neutral coordinating body for the reporting of infringements. Compliance with the code of conduct will be monitored regularly by an auditing company and we will henceforth be including the results of this exercise in the Corporate Responsibility Report that is published every two years.



Our code of conduct is available on the Internet.

### **Our Corporate Governance**

RWE's basic decision-making structures are in place to ensure responsible corporate management and this makes for good Corporate Governance. Since 2004 we have succeeded in fulfilling all the recommendations of the "German Corporate Governance Code". The relevant declarations are published in our annual report and on our website.



*Relevant declaration  
on the Corporate  
Governance Code.*

RWE is a public limited company under German law. This means that unlike the situation in the English-speaking world, where the "Boards" are responsible for both managing and supervising the company, these tasks are kept quite separate at RWE. The key bodies that are responsible for the management and supervision of the RWE Group are described in brief below:

**Executive Board.** The five-strong Executive Board chaired by Harry Roels is responsible for the strategic management of the company. The Executive Board sets out the Group's business targets, which includes not only financial and economic development but also the company's strategy for sustainable development.

**Group Business Committee.** The ten-strong "RWE Group Business Committee" (GBC), which was established at the end of 2003, is responsible for drawing up group strategy. Its members include the Executive Board as well as the Head of Group Development of RWE AG, together with the CEOs of the various operating companies and RWE Dea. The Group Business Committee, which meets about 12 times a year, debates important corporate developments and prepares strategic decisions for the Executive Board.

**Supervisory Board.** The Supervisory Board is responsible for supervising the management of the Group and also appoints the members of the Executive Board. The 20 members that make up the Supervisory Board are drawn equally from shareholder and employee representatives. Its chairman is Dr Thomas R. Fischer, CEO of the WestLB AG, and his deputy is Frank Bsirske, CEO of the Vereinte Dienstleistungsgewerkschaft (ver.di/United Union of Public and Private Services). The salaries paid to Supervisory Board members are listed in our annual report – along with the remunerations paid to the members of the Executive Board.

**Council of Economic Advisers.** For several decades now as a Group we have had a "Council of Economic Advisers", a group of external advisers. The Council consists of some 20 members who meet once a year to advise the Executive Board on strategy and policy matters. They are for the most part CEOs of large banks and corporations, representatives of shareholders protection organisations and respected academics and scientists. RWE remunerates the Council members for their work and the fees are published in our annual report.

### **Our management structures**

We have expanded our management structures to ensure that our responsibility for the environment and society (Corporate Responsibility – CR) is fully integrated into the decision making process: The Group Executive Board regularly discusses issues to do with sustainable development and takes fundamental decisions on our CR policy and strategy. The Corporate Responsibility (CR) Coordination Committee chaired by the Executive



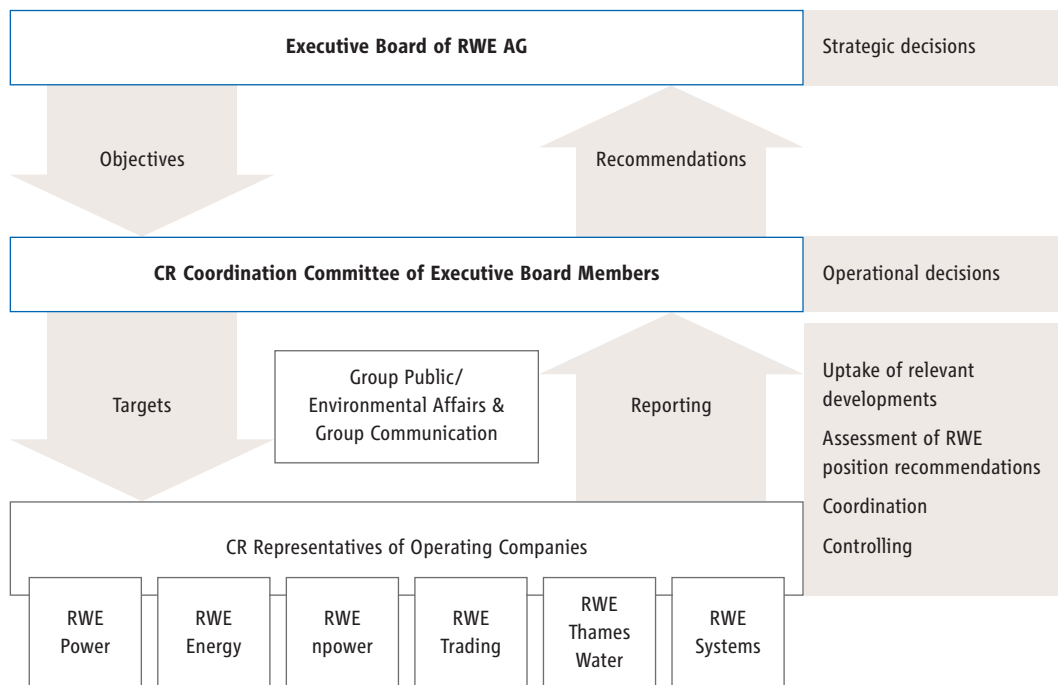
Vice-President of RWE AG with responsibility for personnel and environment (since 2005: Alwin Fitting) is accountable for implementing decisions taken by the Executive Board. This Committee, which also includes executives from each operating company, evolved in 2005 from the Environmental Coordination Committee that was first established in 1998.

The Executive Vice-President responsible for CR is supported by the "Group Public/Environmental Affairs" and "Group Communication" units in co-ordinating these activities on a cross-department, Group-wide basis. These operating units review, analyse and evaluate new developments with a view to developing strategies for the future and also monitor and assess the progress being made across the Group. They are supported in this work by the "CR Representatives Committee", which was created in 2005 from the former Environmental Representatives Com-

mittee originally set up in 1998. The CR Representatives Committee now also includes representatives from the personnel department and from the Group's communications unit and constitutes a link between Group Center and the operating companies.

**Environmental management.** Our environmental management strategy, which is based on international standard ISO 14.000, continues to be the mainstay of our CR management operations. We have well-established processes in place and can call on a central management tool: the RWE environmental reporting and information system (ERIS) registers the environmental performance indicators of the operating companies and provides a basis for our environmental programmes. Since 2003 Group Center has been using ERIS to carry out annual management audits to verify that Group performance targets are being met at operating company level. During the period under

### Structure of CR Management at RWE



review we expanded our environmental audit system by integrating our internal auditing department into the audit procedures. We also introduced standard specifications for all operating companies and systematically incorporated our external companies in the environmental management system. This means that 90.5 percent of our workforce is now part of the system and is covered by the Group audits. The results of the internal audits are now weighted according to number of employees in order to provide a more accurate picture of events (see graph).

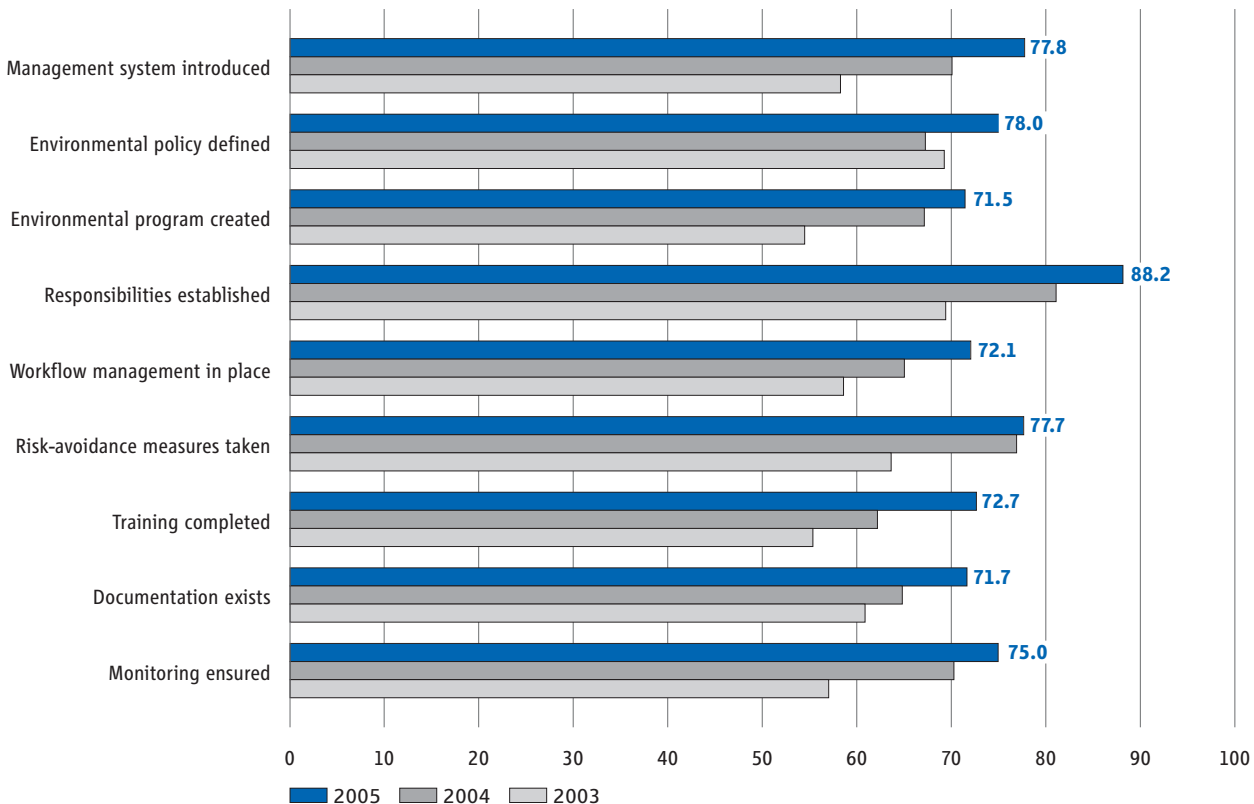
**Health and safety management.** RWE has a long and successful track record for good health and safety management throughout its operating companies. Group-wide coordination of industrial health and safety is being continuously extended with a view to achieving comparable standards and results

for all our companies and in 2004 we set up the RWE Occupational Safety Steering Committee specifically for this purpose.

**Company certification.** During the review period 2004/2005 many of RWE’s operating companies succeeded in extending and obtaining accreditation for their environment-quality and health and safety management systems. RWE Dea, for example, has established an “Integrated Management System” (CIMS – Company Integrated Management System) which has been certified in conformity with ISO 14001 (environment), ISO 9001 (quality) and OHSAS (occupational health and safety). RWE Solutions deploys a management system that combines quality, environment, occupational health and safety and data protection (QUAD). The Occupational Health and Safety Management System (AMS) operated by the German Employ-

**Implementing environmental management in the RWE Group 2003 to 2005**

Degree of coverage in relation to total workforce in percent



**RWE accredited sites**

(Status: 31 Dec 2005)

		<b>Environmental management</b> (ISO 14001 and/or EMAS)	<b>Quality management</b> (ISO 9001)	<b>Occupational health and safety management</b> (OHSAS and others)
	<b>Employee equivalents</b>	<b>Coverage by employees</b>	<b>Coverage by employees</b>	<b>Coverage by employees</b>
RWE Power	18,214	10%	16%	82%
RWE Energy	37,599	9%	10%	6%
RWE npower	10,125	100%	12%	0%
RWE Trading	488	0%	8%	0%
RWE Thames Water	16,306	46%	55%	1%
RWE Systems	2,758	0%	37%	0%



For information on the management systems in place at individual RWE companies visit the company websites.

ers' Liability Insurance Association for Precision and Electrical Engineering is practised at all companies belonging to RWE Power and RWE Energy and the German occupational health and safety kite-mark, "On the safe side" has been adopted at RWE Power and RWE Dea.



An overview of our environmental protection measures can be found on the Internet.

**Compliance with statutory regulations.**

Compliance with statutory regulations is central to our environmental management policy. During the review period 2004/2005 we had no reports of significant judicial enquiries or convictions for breaches of environmental legislation in Germany.

In Great Britain Thames Water was charged with nine water pollution offences in 2004, with fines totalling €193,000 as well as four other offences in 2005, incurring fines of €187,000 owing to breakdowns in the effluent discharge system. During the reporting period measures were taken to counteract this (cf. chapter "Water", page 41).

**Supply chain management.** The procurement of goods and services is becoming an increasingly important part of CR management at RWE because of the hidden poten-

tial for sustainability risks. We have therefore introduced systematic risk assessment into our purchasing procedures and initial actions have already been taken in this area (cf. chapter "Marketplace", page 51).

**Our dialogue with stakeholders**

Dialogue with our stakeholder groups provides us with important feedback on our activities, plans and strategies. We are in contact with a number of groups who have a wide variety of expectations. For example, our customers primarily want fair and transparent prices, whereas the communities based around our operating sites are keen to see plants being operated in a safe and ecologically sound manner. Non-governmental organisations (NGOs) as well as financial analysts and investors are also interested in our long-term climate strategy.

**In talks.** During the reporting period we extended our dialogue with certain interest groups. Since the beginning of 2004 we have been participating in the multi-stakeholder workshops on Corporate Social Responsibility (CSR) that were set up by the German Ministry of the Environment. Repre-



A list of our memberships, affiliations and outside interests is available on the Internet.

sentatives from industry, trade associations and Government, along with stakeholders themselves, use these workshops as a forum for discussing ways in which sustainable economic management can be achieved. We are working together with other major energy utilities to draw up specific reporting criteria for the energy industry within the scope of the Global Reporting Initiative (GRI); this will help improve the information value and comparability of our reports.



An overview of our own as well as external studies can be found on the Internet.

Problems have arisen during our discussions with some NGOs. At the national level the discussion is more controversial owing to the differences of opinion as to the most effective measures to reduce carbon-dioxide emissions. However, recent publications, such as the Greenpeace Germany study “2,000 MW gas – delivered clean”, provide us with an opportunity to develop a meaningful dialogue. An initial round of intensive discussions took place in December 2005 and this proved informative for both parties. It is likely that this dialogue will be continued in 2006.

**At regional level.** We have an established tradition of formalised dialogue with regional communities. Plans for projects that can have a significant impact at local level, such as opencast mining operations, are discuss-

ed in depth with local communities – and every effort is made to respect their wishes – irrespective whether this involves the resettlement procedure for opencast mines or the restoration of the site when mining is finished. Our municipal utility and public-sector customers, who take a keen interest in energy-policy developments and in RWE’s activities, are kept informed by means of regular local events.

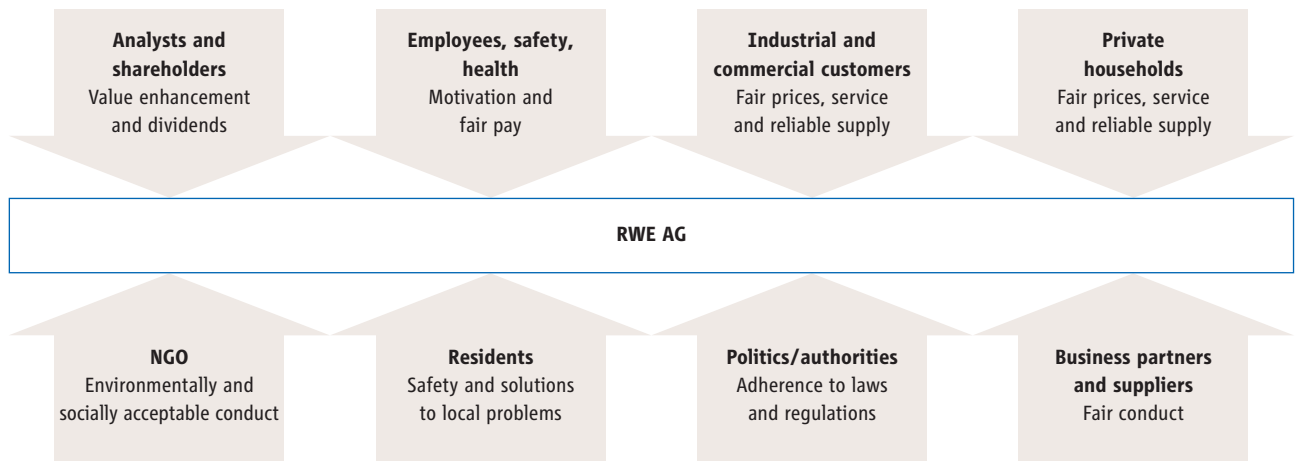
The long-standing dialogue with stakeholders has also been very important for our UK subsidiaries RWE npower and RWE Thames Water, which have always sought to maintain intensive relations with NGOs such as Greenpeace, energywatch and Watervoice. Working in partnership with Greenpeace, RWE npower offers its green electricity tariff “Juice”, while RWE Thames Water has been collaborating with Forum for the Future since 1999 (cf. chapter “Water”, page 39).

**Independent assessment:** Sustainability analysts and rating agencies provide us with valuable feedback on how our sustainability portfolio is seen by external stakeholders. These reports are analysed on a regular basis and the findings are reported to the Executive Board, so that effective action can be taken as and when appropriate.

### RWE sustainability roadmap

	1998	1999	2000	2001
<b>Strategy</b>	Group environmental management guideline	Group-wide transfer seminar on sustainability	Group sustainable development guidelines	Pilot studies on sustainable development
<b>Implementation</b>	Permanent staff of environmental officers	Implementation of the Environmental Reporting and Information System (ERIS)	Performance targets for environmental management	Environmental management reviews
<b>Communication</b>	1st systematic environmental report	Inclusion in Dow Jones Sustainability Group Index (DJSI) World	2nd environmental report	Inclusion in DJSI STOXX

**Our stakeholders and their expectations**



RWE is the only German utility company to have been featured in the “Dow Jones Sustainability Indexes” (DJSI) since 1999. In the year 2004 we came top of the electricity utilities group for the first time and in the 2005 listing we were ranked as “industry leader” in the new “Multi-utilities” category. And this was followed by even more good news: the “Accountability Rating 2005”, which is compiled by the “AccountAbility” agency and the “CSR Network” on behalf of the international business magazine “Fortune”, ranked RWE in 12th place amongst the world’s hundred largest corporations – the best result to be achieved by any German company.

However, other rating agencies only place us mid-table, depending on the assessment criteria being used: “Scoris”, the German partner of the SiRi network, rated us 14th out of the 31 companies included in their survey, while in their 2004 rating “oekom research” gave us a score of C, which put us in 16th place in their league-table of 37 companies. These findings have been included in our analysis and response measures have been identified. For example our high sulphur dioxide and nitrogen oxide emissions are cause for complaint as is the supply chain management that has not been implemented to date. These are aspects we have included in our CR programme.

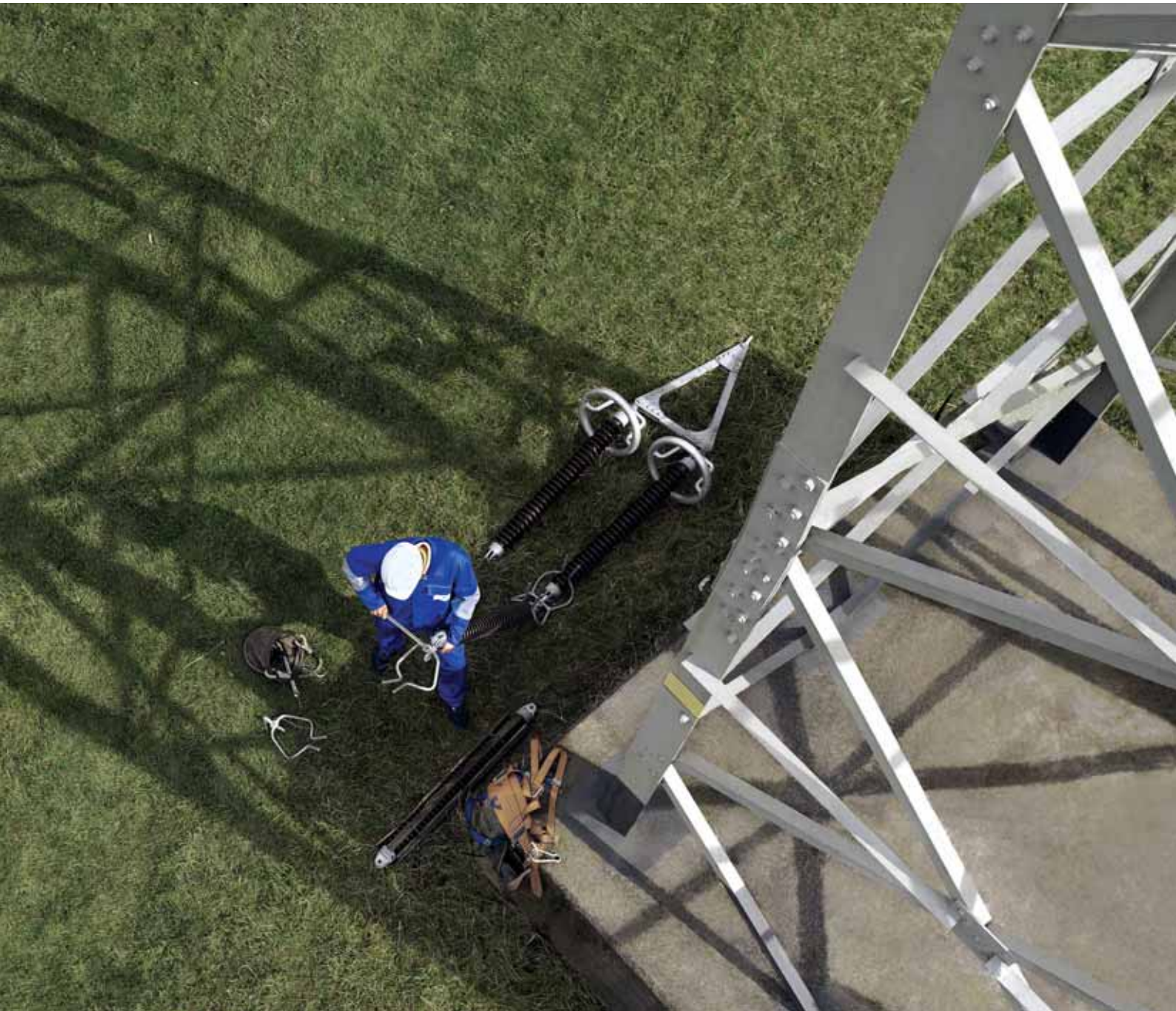


*A full list of all independent evaluations, including those for our subsidiaries, is available on the Internet.*

2002	2003	2004	2005	2010
▶ Future convention on sustainable development	▶ Sustainability strategy adopted	Projects up for implementation	Sponsoring strategy geared to sustainability	Integrate sustainability aspects into all business areas
▼ Beginning of the internal and external surveys	International environmental management transfer seminar	▶ Group-wide auditing practice	Code of conduct practised Group-wide	Key figure concept and internal audits for sustainable development
3rd environmental report	Stakeholder workshop on the environmental report	1st corporate responsibility report	Sustainability leader “Multi-Utilities” sector in DJSGI	Integrated stakeholder dialogue

# Energy





**Secure and environmentally compatible energy supplies are a key responsibility to society. This is true today, but even more so with a view to future generations. This is why we invest great sums in our supply networks and power plants. We take the expectations of nature conservationists seriously: since 1994 we have been giving greater priority to environmental aspects in the maintenance of our power lines.**

## **Energy:**

### ***economical, secure and sustainable***

*Our energy business is facing huge challenges. We want to provide our customers with reliable and affordable energy in the years ahead, while at the same time doing our bit to reduce CO<sub>2</sub> emissions.*

Our core business is the generation, trade, distribution and retail of electricity and gas for private households, small and mid-sized businesses, industry and municipalities: in 2005 our energy operations accounted for almost 90 percent of total Group turnover. We supply electricity to 20.1 million customers and gas to 10.4 million customers across Europe – making us the third biggest power utility in Europe and the sixth largest supplier of gas.

Our energy business operates on three basic principles:

- security of supply
- cost effectiveness
- environmental compatibility.

These three issues were the subject of intensive public debate during the 2004/2005 period.

Historically most of our fuel has been sourced from domestic suppliers. However, national economies will become increasingly dependent on imported energy. To ensure security of supply we maintain a balanced and diversified generation portfolio based on lignite, coal, natural gas and nuclear power (in Germany), as well as on renewable energies. Lignite is the only indigenous fuel available in Germany and in Hungary that can be extracted cost-effectively and without subsidies in the long term. Hard coal has a good long-term future on the world markets, but is prone to price fluctuation as a result of the world market situation. Gas prices are closely tied to oil prices and in 2005 averaged at some 35 percent above the 2004 level.

Continuous availability of transmission lines, distribution networks and power stations is also essential to maintain security of supply.



**RWE's contribution to climate protection:**

RWE is investing in the future and has implemented a package of measures designed to reduce CO<sub>2</sub> emissions and maintain a sustainable climate protection policy. This strategy is centred around the development of the world's first CO<sub>2</sub>-free coal-fired power plant and CO<sub>2</sub> storage. Measures to increase efficiency levels, expand the use of renewables and take advantage of the flexible elements of the Kyoto Protocol (Joint Implementation and the Clean Development Mechanism) round out our approach.

Developments on the world energy markets in 2005 have set clear signals for the future. Each primary fuel, including the renewable energies, has its own specific field of application and its own claim of entitlement. Factors such as security of supply and competitiveness mean that coal will retain its dominant role as a power generating fuel for several decades to come. It is precisely because in the years ahead we will need to use coal for power generation in a sustainable manner that we have set ourselves the goal of building the zero-CO<sub>2</sub> power station.

*RWE announced to plan the first CO<sub>2</sub>-free coal-fired power plant in March 2006.*

**The CO<sub>2</sub>-free coal-fired power plant.** We are planning the world's first industrial-scale power station with integrated coal gasification, downstream CO<sub>2</sub> sequestration and storage. Assuming optimum planning and implementation, the plant could go into operation as early as 2014 with a gross capacity of about 450 MW. At the same time, an option for storing the resulting CO<sub>2</sub> will be developed.

In conjunction with this we shall continue with the development of scrubbing technology for separating CO<sub>2</sub> from flue gases. This technology could be used not only for building new zero-CO<sub>2</sub> plants, but also for retrofitting existing power stations.

**Increasing energy efficiency.** All power stations currently being built by us are being fitted with the best available technology. The BoA technology can deliver maximum rates of efficiency from lignite-fired plants. High-efficiency gas-fired power stations will supplement our future generation portfolio when and where this makes economic sense.

For the next generation of power stations, which are planned for construction beginning in 2010, we are developing lignite drying systems and new materials for steam temperatures of 700° C, thereby once again helping to improve the efficiency levels of coal-based power stations. We are also actively supporting our customers in the efficient use of energy.

**Renewable energies.** We are planning to invest up to €650 million over the next five years to expand our use of renewable energies. We will increasingly build wind farms, particularly at coastal sites near the shore.

**Joint Implementation/Clean Development (JI/CDM).** We are engaged in projects aimed at reducing CO<sub>2</sub> emissions in those countries where creditable emission certificates can be acquired under the Kyoto Protocol.



Research and development projects are shown on the Internet.

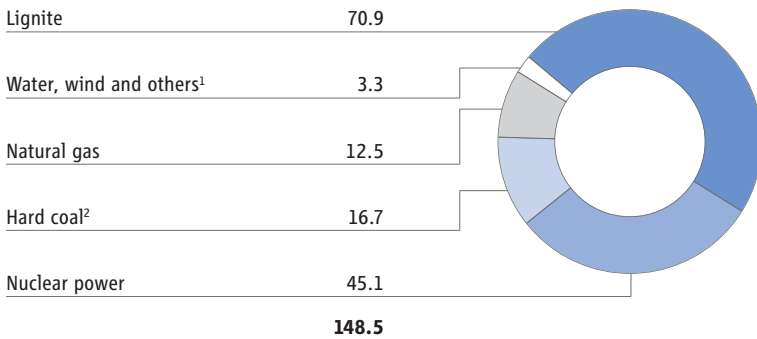
This requires a high level of investment both in maintenance operations and in new construction projects.

Our activities inevitably have an impact on the environment. This is why we have for decades been taking all environmental considerations into account during the operation of our plants and ensuring that we have a robust environmental management system in place. Climate protection currently dominates the environmental debate. Requests for an effective climate protection are having a major impact on our activities. The question as to the most effective way of practis-

ing climate protection has a direct effect on our R&D strategy and on the future make-up of our generation portfolio – and this in turn impacts on decisions worth billions of euros.

The introduction of the European emissions trading scheme in early 2005 constituted an important step in that it put a price on CO<sub>2</sub> emissions. As with other industries, the cost of CO<sub>2</sub> emissions certificates is factored into the pricing system and this then affects the choice of primary fuel for future power station operations, which means that it influences the make-up of our future generation portfolio.

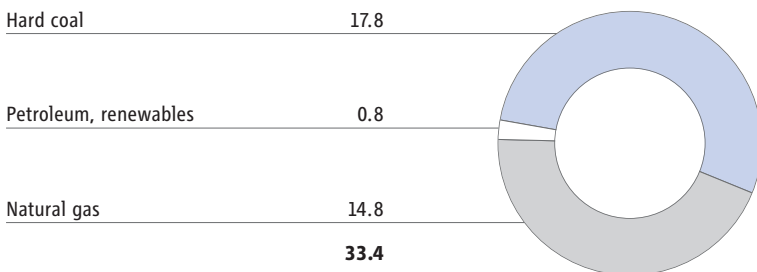
**Germany: RWE power generation in 2004**  
in terawatt hours (proprietary plants only)



**2005 CO<sub>2</sub> emissions**  
**120 million tonnes**

1 Including 2.5 TWh from power plants which are not owned by RWE but which are subject to long-term agreements giving RWE free control over their deployment  
 2 Including 29.5 TWh from power plants which are not owned by RWE but which are subject to long-term agreements giving RWE free control over their deployment

**UK: RWE power generation in 2004**  
in terawatt hours



**2005 CO<sub>2</sub> emissions**  
**22.7 million tonnes**

\* Including combined heat and power

As of early 2006, we still had not been given any firm statements from Government for the second trading period, which begins in 2008, let alone for the period post-2012. This means that the future climate policy, including the price of CO<sub>2</sub> emissions, is fraught with great uncertainty. It is against this background that we now have to make major decisions.

The opportunities available for building new nuclear power stations, and hence for generating CO<sub>2</sub>-free electricity, remain unclear even at the beginning of 2006. While in Germany we are very reluctant about discussing the continued use of existing installations, the UK – our second most important electricity market – is now beginning to consider making greater use of nuclear energy in the years ahead.

#### ***Our generation portfolio for today and tomorrow***

We build on a proven, diversified generation portfolio: In Germany we use lignite and nuclear power for base load, hard coal and gas for the medium and peak loads as well as supplementary renewable energy (primarily hydroelectric power). In the UK hard coal and gas are used for all load ranges, supplemented by renewable energy (primarily wind power).

Having taken all considerations into account we are convinced, from our perspective in early 2006, that a major part of our electricity generating capacity will still be based on hard coal and lignite for the foreseeable future. Given the high prices now being paid for gas we are not making any assumptions that gas will displace coal to any significant degree.

In the renewables sector most new development will focus on wind energy. However, we believe it will be some time yet before generation costs here are able to compete with those of conventional power stations.

Our investment in wind farms will for some time to come continue to depend on state-secured feed-in tariffs or generation quotas.

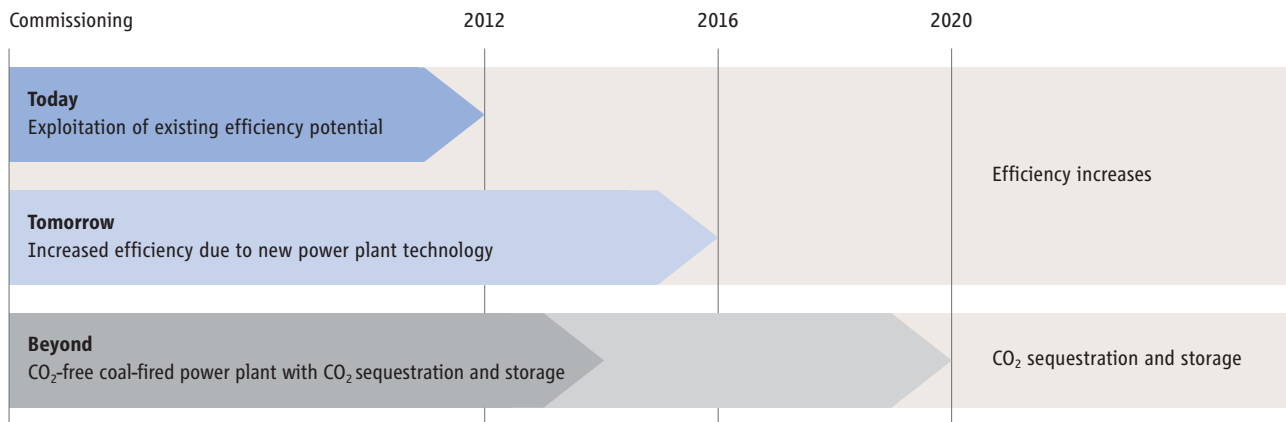
We expect lignite and hard coal to remain the corner-stones of our electricity generating industry for some decades to come. We are therefore faced with a special set of responsibilities. With a total output of some 149 million tonnes we are not only Europe's biggest emitter of CO<sub>2</sub> in absolute terms but also have a power generation portfolio with a very high specific emissions index of 0.81 kg CO<sub>2</sub>/kWh. In order to be able to operate our coal-fired power stations responsibly in the years ahead we have launched a raft of measures that are expected to be realised as follows:

***Today: best available technology.*** We are building modern power stations - mainly based on lignite and hard coal, but also gas fuelled where practical – that will deliver the maximum achievable rates of efficiency. A total of €3,600 million has now been earmarked for this programme. The most advanced lignite power plants exceed the efficiency of the old plants which they will substitute by 30 percent. The generation of the same amount of electricity is thus associated with 30 percent less CO<sub>2</sub> emissions. In addition we are investing in modern gas-fired power plants. The extension of CHP will deliver an additional contribution for the effective use of energy and climate protection.

Furthermore, we continue to extend our use of renewable energies, especially wind power. As well as land-based sites we are also planning to install wind farms in inshore waters.

We want to safeguard the availability of sufficient emission certificates and engage ourselves in projects aimed at reducing greenhouse-gas emissions internationally in line with the mechanisms of the Kyoto Protocol (JI/CDM).

### Modernising and expanding existing power stations



**Tomorrow: increasing efficiency.** We are developing new technologies designed to deliver even higher efficiency rates for the next generation of power plants, which will be built in the post-2010 period. A key element here is the use of the lignite fluidised bed drying system with heat recovery (see page 26), for which RWE has exclusive knowledge worldwide. This technology is capable of increasing the efficiency level of conventional lignite-fired power stations by between 2 and 4 percent points and can also be used in future power plants with integrated coal gasification or in conjunction with the Oxyfuel system (combustion with pure oxygen).

Efficiency can also be increased by up to 4 percent points by raising the steam temperatures from the current level of 600°C to a figure of 700°C. To this effect we are developing and testing new high-temperature materials. Both measures when used in combination will raise efficiency levels at new lignite-fired plant to more than 50 percent, while hard coal-fired plants will be able to achieve a similar performance merely by increasing the steam temperature.

**Beyond: the CO<sub>2</sub>-free coal-fired power plant.** By the end of 2010 we hope to have in place the technological and planning framework required for a decision to be made on the construction of a 450 MW power

plant with integrated coal gasification (IGCC) by 2011. By then we hope to have designed and developed the necessary engineering technology, such as integrated coal gasification with CO<sub>2</sub> separation from the flue gases, and also to have in place the infrastructure required for the transport and underground storage of the CO<sub>2</sub>. The plan to store large quantities of CO<sub>2</sub> in geological formations, such as in the North German lowland plain, constitutes a technological first. We have already started to prepare a land register of geologically suitable formations for CO<sub>2</sub> storage and a programme of exploration is currently being planned.

In conjunction with coal gasification we are developing techniques for downstream CO<sub>2</sub> scrubbing. Although this technology is not as far developed as CO<sub>2</sub> sequestration from IGCC plant, it could in future be employed not just in the construction of new CO<sub>2</sub>-free conventional power plants but also for retrofitting existing power plants.

Our current activities can be broken down as follows:

**Lignite.** Our power generating portfolio is to a large extent based on lignite, which is mined primarily in the Rhineland area of Germany and in Hungary. This fuel will continue to be available as a low-cost resource from company-owned opencast mines that

have operating licences with many decades left to run, thereby freeing us from the need to procure fuel on the international commodity markets. The resources available in the Rhineland area are sufficient to outlast the current mining licences by many decades. Because of their extremely favourable generating costs – which are not dependent on any form of subsidy – we use lignite-fired power plants, like nuclear power plants, to produce base load electricity.

However, lignite power plants produce specifically higher CO<sub>2</sub> emissions than either hard coal or gas-fired power plants. By building even more efficient power plants we hope that this gap can be narrowed continuously in the years ahead. And in recent years we have already made significant progress in this direction: in 2003 the Niederaußem facility - our first lignite-fired power plant with BoA technology (lignite power plant with optimised engineering) – began supplying the German grid on a full-load continuous duty basis. Our experience to date with the new design has fully lived up to expectations. The high efficiency rate of 43 percent

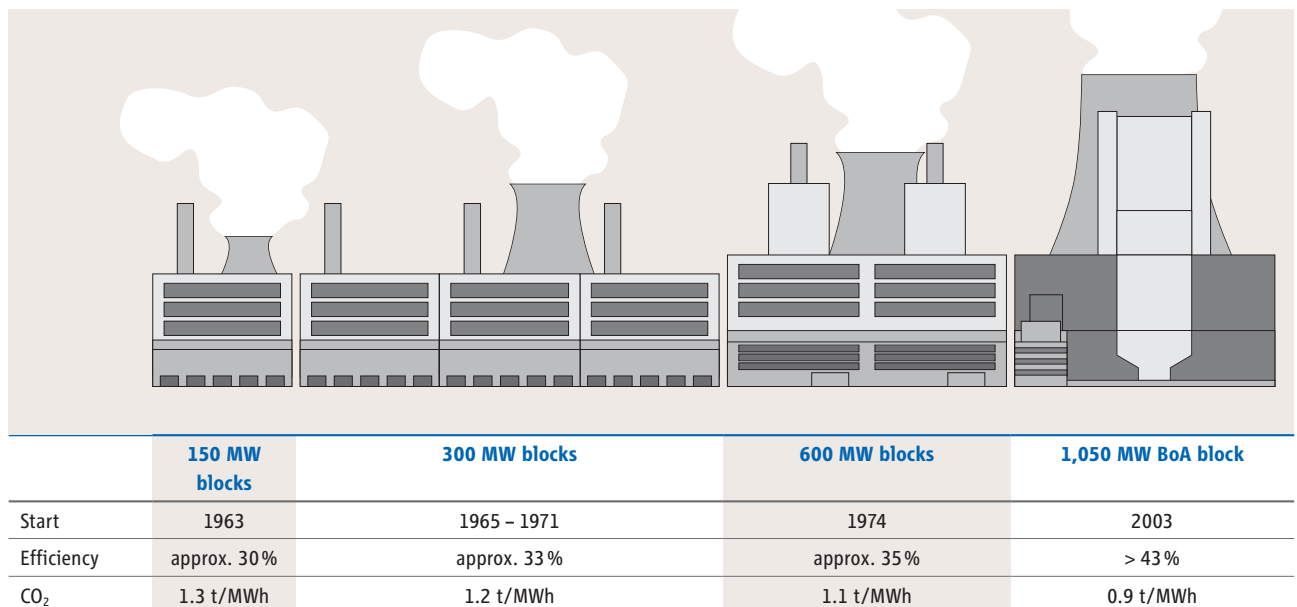
means that CO<sub>2</sub> emissions can be reduced by about three million tonnes compared with conventional power plant (see graph).

In January 2006 we began work on the construction of the second and third BoA units at the Neurath plant in Germany: at an estimated cost of some €2.2 billion this project is one of RWE's biggest ever investments. The twin-unit power plant, which has a combined net output of 2,100 MW, will replace RWE's outdated facilities and is expected to achieve an efficiency level of over 43 percent. And the environmental benefits? A reduction in CO<sub>2</sub> emissions of 30 percent a year (up to six million tonnes) compared with existing old installations with the same generating output. The new plant (BoA 2/3) is scheduled to start operation in late 2009/early 2010. When projected to 2012, expected to be the first year of full generation, the average efficiency rate of our lignite-fired power stations will therefore have increased from 33 percent in 2001 (before the launch of the power-station replacement programme) to a figure of 36 percent.



The brochure "Niederaußem power station – bursting with energy" can be downloaded.

### Planning interval 1: Development of the power station portfolio according to the state-of-the-art taking as an example the Niederaußem power plant (Germany)



At the same time we are working flat out on processes designed to further improve the efficiency of lignite power plants. Fluidised-bed drying with integrated waste-heat recovery (WTA), as developed by RWE Power, is a technology with a very promising future. This system allows inherently moist lignite (water content in excess of 50 percent) to be efficiently dried prior to combustion and efficiency levels can be raised further by recycling the energy released from the drying process.

We are planning to use this new technology as the basis for reducing CO<sub>2</sub> emissions by another 10 percent. Its introduction will boost the efficiency levels of the next decade's power generating installations from the current figure of 43 percent (BoA system) to 47 percent. 2006 will also see RWE starting work on a WTA prototype plant at its Niederaußem facility; this new project is to be fully running by the end of 2007 and shall demonstrate the technical and economic maturity of the WTA process under industrial conditions.

Raising the steam temperature from 600 to 700° C will increase the efficiency levels of all conventional power plants by as much as four percent points. In July 2005 trials began at an RWE Power contracted power station with a view to investigating the new materials and their behaviour under industrial conditions. The findings will be used for the further development of both lignite and hard coal-fired power plants.

**Hard coal.** In Germany we generate electricity from hard coal in our own plants with a capacity of 3,093 MW and also have supply contracts with STEAG, a part of the Essen-based RAG group, for 6,487 MW annually. We do not benefit from the state subsidies afforded to the mining industry and have to purchase our hard coal at world market

prices. As part of our power plant renewable programme, we plan to build a state of the art hard coal-fired twin-unit power plant at the existing site in Hamm/Westfalen (Germany). Capacity is planned for 1,500 MW and commissioning for 2011/2012. The use of the latest technology will result in 46 percent efficiency. This will enable an efficient use of hard coal and a reduction of the CO<sub>2</sub> emissions compared to older plants.

Hard coal plays a more a far more significant role in the UK where it is the most important energy source for power stations run by RWE npower. UK domestic production is responsible for 14 percent of this hard coal with an increasing share of imported coals with low sulphur content, especially from Russia. Hard coal provides diversity in the UK energy mix, especially since it is expected to remain competitive with gas fired generation over the next decade.

In addition to the CO<sub>2</sub> emissions a disadvantage of the conversion of hard coal are the emissions of SO<sub>2</sub>, the amount depending on the quality of the hard coal. This applies especially outside Germany, where plants may not be fitted with flue-gas desulphurisation systems. In order to reduce the pollutants and secure the licence to operate for the long term we started work in 2005 on the construction of a flue-gas desulphurisation unit at our hard coal power plant at Aberthaw in the UK (see page 32). We also carry out an extensive programme of modernisation at our UK power stations. The replacement of turbine blades at Didcot, Tilbury and Aberthaw hard coal-fired power plants is expected to increase efficiency between 0.3 and 2.8 percent. This work should be completed by 2008. We are also planning to further develop and test downstream CO<sub>2</sub> scrubbing from flue gases at our hard coal-fired units in the UK.

### ***Our contribution to emissions trading***

CO<sub>2</sub> emissions trading was introduced by the European Union on 1 January 2005. RWE welcomes this free-market instrument as a means of achieving the emission targets agreed at the 1997 World Climate Summit in Kyoto (Japan).

The issuing of the first EU emissions certificates in March 2005 created a new spot market alongside the existing futures market. The emissions certificates are traded at five stock markets and more than a hundred companies take part in the trading. The volume of certificates being traded has now exceeded the 235 million mark. Average monthly prices have quadrupled from €7 per emission allowance in January 2005 to market quotations of €29 per certificate in July 2005. By the end of 2005 market prices were fluctuating between €20 and €23 per certificate.

In Germany RWE has been allocated emissions certificates for some 115 million tonnes of CO<sub>2</sub>. Because of a refusal to allocate emissions certificates for a power station we have lodged a protest and have filed a complaint against the German Emissions Trading Authority in respect of the second compliance factor, which has resulted in a further reduction in the allocation for most of our installations. It is to be assumed that EU emissions certificates will be in even shorter supply during the second commitment phase (2008 to 2012). In order to generate additional emissions certificates we are participating in JI and CDM projects such as the Prototype Carbon Fund, a buyer's pool that has been set up by NatSource Asset Management Corp., and we shall also be looking to invest directly in CO<sub>2</sub> reduction projects in Eastern Europe.

In the UK, RWE npower was allocated substantially fewer emissions certificates for its power stations – namely 15.3 million tonnes a year – than the corresponding amounts emitted for the 2000 to 2003 period. RWE npower was able to make up the deficiency by procuring extra emissions certificates on the market through RWE Trading.

**Gas.** The use of natural gas as a primary energy source is essentially determined by the fuel costs. The economical operation is focussed mainly on intermediate and peak load and on providing process steam and heat as part of a CHP generation. As an example together with our partner Electrabel in 2005 we commissioned a new CHP unit with a capacity of 395 MW el for the BASF site in Antwerp (Belgium). The conversion of natural gas into electricity is characterised by comparatively low emissions of CO<sub>2</sub>, SO<sub>2</sub> and nitrogen oxides (NO<sub>x</sub>).

Following the privatisation of the electricity supply industry in the UK gas power stations have become increasingly important over recent years in the base load range. They

now provide the second major source for electricity for our subsidiary RWE npower. In November 2005 we took over the very modern combined-cycle gas turbine power plant (CCGT) Great Yarmouth Power, with a capacity of 420 MW. The construction of a new 2,000 MW gas-fired installation constitutes another possible option for extending our generation capacity.

We have invested €150 million to build two topping gas turbines with a net output of 190 MW each for the lignite power station at the Weisweiler site (Germany); these should go into operation in 2006 and 2007, respectively. The use of the waste heat from the gas turbines also increases the output of the power station by a further 160 MW. At Måtra

(Hungary) we are currently investing in a similar project with two 30 MW topping turbines. RWE has also started to plan a new 800 MW gas power station, thus underscoring its strategy of a wide energy mixture that includes gas power stations in Germany. The licensing procedure is currently pending, no resolution has yet been passed on the construction.

In order to secure long-term gas supplies RWE is constantly expanding its production capacity in the North Sea, either as an independent operator or in syndicates. In 2005 we produced a total of 2.35 billion cubic metres of gas and continued our policy of diversifying our gas sources as far as possible (Germany, the UK, the Netherlands, Norway and the Russian Federation).



See our Internet site for full details of RWE's commitment to renewable energies in Europe.

**Crude oil.** Crude oil plays only a minor role in our electricity generation. We use oil-fired power stations in UK to cover peak loads. The production of crude oil by our subsidiary RWE Dea has developed into an interesting market segment on account of the greatly increased price. RWE Dea is often part of a syndicate. RWE Dea leads the syndicate for production from the German Wadden Sea, that accounts for over the half of German crude oil production (see page 33). In 2005 we produced around 4.6 million cubic metres of crude oil in Germany, Denmark, Norway, Egypt, Kazakhstan and other countries.

**Nuclear energy.** RWE operates nuclear power stations in Germany: at the three sites Biblis (unit A and B), Gundremmingen (unit B and C) as well as Emsland. These three power stations accounted for around 9.7 percent of the electricity generated in Germany in 2005, their availability in the period under report was 84 percent. We now have built

local interim storage facilities at the locations of all nuclear power plants. The much-disputed transport of spent fuel rods is now omitted. We thus have created the conditions so that nuclear power stations can remain in operation according to the agreement with the German government on the residual life time of the nuclear power plants.

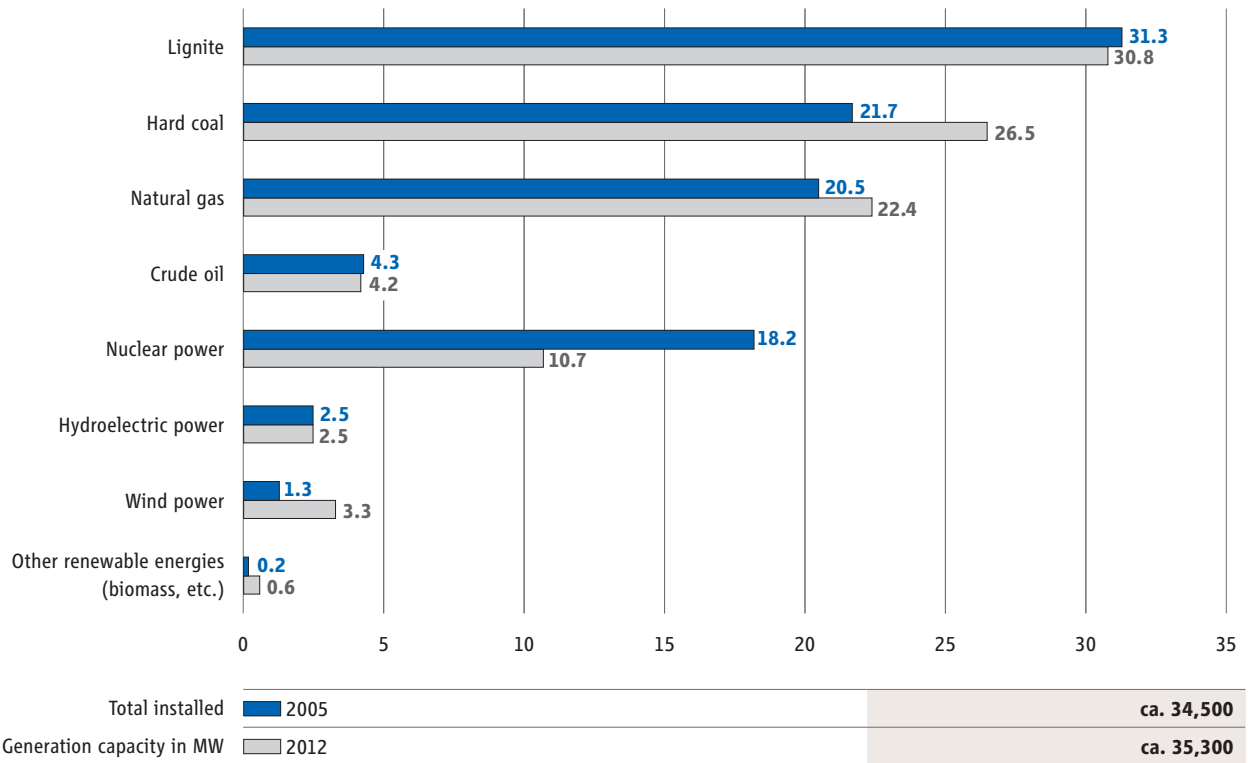
As a consequence of this agreement, RWE will probably have to close the Biblis A unit in 2008 or 2009. We regard the continued operation of our nuclear power stations as an economical contribution to a safe and CO<sub>2</sub>-reduced generation of electricity. We are checking to see whether we are using all opportunities available to transfer production.

**Renewable energies.** Hydro power continues to provide the main focus for renewables, while new projects mainly comprise wind farms, with a much smaller number of biomass-fuelled power stations. At the end of 2005 we had available a nominal capacity of 1,312 MW (including wind farms leased back by RWE npower), which represented an increase of 15 percent from 2003. We also have additional contracted capacity amounting to 295 MW, plus a substantial minority holding in the Austrian-based company Kelag, which operates approx. 450 MW of hydro electric power station capacity.

The potential for any new large-scale hydro electric power is low in many parts of the UK. RWE npower has hydroelectric power stations with an installed capacity of 55 MW. Continuing growth is expected in the future are from small, regional units – such as the 200 kW Romney Weir project, to be built in Windsor for which RWE npower received consent in 2005.



**RWE power mix in 2005 and anticipated RWE power mix in 2012\***  
capacity percentage



\* if current planning is realized



The RWE npower Corporate Responsibility Report can be downloaded from the Internet

RWE is concentrating on the expansion of wind power, hydro and biomass in the UK. RWE npower completed the construction of the 48 MW Causeymire wind farm in Scotland in the reporting timeframe 2004/2005 and thus strengthening its position as the leading developer and operator of wind farms in the UK. We now have an installed capacity of 267 MW in the country – primarily from onshore wind farms. Two further wind farms with a total capacity of 124 MW are due to go on-line in 2006. Further projects are being planned for the coming 5 years.

We are also planning a major expansion of our wind farms in Spain and France. In Spain our subsidiary Harpen has about 180 MW of installed wind energy. In France we are collaborating with Total in the construction of a

wind farm with an installed capacity of 90 MW, in which we are investing some €100 million.

Biomass has also established itself as a sensible supplement for our electricity generation. Harpen and enviaM currently operated four biomass power stations in Germany with a total installed capacity of 68 MW. RWE npower also co-fires biomass in coal power stations and generated around 324 gigawatt hours of electricity in 2005 alone (2004: 71). We want to further expand the small but economically interesting segment of biomass power generation in future and actually construct a pilot plant for biomass gasification with a capacity of 700 kW at Neurath (Germany). We want to gain experience with all operational aspects of this innovative technology.

**Energy services.** Industry is displaying a growing interest in increasing the efficiency of energy use. RWE provides energy services that represent a constantly growing market segment and an important opportunity to develop long term relationships with our customers. The contracting activities of RWE Solutions are taken over in Germany by RWE Key Account GmbH, a part of RWE Energy.

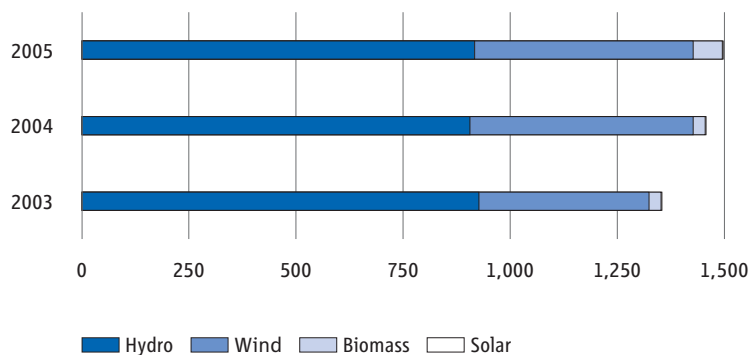
RWE npower will expand its energy services as part of the sales activities in the UK. Our regional companies also advise and support industry, trade or municipalities with their energy-saving measures. RWE Rhein-Ruhr was awarded the seal of approval of the "EffizienzOffensive Rheinland-Pfalz" (EOR) – the "Energie-Effi" in March 2005 for the outstanding quality of its services in the energy sector.

**Combined heat and power.** Combined heat and power provides an efficient supplement to our power generation portfolio. The CHP market is very fragmented in Germany, RWE has a market share of about 11 percent, focussed on large-scale power stations. RWE npower operates a number of smaller and medium-sized plants in the UK and has a market share of 10 percent. In November 2005, RWE npower converted a 58 MWE CCGT at Phillips in Teeside – increasing efficiency from 45 to 75 percent. The expansion of combined heat and power will depend largely on market demand in the future. We will use every economically reasonable opportunity to play a role in the development of combined heat and power.

**Our stakeholders and their expectations**

Our lignite-based generating business and our approach to nuclear energy has aroused conflicting opinions amongst our stakeholders. As market analyses and negotiations with clients have shown, the retail price of electricity, gas and heat, along with consumer orientation and security of supply, are the key factors in the customer decision-making process. Environmental issues do not play such a central role, as is borne out by the low uptake of RWE's "green electricity" tariffs. However, purely financial considerations aside, we still need to learn more about how factors such as "corporate image" affect the choice of supplier. We therefore propose carrying out a more thorough analysis so that this particular aspect can be incorporated into our current strategic decisions.

**Installed output for renewable energies within the RWE Group in megawatts (MW)**





**Dr Hendrik Garz,**  
**Head of Stockholding**  
**Strategy (Germany) and**  
**Socially Responsible Invest-**  
**ment (SRI) at WestLB AG**

**»Sustainability can also bring financial rewards in the short term.«**

Düsseldorf-based WestLB is one of the few banks to be committed to “socially responsible investment” (SRI). While the funding allocated to holdings in sustainably-managed companies is still comparatively low, shares strategist Dr Hendrik Garz – who is in charge of stocks and investments at WestLB – maintains that the company takes this sector of the money market very seriously indeed, especially since it is a real growth area. He is also convinced of one thing: “Sustainability boosts corporate value”.

Ingo Alphéus, Head of Investor Relations at RWE AG, discusses this subject with Dr Garz and is in full agreement with him, taking emission reduction and emissions trading to highlight the fact that even the big investment funds are beginning to sit up and take notice of SRI. With energy supply now an emotive issue – and the reaction to the power cuts in Münsterland bears this out – there is no doubt that public opinion can have a real impact on the money markets. According to Garz: “Even investors in New York are asking me what the politicians think about it all.” And the way the ordinary investor sees sustainability is now an even more important factor than the SRI funds.



A full account of the discussion with Dr Hendrik Garz can be found on the Internet.



You will find information on the subject of particulate matter on the Internet.



Information on the Carbon Disclosure Project can be found on the Internet.

Some influential non-governmental organisations (NGOs) are very interested in our generation portfolio. They are critical of using lignite for power generation and demand a change in favour of the increased use of natural gas and renewable sources. We do see it as a great step forward, that we have been able to enter into an objective dialogue with Greenpeace (prompted by the Greenpeace study “2000 clean megawatts”). The first meeting has resulted in a better understanding of the positions of both sides and hopefully will be continued in 2006.

Investors and analysts are much interested in our climate protection strategy as this forms a part of their risk analysis. We pursue a policy of transparency and for example report to the Carbon Disclosure Project on our emissions and climate protection strategy on a regular basis.

**Our environmental protection measures**

We pay attention to environmental protection, the health and safety of our employees and the needs of local community during both the construction and operation of our power stations. The biggest challenges we face include the reduction of air pollutants (in particular sulphur dioxide and nitrogen oxides), particulate matter and noise as well as to reduce our footprint in nature and biodiversity. At the German sites we have already very effective filter systems in our power stations and the noise protection walls at the open-cast mines have been meeting the highest of requirements for many years. In the UK we are investing in our coal plants to ensure compliance with the revised environmental standards required throughout the EU from 2008 onwards.

We are committed to improving biodiversity at all of our locations; e.g. management of biodiversity around transmission lines, a sophisticated biotope management system at the power stations and world-famous recultivation measures at the open-cast mine sites. The following measures deserve special mention in the reporting timeframe:

**Emissions and transportation.** In the German open cast mines protection against dust and noise has fulfilled highest standards for many years. Also German coal power stations have been equipped with all of the necessary desulphurisation and NO<sub>x</sub> removal systems for > 20 years. We operate these plants under the permanent supervision of the authorities, and always far below the statutory limits. The introduction of the European large Combustion Plant Directive (LCPD) does not have a significant impact for the German power stations. However, the LCPD has resulted in a need for action in the UK. In order to comply with the European emissions regulation that will come into

force 2008 we will build a modern flue gas desulphurisation plant at Aberthaw power station in Wales. It is designed to remove up to 95 percent of SO<sub>2</sub> from the flue gases.

Many neighbours have concerns about noise and air pollution resulting from road transport of substitute fuels to our power stations. They also worry about increased emissions from our power plants in conjunction with co-combustion of substitute fuels. To reduce the impact on the neighbourhood we avoid transportation at night and inform our neighbours on our measures to reduce emissions. The independent monitoring of the TÜV has proved that co-combustion fulfils the very stringent statutory requirements.

Beyond that transportation does not impose a problem for RWE: Our lignite power stations are located very close to the mines and are supplied either by conveyer systems or train. Hard coal is supplied mainly by ship, rail and to a smaller extent by road. Gas is transported in pipelines.



Further contemporary examples of RWE's eco-friendly approach to its energy supply operations can be found on the Internet.

### Rhenish lignite mining district



**Recultivation in lignite open cast mines.**

Lignite can only be extracted from open cast mines, i.e. above ground. The impact of mining on landscape is thus high. But this is only temporary. The later use of the landscape is already decided as part of the license to operate for an open cast mine.



Our brochure publication "Recultivation in the Rhineland" can be downloaded from the Internet in German language.

This includes initial specifications about the distribution of areas for settlements and agriculture, for local recreation and forestry. The ecological research is the responsibility of the "Recultivation Research Office", which is operated jointly by RWE and a Cologne-based consultancy firm.



For further information read "Flora and fauna undergoing restoration", published by the "Deutsche Forschungsstelle Rekultivierung" (Reclamation Research Centre). Download available in German language only.

Since 1950, around 200 square kilometres (km<sup>2</sup>) of the 290 km<sup>2</sup> mined area have been recultivated, 50 percent of which for agricultural use, 40 percent as forest and 10 percent as water areas. The removal of the river Inde in the area of the open cast mine, carrying the same name, is an excellent example of state of the art recultivation. In the past the biodiversity around the river Inde had degraded very much mainly as a result of agricultural use. When the river had to be removed due to the advancing open cast mine RWE shaped the new river bed that it is now again a natural river and very valuable biotope. The areas recultivated in the Rhine mining area exhibit a large biodiversity hosting more than 2,200 animal and 760 botanical species of which are more than 160 protected species.



The brochure "Mittelplate oil production" describes the plans for an integrated offshore/onshore oilfield development (download).

**Protection of biodiversity in crude oil production.** A syndicate led by RWE DEA has been supplying crude oil from the Mittelplate oil rig since 1987. Since this lies in the Wadden Sea national park very high environmental standards are met to prevent any

negative impacts on nature. In order to increase transport capacity and thus the yield of the oilfield and to reduce the risk of an oil spill, the syndicate joined Mittelplate oil rig in 2005 to the mainland with a 7.5 kilometre pipeline.

Protection of biodiversity determined the time schedule of the construction work: It has had to be finished before mid of June 2005, when the shelducks began their moult. The project kept within the tight schedule despite inclement weather. The new pipeline started operation in late October 2005, making redundant around 2000 oil shippings each year.

**Habitat management and HV transmission lines:**

The HV transmission lines of RWE have a significant impact on nature. Very often they inevitably cross woodlands. In recent years bushes and trees underneath the lines were removed rigorously. This resulted in bleak aisles and we faced growing critics.

As a first grid operator RWE decided in 1994 to look for new sustainable ways to manage the transmission lines. Together with experts for forestry from the University of Freiburg RWE developed a pilot project for a habitat management of the transmission lines which was put into action at large scale later on.

The habitat management plans have been extended step by step: Having started with a few percent of the transmission lines in 1994, 64 percent will be covered by the end of 2005 corresponding to 6,457 acres of land managed. Local authorities, landowners, NGOs and other stakeholders are involved on a regular basis.

# Water





Providing reliable water services to the Greater London area is not always easy. With large drinking water reservoirs like the “Queen Mother” near London, we could sustain them with no restrictions even during the extremely dry year 2005. Since water bodies are an essential characteristic of the landscape and provide habitats for animals and plants as well as recreational facilities for the public, we have to reconcile wide-ranging demands. The fact that we have been doing this successfully for years is also appreciated by our customers.

## **Water:** **Securing supplies, protecting resources** *RWE is the world's third biggest private water supplier and is the biggest in the UK and USA. We are committed to operating to the highest ethical, environmental and social standards and to supplying affordable prices to our customers.*



*We devoted our recent RWE Thames Water Corporate Responsibility Report to understanding our stakeholders' views and concerns by inviting questions from a wide range of stakeholder groups.*

Our water business, with its core activities water supply and distribution as well as sanitation service, accounted for ten percent of group turnover in the year 2005. Worldwide we supply around 56 million people with drinking water, thousands of industrial enterprises with water services, and we also dispose of the sewage for many of these customers.

As well as understanding the direct challenges for our business operations we also aim to play our part in helping wider society to achieve sustainable development. This particularly includes playing our part in tack-

ling the major challenge of bringing greater access to water and sanitation to the billions of people globally who currently go without. Thus we firmly support the Millennium Goals of the United Nations.

### ***Our stakeholders and their expectations***

Our business activities make us an integral part of a wider society, wherever we operate. Our aim is to understand what others expect of us and to look for opportunities to work in partnership with them. An example analysis of our main UK stakeholders is given below (see table).



## Reactions of RWE Thames Water to stakeholder demands

Stakeholder group	Undertakings and commitments by RWE Thames Water
Government	We are in regular contact with government representatives on operative and strategic issues.
Regulators	We are in regular contact with regulatory bodies on technical and strategic issues.
Employees	Formal and informal mechanisms are in place to give employees the opportunity to engage in dialogue.
Unions	We work in partnership with the unions, fostering an open and transparent culture.
Private customers	Our customer call centre is open 24 hours a day, 7 days a week. Our staff are trained to respond to customers in a professional manner and keep them up to date on operational issues.
Business customers	Key Account Managers are assigned to our larger business customers to act as the primary channel for our customers' needs.
Local communities	We have a team that is responsible for the needs of neighbours to our operations. We also seek to improve the quality of life in our local communities through involvement in community initiatives, and access and by making recreation areas available.
NGOs	We believe in establishing a dialogue with NGOs and this has helped build constructive relationships.
Business organisations	We are members of a number of business organisations for example London First and the CBI (British employers' association), which gives us the opportunity to discuss important issues.
Suppliers	We operate partnering trading agreements with the majority of our suppliers, the aim of which is to foster fair, longer term, stable business relationships.

### *Our water business for today and the future*

The views of our stakeholders, together with our own planning, have helped us to identify the most significant Corporate Responsibility issues for our business. Our central focus is to continue to meet the water supply and wastewater needs of our customers, without harming the environment, despite the pressures of population growth and increased climate variability. In our endeavours to achieve this our key challenges include:

- Reducing water losses
- Maintaining security of supply
- Using natural resources responsibly
- Meeting drinking water quality standards
- Avoiding water pollution
- Safeguarding biodiversity

**Reducing water losses.** RWE Thames Water is working hard to reduce the high levels of water losses in the UK business, particularly in London. Outside the capital we have been able to lower leakage rates to 19 percent,

which compares well with the national average of 23 percent. By contrast, in London, despite massive investment in finding and fixing leaks, 913 million litres were lost through leakage every day, amounting to one third of the water put into supply in 2004/2005.

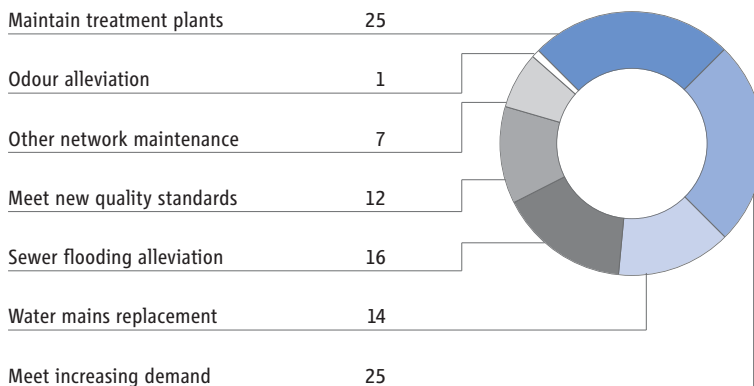
Experience in recent years has made it clear that this conventional approach was doomed to fail to the condition of the outdated water mains network in London (half of which is over 100 years old, and a third over 150 years old) coupled with the impact of constant heavy road traffic and the corrosive effects of London's geology. RWE Thames Water has therefore decided to carry out extensive renewals of the pipeline network: Up until April 2005 we were able to renew 217 kilometres of main. By 2010 we want to have renewed a further of 1,235 of our 31,500 kilometre supply network in and around London. By this time water losses should be down to their economic level of 725 MI/d.

Water losses for American Water in the USA amounted to around 20 percent in 2005. This includes leakage, unauthorised water uses, as well as authorised free water supplies (e.g. for fire fighting). We have launched an extensive program to reduce these losses. For example, the company began a research project in 2005 to acoustically locate leaks. This enables prompt repairs at lower costs. We fitted a total of 500 sensors in the pipeline network in Connellsville (Pennsylvania) in 2005 that receive signals each night from a pulse generator. In this way we can detect even the smallest malfunction before it becomes visible or

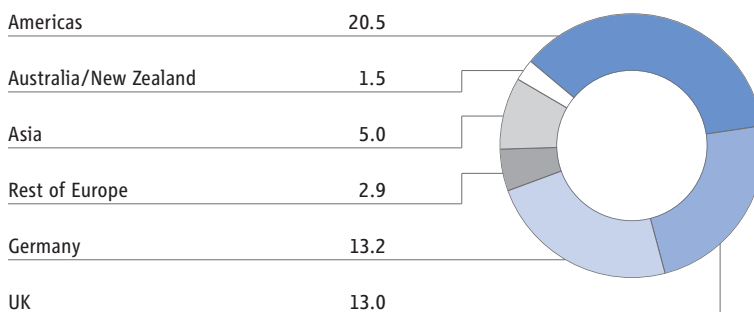
causes a bigger leak. The pilot project will run until 2007 and is just one of several programmes to reduce water losses.

**Safeguarding the water supply.** Owing to lack of rainfall, the citizens of London have fewer natural water resources available per head than southern European cities such as Madrid or Istanbul. The overall water consumption across the city has nevertheless risen by around 15 percent over the past 20 years, due mainly to the increase in population. The prolonged drought in 2005 (the third driest period since records began over 100 years ago), has added considerably to the challenge of guaranteeing the supply of water to this densely populated area.

**RWE investments in the UK 2005 to 2010 (€4.4 billion) percentage**



**RWE water business world-wide according to region 2005 in million customers**



Despite this lack of rainfall we have still been able to maintain supplies throughout 2005 with no restrictions for our customers. This has been achieved through a combination of public campaigning to reduce usage as described below as well as mobilising company plans to make best use of the resources available. We have also developed a detailed drought management plan in conjunction with our regulators in the event of a continued drought in the UK.

In the north of London we have developed the “North London Artificial Recharge Scheme”, a natural underground ‘reservoir’ that is filled with water during high rainfall periods. While this was invaluable in coping with the severe situation in 2005, we also recognise that demands continue to grow into the future and climate variability continues to impact our resource options. Our planning shows the need for development of new resource options, such as reservoirs and desalination in order to continue to balance supply and demand.



**Jonathon Porritt,**  
Programme Director of  
"Forum for the Future"

**»Consumption and emissions can be reduced by intelligent solutions.«**

Richard Aylard of RWE Thames Water talks with Jonathon Porritt of "Forum for the Future" about the challenges facing the water supply business ([www.forumforthefuture.org.uk](http://www.forumforthefuture.org.uk)). Thames Water has been a member of the organisation since 1999. Forum for the Future was set up to promote sustainable development and to generate collaboration between the key players in this area.

Porritt confirmed that RWE Thames Water has made real progress since it came on board. "Within the last 6 years two things have happened; one is the whole reporting cycle has got a lot better – RWE Thames Water performs extremely well. It's an important part of the interface with the different stakeholders. Secondly, the company has confronted its sustainability more realistically." Porritt sees the two main challenges as climate change and energy consumption, with the latter increasing rapidly because of the higher standards being set for water utilities. RWE Thames Water therefore had to develop innovative solutions and make its customers more aware of the facts of life. "But this can only be done from a position of trust. It's the only foundation on which these issues can be moved forward more proactively", explains Porritt, who goes on to confirm that "RWE Thames Water is aware of this."



*A full account of the discussion with Jonathon Porritt can be found on the Internet.*

Whilst desalination has been long viewed as an essential part of the resource mix in more arid regions such as Spain and the Middle East, current challenges in the UK and USA have highlighted the need for appropriate application of desalination more widely. We are currently pursuing permission to build desalination plants in London and on the Monterey Peninsula in California. We do recognise that operation of such plants traditionally requires higher use of energy, leading to higher CO<sub>2</sub> emissions. We can reduce the energy consumption as far as possible by using the latest technology, high-pressure reverse osmosis. Nevertheless, despite initial approval from the local authorities, the Mayor of London refused us permission to build such a plant in London, largely for climate protection reasons.



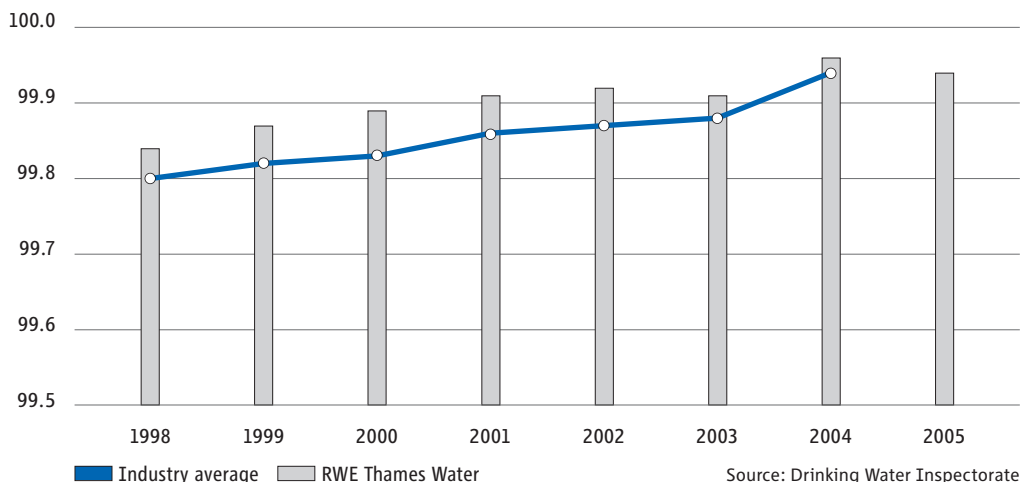
*Some examples of how we can support our customers in saving water are featured on the Internet.*

We believe that this remains the best water resource option for London and will continue to pursue permission to build. Through this process however, we want to find the best possible balance between secure supplies, resource protection and climate protection in order to develop the most sustainable solution.

**Using natural resources responsibly.** Using water more efficiently is the most important element in making sure there is enough water for everyone. RWE Thames Water encourages ways of saving water through a variety of measures. For example, during 2005 in the UK we distributed well in excess of 100,000 cistern devices for saving water used for toilet flushing. We also sent out 1.8 million self-audit questionnaires with customers' bills to communicate the water efficiency message, enable customers to better understand their own use of water and suggest how they could reduce this. Throughout 2005, in response to the challenges of the long period of drought experienced by London and the Thames Valley, we also broadcast a series of tips over the radio and ran adverts highlighting simple water conservation measures. Our Internet sites in both the UK and the USA continue to provide guidance on easy ways to cut water consumption in our everyday lives.

Acting in a responsible manner also means reducing waste and reducing the impacts of our use of energy. In London and the Thames Valley we generate more than 11 percent of

**Compliance with drinking water requirements by private suppliers in the UK (1998–2005)**  
percentage



our electricity requirements from renewable sources, generating both heat and power from burning our waste products in the form of sewage gas and sewage sludge.

In the UK we have set ourselves stretching targets to both increase our renewable energy generation and to offset the additional energy needs of meeting higher water and environmental standards.

At American Water we have recently joined the US Environmental Protection Agency Climate Leaders Programme to better formalise our emission reduction programme. Our Canal Road Water Treatment facility in New Jersey (USA) demonstrates what is already possible. Powered in part by solar energy it has reduced energy costs by €645,000 and 300 tonnes of CO<sub>2</sub> over the last two years. Meanwhile we have recently committed ourselves to operating our water treatment plant in Yardley, Pennsylvania with wind energy.

**Upholding drinking water quality standards.** The quality of drinking water in our UK supply areas has greatly improved over the past few years. In 2004, RWE Thames Water fulfilled the stricter EU specifications on drinking water quality in 99.96 percent of over 150,000 tests that were carried out (the national average was 99.94 percent). This was confirmed in a 2005 report from the “Drinking Water Inspectorate” (DWI), the UK regulator for water quality.

We have no knowledge of any preliminary proceedings or convictions owing to significant infringements of environmental regulations for reporting period 2004/2005 except for the UK.

This was the objective of American Water when it joined the “Leaders’ Program” of the American Environmental Protection Agency. 65 of our water works received the “Director’s Award” from the organisation “Partner-

ship for Safe Water" since 1999, having introduced deliberately higher quality standards than those required by the authorities.

### ***Our contribution to water protection and biodiversity***

At RWE Thames Water we play a crucial role in protecting the environment from pollution. All sewage works discharges are carefully matched to the intake capacity and water quality of the eco-system so as to avoid detrimental effects.

***Avoiding water pollution.*** We are the largest wastewater business in the UK, operating 67,000 km of sewers, 350 sewage works and 2,000 pumping stations. Our sewage treatment works have to meet some of the tightest standards in the UK; this means that we generally have a good record of compliance with effluent discharge consent standards, but in 2005 our performance deteriorated to 99.2 percent compliance.

In 2005 we had a few pollution incidents causing fish fatalities. In 2005 Thames Water Utilities was convicted of four such offences with fines totalling €186,880. To improve on this during the 2004/2005 reporting period we introduced an Incident Avoidance Process (IAP). Our IAP determines root causes of incidents in order to derive improvements in operational procedures.

Our IAP seems to be paying off: we have reduced the number of serious incidents by two thirds between 2003 and 2005. We are also targeting illegal discharges by third parties, for example from trade and industry to further reduce the number of incidents.

Meanwhile, the Thames is recognised to be one of the cleanest metropolitan rivers and is again home to over 120 species of fish. However Combined Sewer Overflows to the tidal River Thames remain a source of serious pollution incidents. Combined sewers, in common use across London, take both foul sewage and surface water run-off. During times of high flow, such as during storms, they are designed to discharge directly to the watercourse to avoid overwhelming either the sewers themselves or the sewage treatment works. While this is legally permissible it still can have serious environmental implications, with 16 pollution incidents in the Tidal Thames in 2005. Thames Water Utilities is working with its regulators and the UK Government to agree a strategy to solve this problem. Initial investigations suggest that the most effective solution would require investments amounting to billions. Planning preparations will continue.

Intelligent sewage management can also make an important contribution to both avoiding water pollution and saving water resources. For example, since 2003 at American Water we have been operating an integrated wastewater treatment and reuse system in the 27-storey Solaire skyscraper in New York's Battery Park. This is the first building of its type in the USA: with treated wastewater reused for toilet flushing for the 293 apartments, for cooling tower water and for irrigation. This substantially reduces drinking water consumption.

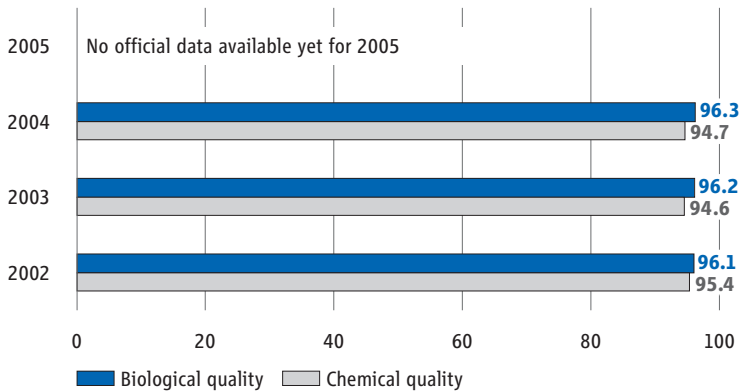
Further examples of wastewater reuse applications include: Wrentham Outlet Mall (Massachusetts) where 80–90 percent of wastewater is reused; and the system at Anthem in Arizona, where amongst the uses

for the wastewater from the 3,000 residents are water for fire fighting, industrial applications and golf course and crop irrigation.

**Safeguarding biodiversity.** As custodian of the water we draw from the environment, the water business has a commitment to the protection and improvement of biodiversity. We do not want to endanger the local flora and fauna, either through our water removals or the discharge of treated sewage effluent. This is why we plan ahead, with a variety of different measures to protect the environment that our operations could impact upon and also the rich biodiversity found on our own sites. Working closely with our regulators, the Environment Agency, we take special care in the Thames Valley to ensure that the removal of water does not affect wetland habitats.

Of the total of 3,769 kilometres of streams and rivers we use in the UK 136 km have been categorised as “sections that are occasionally threatened with extremely low water”. This includes sections of the rivers Ampney Brook, Bulbourne, Cherwell, Churn, Darent and Wye. We have agreed a number of programmes to improve river flows where these may not be sustainable given current uses. In order to maintain year-round flows in the Bulbourne and Wye to assist the fish population, Thames Water, together with the environmental authorities and the affected communities, agreed to cease water abstraction from two groundwater sources. As of March 2005 we take more water from the River Thames instead and have constructed four new pipelines. Measures to maintain ecological minimum water levels are also planned for other rivers. These include an agreement that from 2007 we will augment flows when the river Cherwell has low water levels, by pumping our treated effluent further upstream.

**River stretches in the catchment area of the Thames, with water quality assessed as good or satisfactory by the environmental authority percentage**



Implementation of our own Biodiversity Action Plan continued in 2005 with the completion of a major biodiversity survey of our UK utility sites, which has taken several years to carry out. Through this process we have identified 284 ‘Sites of Specific Scientific Interest’. In future years we will be developing management plans for each of these sites to ensure their biodiversity value is protected or enhanced. In addition to action in our own sphere of influence, we support regional and national activities for biodiversity protection.

Launched by the Royal Society for Protection of Birds (RSPB) in 2004, a 3-year project aims to increase the population of stone curlews in Berkshire and Oxfordshire. RWE Thames Water is contributing €36,500 a year to this valuable initiative.



*Our contributions to the realisation of the UN Millennium Goal "Water supply" are explained in more detail on the Internet including an example of a "Private-Partnership-Project" (PPP) in a developing county.*

### **Our contribution to the wider community**

At our UK utility operations the considerable investment over the coming years to modernise and improve the security and quality of water and wastewater services, will lead to higher prices, with an average real rise in household bills of 22.1 percent by 2010 (cf. chapter "Marketplace", page 47/48).

**Protecting the interests of the poorest in society.** Although RWE Thames Water bills will continue to be amongst the lowest in the country we have established a Vulnerable Tariff Scheme and a Customer Assistance Fund to help people who have difficulty in paying their bills. Our Vulnerable Tariff Scheme is for metered customers who are in receipt of benefits and have either three dependent children under 19 years of age at the property or a medical condition that requires the use of significantly more water.

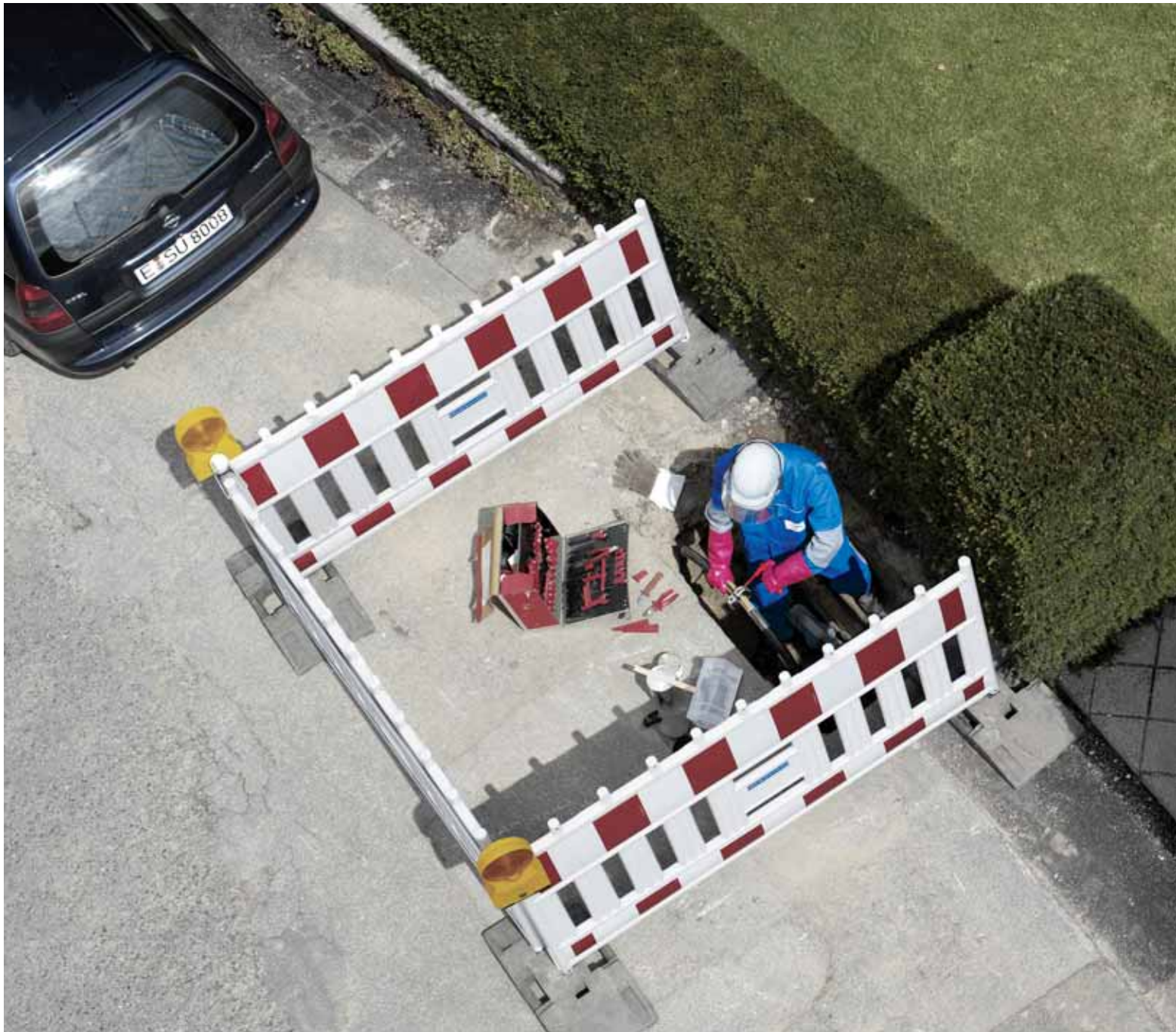
Our Customer Assistance Fund helps customers who are unable to pay their bills due to financial difficulty, hardship or distress. The company makes a donation against outstanding debt once the customer has demonstrated a commitment to sticking to the payment arrangement. This helps give customers a fresh start and encourages sensible budgeting. We made donations

totalling in excess of more than €350,000 during the year 2004/05 and over 70 percent of customers who have received donations to clear old debts are now able to pay their water service charges regularly.

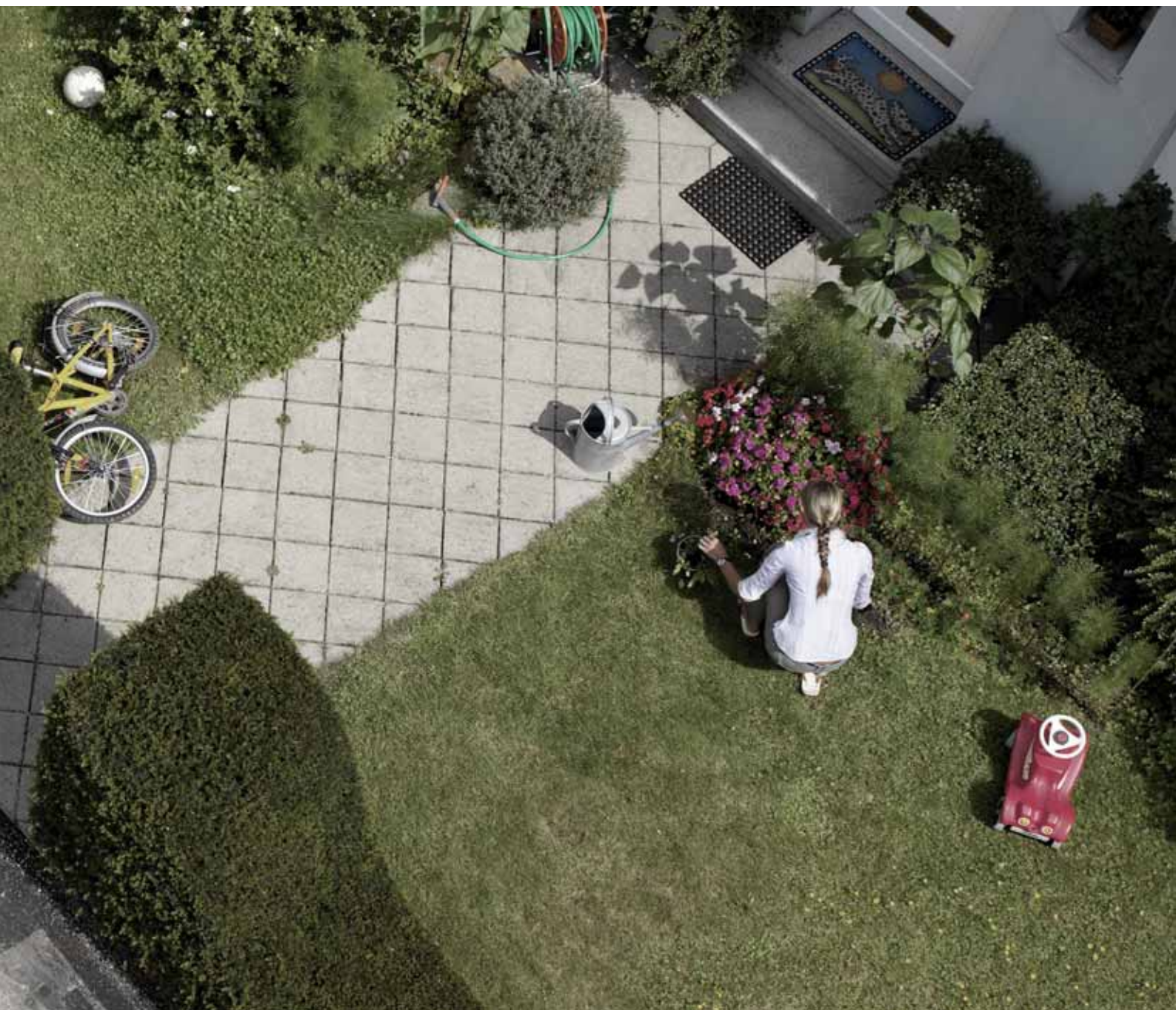
**Work in developing countries.** We believe that everyone should have access to clean, affordable water, and to hygienic sanitation facilities. Currently across the world, and particularly in the least-developed countries, there is a significant proportion of the population that does not have this level of service. As a leading water company, we want to play our part in helping those countries, communities and people and to support the development of these in an affordable and sustainable way. RWE Thames Water assumed leadership in Water and Sanitation for the Urban Poor "WSUP", a partnership of non-governmental organisations, businesses and academic institutions committed to delivering sustainable water and sanitation services in poor urban areas.

**Emergency aid.** The employees of RWE Thames Water were really put to the test by the tsunami that destroyed coastal areas in Asia at the end of 2004. RWE Thames Water donated ten emergency treatment units for use in Aceh, Indonesia, and specialists from our company volunteered to support the installation and operation of these units and the training of personnel. Local drinking water supply was established for approximately 30,000 tsunami affected people. Financial and practical aid worth over €4 millions was donated by other RWE companies.

# Marketplace







**Our products can found in every home: Electricity, gas and water are part of everyday life. Obviously this keeps our service busy all the time – be it for new connections, repair or in providing advice. After all, our customers must be able to rely on us: today and in the future. We conduct regular surveys to measure how satisfied they actually are with our performance.**

## **Marketplace:**

### ***Creating transparency, playing fair***

*We aim to provide high-quality customer service at affordable prices and support open and fair competition with the same rules for all. We want to build up trust in our dealings with customers by acting transparently and with integrity.*

As market leaders in the European energy and water business we believe that the key to our success lies in acting responsibly and with integrity. We also recognise that we can only achieve our long-term corporate goals in a free and competitive market in which the same rules apply for all. Our interaction with the marketplace and with our customers is driven by four main principles:

- To provide affordable and economically viable prices for energy, water and sanitation services
- To achieve a high level of customer satisfaction with our products and services
- To improve our customer loyalty base
- To compete with other suppliers in a fair and transparent manner.

#### ***Our prices***

During the 2004/2005 review period we increased our German-based energy prices on several occasions. This raised concerns among the general public and led to accusations that we were abusing our strong position in the market. The price rises introduced in Germany, and indeed in the UK and Hungary, were the result of a number of factors:

- the increasing cost of imported coal due to the global increase in demand
- significant price rises for crude oil, and hence for natural gas
- rising prices for CO<sub>2</sub> emissions certificates: this meant that RWE had to purchase large numbers of additional emissions certificates on the energy exchanges, since the authorities have been issuing significantly fewer emissions certificates than had been applied for.



For more information on energy prices, including details of mains infeed payments and the role of the government, visit our website

These market developments have led to a significant rise in wholesale energy prices. Bad weather conditions in some regions of Europe, with reports of drought and high temperatures, affected hydroelectric power supply and increased electricity demand for air-conditioning units in southern Europe; this in turn resulted in increased electricity imports.



In the UK water price increases are subject to approval by the national regulation authority, OFWAT.

The introduction of legislation to support renewable energies has also forced prices up, especially in Germany, which has adopted the Renewable Energies Act and the Combined Heat and Power Generation Act. State duties and taxes now account for about 40 percent of the price of electricity in Germany, while in the UK it is closer to 8 percent. If electricity prices were freed from taxes, fees and other government charges, private households would have paid 12 percent less for their electricity in 2005 than they did in 1998.

We are aware that higher electricity prices affect other industries and that this can impact on the economy as a whole. We have therefore introduced special arrangements

in the form of long-term, flexible power supply contracts for a number of customers, including for example Trimet Aluminium AG, the Norsk Hydro Rhein plant and EKO Stahl AG (all German-based), to help alleviate the impact of these price increases. It is not in our interest to see industrial customers move their production base to other countries where energy prices are lower, as they would then be lost to us as business partners.

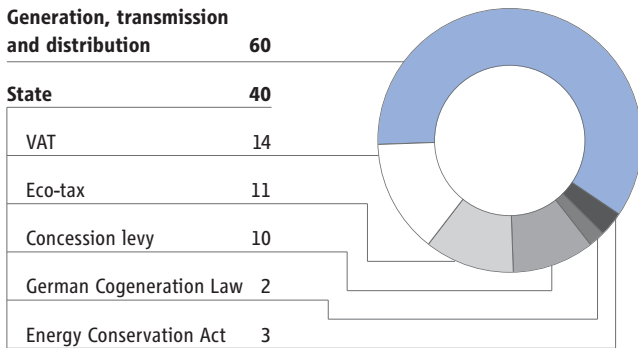
In January 2006 RWE arranged the first auction of a virtual power plant in Germany: energy vendors, municipal utilities and companies were invited to purchase shares of our electricity production, in order to safeguard against rising electricity prices. Some 300 megawatt of generating capacity were auctioned.

**Regulated water prices** Our most important market for drinking water, the UK, is extensively regulated and price increases have to be approved by the "Office of Water Services" (OFWAT). We are currently planning to invest some €4.4 billion between 2005 and 2010 in the water supply services for London and the Thames Valley (cf. chap-

### Breakdown of domestic electricity prices in Germany and the UK in 2005

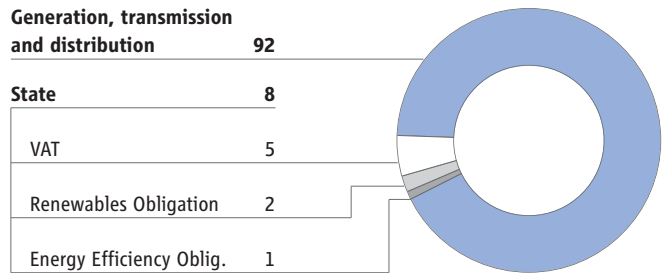
The figures are percentages.

#### Germany



Source: VDEW, 2006  
(Basis: Average household with €653 in energy costs p.a.)

#### UK



Source: Ofgem, 2005  
(Basis: Average household with €512 in energy costs p.a.)

ter "Water", page 38). An increase in prices is inevitable to cover these financial commitments. OFWAT has therefore approved a total increase of 22 percent in real terms (24 percent for households). Price rises are unpopular and can only be imposed up to a point.



*The British consumer organisations energywatch and Watervoice check up on how satisfied our customers are with our services.*

We are very much aware that rising water prices could cause hardship for some customers. In the UK Thames Water has therefore put in place a Vulnerable Groups Tariff Scheme and a Customer Assistance Fund for such cases. American Water has introduced the "H<sub>2</sub>O - help to others" programme to assist households that are unable to pay their water bills because of financial difficulties and this scheme has already helped thousands of people.

#### **Our customer service**



*In December 2005, 82 RWE power poles snapped under unusually heavy ice in the region around Münster. Thousands of households and businesses were cut off from electricity and heating for about five days. RWE set up a hardship fund to help people in great distress because of this.*

Providing good customer services is key to winning and retaining a good customer base. Although only about 5 percent of customers in our German electricity market are switching to different suppliers, we are striving continually to invest in customer satisfaction. As recent market studies have shown that clients prefer a direct contact person, we have in the course of the reporting period doubled the number of local service centres for private customers in Germany to 27. These service centres are operated by the

regional companies under RWE Energy. A 2005 customer survey showed that electricity consumers were fairly satisfied with RWE's services, the company outperforming other major suppliers in this respect.

The UK has a much higher customer attrition rate (13 percent) than Germany. RWE npower recognises that providing affordable energy and a high-quality customer service is vital to its success as an energy supplier. The findings of energywatch, the UK consumer watchdog for electricity and gas customers, are an important indicator for RWE npower. A recent energywatch audit showed that complaints regarding sales and supplier transfers were ten percent down in 2004.

**Transparent billing.** Clear and informative electricity bills are one way to generate customer loyalty. All our consumers in EU member states are kept informed of the type of fuel (fossil, nuclear or renewables) used to produce their electricity. Customers are also updated about the radioactive waste and CO<sub>2</sub> emissions produced through electricity generation.

Industrial consumers often accuse the energy utilities of including in their cost calculations the high prices at which emissions certificates are traded on the energy exchanges, even though these certificates are issued to the

### **Customer structure for external sales of power and gas in 2005** in billion kWh

	RWE Power		RWE Energy		RWE npower		RWE Group	
	Power	Gas	Power	Gas	Power	Gas	Power	Gas
Private and trade customers	0.5	0.0	39.0	73.5	22.3	39.7	61.8	113.2
Industrial and business customers	7.8	3.3	59.9	104.7	32.6	8.0	100.3	116.0
Redistributors	14.0	17.0	51.7	110.6	0.4	0.0	66.1	127.6
Electricity trade customers	70.8	0.0	0.0	0.0	0.0	0.0	70.8	0.0
<b>Total</b>	<b>93.1</b>	<b>20.3</b>	<b>150.6</b>	<b>288.8</b>	<b>55.3</b>	<b>47.7</b>	<b>299.14</b>	<b>356.8</b>



**Dr Wolfgang Gerhardt,**  
Senior Vice President,  
BASF AG

**»The electricity industry must also find answers to global questions.«**

The challenges associated with eco-friendly and reliable energy supply and RWE's contribution to solving these were the subject of a debate between Thomas Birr, Director of RWE Key Account GmbH, and Dr Wolfgang Gerhardt, Senior Vice President and Head of Energy and Waste Disposal at BASF AG. The BASF company is one of RWE's most important and most long-standing customers.

In 1997 RWE built a combined-cycle power station at BASF's Ludwigshafen plant in Germany and has been responsible for its operation ever since. RWE constructed a similar installation at the BASF plant in Antwerp. High-efficiency solutions are important because, as Thomas Birr says, "we know that the chemicals industry is one of the biggest energy consumers and as such is operating in a very tough competitive environment". Dr Gerhardt went on to highlight the impact of energy prices on competitive manufacturing in Europe. Above all he called on the energy industry to introduce a long-term planning strategy based on something more than the technologies currently available. To quote Gerhardt: "We consider that the energy industry has an obligation to develop new solutions."



A full account of the discussion with Dr Wolfgang Gerhardt can be found on the Internet.

supply companies free of charge. Against this background the Federal Competition Authority launched an investigation into RWE and other supply utilities in August 2005. We are cooperating fully with the Authority in this process.

**Full service in the water business.** Customer service also plays a key role at RWE Thames Water. Independent customer research reports that over 80 percent of customers are satisfied with the way their inquiries are handled.

The improvement in after-sales service has made a huge difference at Welsh Water, where customer services are run by our UK subsidiary Thames Water Services. Ranked bottom of the UK league not so long ago, Welsh Water has now risen up the table to take first place in 2005: customer complaints have fallen by two thirds and the company has received a series of performance awards in recognition of this.



More on conserving energy can be found on the Internet.

### **Our contribution towards greater efficiency**

Our expertise in energy and water efficiency is available to corporate customers as a commercial service. We also encourage our domestic consumers to adopt energy and water saving measures in their homes. As well as reducing emission levels, saving energy can benefit our customers financially and help maintain our customer base.

Energy saving tips are featured in the pages of RWE Magazine, a quarterly publication for domestic consumers in Germany, as well as in "@news," our e-mail newsletter. Comprehensive information is also provided at RWE's customer centres, including an annual list of "energy-efficient home appliances". Similar information is made available in the UK by RWE npower. We also support the German Energy Agency (dena) in their efforts to encourage consumers to use energy as rationally as possible.

Our water business focuses much of its efforts on economising on water, particularly since the UK suffered from extremely dry year in 2005. Metering offers an effective means of reducing domestic water consumption. Hence, for several years RWE Thames Water has been offering to install water-meters free of charge to its customers. A total of 14,000 households took up the offer in 2005. However, despite this scheme only 22 percent of household consumers in the RWE Thames Water area have installed water-meters, while the figure for commercial properties is 80 percent. In the spring of 2005 we launched a pilot project in the London area to automatically install water-meters at properties undergoing a change in home ownership.



For more information on the topic of saving water, please consult the Internet.

### Our political contacts

Like any other company or organisation, we protect our economic interests in both the public and political arenas. Our code of conduct lays down clear guidelines on political lobbying. We do not make contributions to political parties or to organisations closely associated with them. Our official position on energy policy and related issues is set out in "Facts & Figures", which contains a detailed and regularly updated statement.



You will find "Facts & Figures" as a download on the Internet.

RWE and the other utility companies are often consulted when draft legislation is being drawn up affecting the energy or water industry – particularly in Germany and the UK. In the period under review we were, for example, involved in consultations on emissions trading, the amendment of the German Energy Industry Act and Renewable Energies Act and the revision of the UK regulations on sewage sludge (for agricultural use) and waste management licensing. We believe that it is important to work in partnership with Government to develop new legislation and to bring our expertise to the debate.

### Our anti-bribery and corruption policy

We have a policy of zero tolerance towards bribery and corruption in our corporate activities and have analysed the country-specific risks with respect to such practices since 2003. Despite our withdrawal from certain regions, the need for vigilance still remains.

The events of 2004/05 demonstrated the need for a clear set of Group-wide rules: two politicians formerly employed by RWE companies continued to receive payments from the Group even though they no longer

## Breakdown of business volume in the RWE Group according to countries and corruption risk 2005

in compliance with Transparency International\*

	Very low risk of corruption CPI 10–8.5	Low risk of corruption CPI 8.4–7.0	Medium risk of corruption CPI 6.9–5.5	High risk of corruption CPI 5.4–4.0	Very high risk of corruption CPI <4.0
Countries in which RWE is active	Australia, Austria, Denmark, Finland, Luxembourg, Netherlands, Norway, Sweden, Switzerland, UK	Belgium, Canada, Chile, France, Germany, Ireland, Japan, Spain, USA	Portugal	Czech Republic, Hungary, Italy, Lithuania, Slovakia, South Africa, South Korea	Brazil, Egypt, Indonesia, Libya, Mexico, Russia, Thailand, Turkey
Share of Group revenue	24.0%	66.0%	0.01%	8.7%	1.3%

\* The Corruption Perception Index (CPI) of Transparency International (TI) lists all countries by degree of corruption risk and, in addition to the ranking also shows a mark for each country. The categories of the table above were defined independently according to the 2006 CPI ([www.transparency.org](http://www.transparency.org)).

worked for the organization. Some quarters accused the company of seeking to exert undue influence on the political process. In actual fact the incident was the result of an internal communication error and a lack of sensitivity in dealing with salaried employees who assume political office. The Executive Board of RWE AG therefore resolved to introduce a Group-wide code of conduct to establish binding rules for responsible behaviour that would apply to all members of staff. A key task for the years ahead will be to familiarise employees with this code of conduct and to ensure that it is implemented in an effective and appropriate manner.

### **Our supply chain management**

Stakeholder analysis has demonstrated that our stakeholders expect us to show a greater regard for sustainability through the management of our supply chain. We have adopted this principle in our code of conduct and as a first step we carried out a risk analysis of our supply management system, which can be broken down into three groups:

- fuels
- equipment, complex components
- standard products, catalogue products, services.

**Fuels.** An analysis of our fuel supply situation, which was carried out by RWE Power and RWE npower, has shown that only about one third of the coal required for our German operations is imported – primarily from South Africa, Columbia and Russia. We normally obtain our coal directly from producers whom we know by name, rather than via anonymous fuel brokers. The next step is to review our partners' management systems and CR reputation and to draw conclusions from this for further actions. Similar measures are planned for RWE npower's fuels purchases.

**Equipment, complex components.** We do not regard the procurement of equipment and complex components as a high risk factor from the viewpoint of sustainable supply chain management (working conditions, environmental protection, etc.). The high-tech, specific nature of the equipment in question greatly restricts the number of available suppliers and since the companies in question are all based in OECD countries they are all the more likely to meet the basic CR requirements.

**Standard products, catalogue products, services.** In theory we believe that there is a higher risk factor associated with the procurement of standard products and services. An initial analysis has shown that 99.5 percent of our suppliers come from the European Union (EU) and are therefore subject to basic health and safety and environmental regulations. We asked some 2,000 of our suppliers about their environmental protection and health and safety systems, while excluding from the survey companies supplying non-critical products and services. The response rate was 27 percent: 80 percent of these confirmed that they had installed a management system for health and safety, while 70 percent stated that they had an environmental protection scheme in place.

There is expected to be a progressive increase in the amount of materials and services sourced outside the EU, while the supply of fuels from non-OECD countries is also likely to rise. We shall therefore be focusing more attention on sustainability criteria (environmental protection, employee interests and human rights) in our procurement processes and intend to implement a robust risk management system. In 2004 RWE npower integrated its CR principles into its new procurement policy. Suppliers now have to meet different standards depending on the level of risk associated with their products.



RWE Systems has compiled information for market partners on our website

# Workplace







**We consider that responsible action starts with training and continues throughout a person's working life. In demanding basic and further training, we are not just safeguarding the future of our company. Since our activities have a great impact on the environment, we also want to give back something to the regions. For example, we provide apprenticeships beyond our own requirements, giving young people qualifications they can use throughout their lives.**

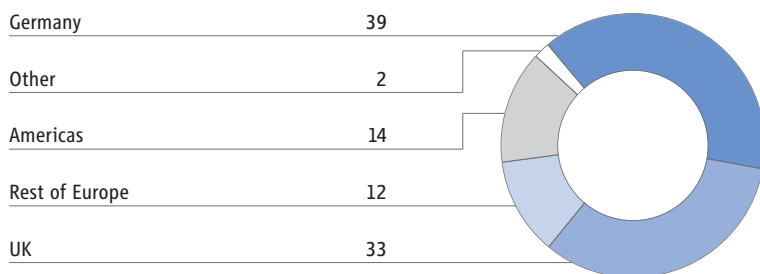
## **Workplace: Raising our profile, supporting regional communities**

*We believe in putting something back into the areas in which we operate – not just for the benefit of our employees but also for the community as a whole. We believe that our human resources policy and our regional image have a vital contribution to make to our long-term success.*

The future of our company depends on the know-how and experience of our workforce and on their commitment and dedication. Our human resources policy seeks to develop the capabilities of our employees by promoting their professional career and co-ordi-

nating this with their personal goals. Future demographic changes will make it increasingly important for us to position the company as an attractive employer and at the same time to strengthen our employees' commitment to the organisation.

### **Investments by region in 2005** percentage (€3.667 billion)



We also want to be a “good neighbour” in those regions in which we operate. Our public image essentially depends on how we manage our business operations, how much regions are able to benefit from our presence and the extent to which we are able to support the interests of the community. Good environmental practice and community engagement are essential for this “good neighbourhood” feeling.

**Our human resources management**



The 2005 RWE Personnel Report provides a description of the Personnel Management projects (download).

In recent years we have continued to improve our personnel policy and have focused our efforts on professional training and executive development, promoting equal opportunities and diversity and managing the health of our workforce.

Demographic changes continue to pose new challenges:

- A falling birth rate will lead to a labour-market shortage of qualified recruits in the medium term.
- The average age of our employees is expected to rise and this will be compounded by the recent recruitment freeze and reduced manning levels. Inevitably this means that older employees will be responsible for planning, development and the implementation of our corporate objectives.

All aspects of human resources management – from staff training and executive development through to health care – will be affected by these changes and our efforts in this area must take account of factors such as an extended working life and changes in age structure.

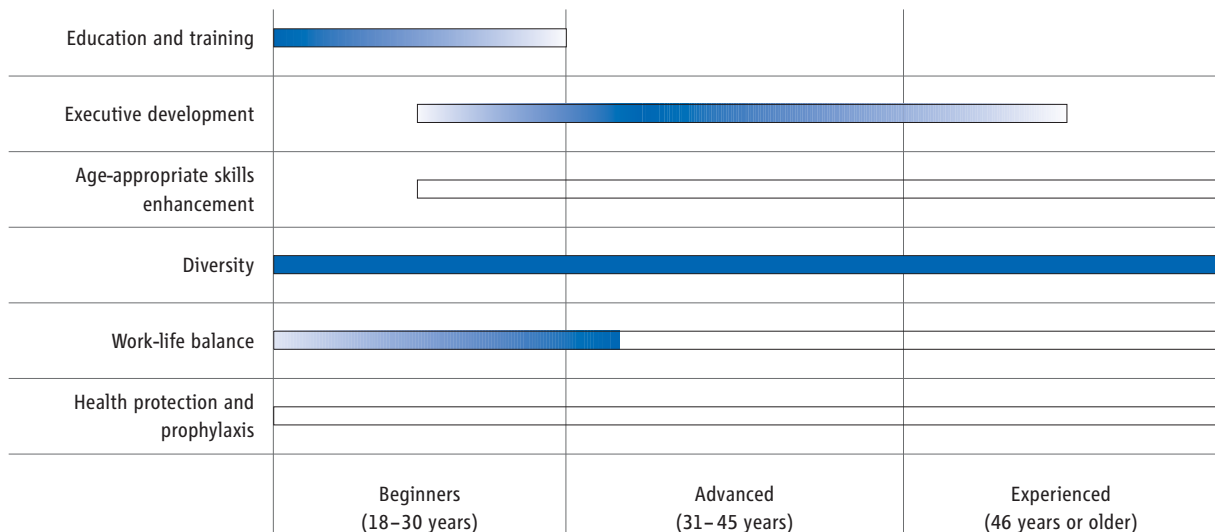


We have placed a summary of current training projects on the Internet.

**Education and training.** We have to ensure that we can recruit and retain qualified younger staff. At the same time we want to support employee development and contribute to the qualifications and employment opportunities of those living in regions in which we operate: RWE currently provides more apprenticeship places every year than the company requires to meet its recruitment needs: in 2004/2005 we provided nearly one thousand apprenticeship places – 80 percent more than was actually required. To facilitate the transition into regular employment in Germany, short-term contracts are offered to many of those who, after training, cannot be taken on full-time.

**Executive development.** We want to motivate and promote our employees on the basis of their individual skills and give those demonstrating a high potential clear prospects for their future career. In mid-2004 we introduced “Discoveries” – a new instrument for assessing employee potential throughout our Group companies. Systematic assessment of our employee base enables us to compare development possibilities across all companies and hierarchy levels so that candidates can be found for vacancies world-wide.

**Career phase oriented personnel management**





Further information on employee development and support activities can be found under "Employees and careers" on the Internet.

We also carried out a reorganisation of our management structure in 2004: With the "RWE Grading System" it is now possible to compare management functions and remuneration within the Group. Standardised career paths make it easier to switch from one Group company to another.



Diversity instruments and measures in action at RWE: see our website.

**Age-appropriate skills enhancement.** The average age of RWE employees Group-wide is 41 years, with 35 to 54 year-olds making up the biggest group. The early retirement scheme in Germany means that 55 to 60 year-olds only account for about six percent of the total workforce. This presents us with an enormous challenge: our employees have a relatively long working life ahead of them and this may be further extended if the countries in which we operate decide to increase the retirement age. This is why we are keen to support the professional development of our over-40s and to promote their health and well-being. For our younger employees, who can no longer take regular promotion for granted, we will be developing innovative models for further career development.

It is our aim to fuse the complementary skills and qualifications of our younger and older members of staff. We want to combine the drive and energy of our new recruits

with the experience and composure of our older employees and to use this synergy for the benefit of the company as a whole.

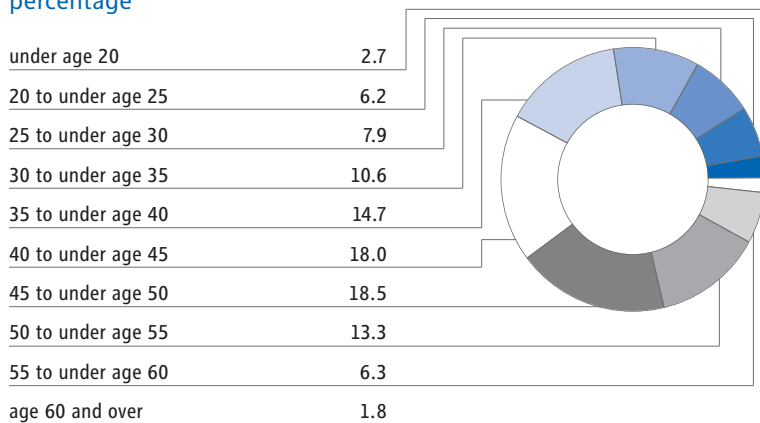
**Diversity.** The RWE code of conduct stipulates that we must promote equal opportunities and diversity. No employee or job applicant will be discriminated against on the basis of gender, marital status, race, nationality, age, religion or sexual orientation. We believe that there is competitive advantage to be gained by ensuring that our employment practices do not inadvertently exclude talented individuals and that our employee make-up properly reflects the society in which we operate.

This means that the focus of our diversity management will vary from country to country. In the UK and the US we believe in giving ethnic minorities equal opportunities, while in Germany we are trying to recruit more women and promote a climate in which they can achieve promotion. The number women in management is gradually rising (cf. chapter "Facts and figures", page 74). We are also trying to increase the proportion of female graduates in our recruitment intakes, particularly in technical professions.

**Work-life balance.** We also want to make our company more attractive by supporting a good work-life balance. We are able to offer employees part-time work, "extended" parental leave and childcare assistance. This enables us to keep our well-trained employees within the company and at the same time contributes to a more 'family friendly' society.

**Employee satisfaction.** Employee satisfaction is a benchmark for the success of our personnel policy. For the first time in the summer of 2005 we conducted a Group-wide employee satisfaction survey. The survey and its evaluation were carried out by an

**Integral planning of employment life phases as of 31 Dec 2005**  
percentage





**Yvonne Constance,**  
CSR Committee RWE npower

**»Integrating CR into everyday business practice.«**

RWE npower established its CR committee in 2001, the board level committee is independently chaired by Yvonne Constance, a barrister who has played an active “consumer champion” role at the National Electricity Consumers’ Council. She talks about why the company has been so successful at integrating responsible business practice. Constance believes “that a successful CR programme depends on the integration of a robust strategy and policy within the company, but it is equally important to get the internal structures right and senior level leadership to support that implementation.” She has been amazed at the progress that’s been made: “This has ranged from increasing staff awareness and participation, improving customer service, and significantly reducing customer complaints, to new programmes which make a real difference to the lives of vulnerable customers.” RWE npower received recognition in 2005 for its responsible business practice from Business in the Community. In its annual benchmarking exercise, RWE npower was ranked fourteenth in the top 100 ‘Companies that Count’ and short-listed for ‘Company of the Year’.



A full account of the discussion with Yvonne Constance can be found on the Internet.

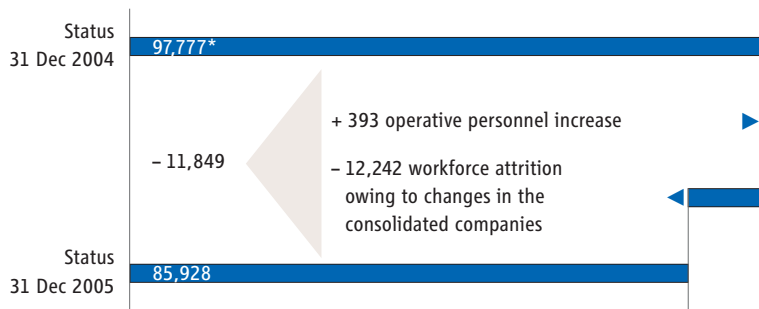
independent third party. The findings were announced in the individual management companies and discussed with the employees in a series of “workshops”. We intend to repeat the survey in 2007 in order to gauge the success of our improvement programme.

**Employee representation**

The needs and interests of our employees are fundamental to our corporate policy. The RWE Group undertakes to respect the conventions of the International Labour Organisation (ILO) and to abide by the principles of the UN Global Compact on safeguarding workers’ interests. No disputes with our employee representatives were recorded during the period under review.

In Germany the Co-determination Act provides the legal basis for the representation of employees’ interests. Employee representatives make up half of the members of the Supervisory Board and are thus directly involved in overseeing company business. As the company has expanded its international base we have also extended our policy of employee representation. Our water business has had a “European Water Forum” since June 2002, the “European Energy Forum” met for the first time in March 2005 and the “European Power Forum” was launched in January 2006. The work of these forums, which comprise workers’ representatives from RWE’s European companies and is founded on the European law on Works Council. The forums represent a total of some 73,000 employees throughout the RWE Group.

**Change in Group employee figures in 2005**



\* Including RWE Umwelt

The agreements negotiated with the General workers’ council within the statutory framework for the rights of employees at their place of work constitute an important instrument in German industrial relations. Apart from regulating matters that come under the law governing industrial relations, they also make provision for social aspects including for example the “agreement on the integration of severely disabled persons and those

entitled to equal treatment” and the “introduction of an employee-financed company retirement pension scheme”. Owing to our new corporate structure we have adapted a number of these codes of practice during the 2004/2005 period and are currently introducing them, at least in part, in other countries and/or management companies.

97.5 percent of our staff are employed in OECD countries. These countries have established minimum social security standards for retirement and sickness.

### ***Our occupational health and safety management system***

Our industrial accident figures reflect the success of our occupational health and safety management system, which we intend to standardise Group-wide by 2007. Accidents recorded at German operating sites dropped by one third to 10.5 notifiable accidents per 1,000 employees. We intend to build on this achievement. RWE Power, RWE Solutions and RWE Dea are among the first major German companies to have had their occupational health and safety management systems certified in compliance with the ILO guideline NFL-ILO-OSH 2001. And that is not the last of it: in recent years three of our opencast mines have received industrial safety awards, which are issued by the Mining Industry Employers’ Liability Insurance Association for achievements in the field of accident prevention.

Our management companies promote workforce health and safety through accident prevention programmes such as “With new Power – always safe” (RWE Power), “Prep” (RWE Rhein Ruhr) and “Learning from experience” (RWE Dea), which are all designed to improve safety-awareness in the workplace.

A number of RWE companies also run back-exercise courses and have extended their in-house fitness programmes. Employees who want to return to work after illness or accident are helped to resume their normal working life as quickly as possible through the “Operational rehabilitation” programme introduced in 2005; similar initiatives have also been set up at RWE companies outside Germany. To improve our health management we are establishing a Group-wide reporting system.

### ***Our responsibility for the regions and local communities***

We want the regions and communities where we operate to feel we are a good neighbour. One aspect of this is our proactive promotion of regional business activities. We have not yet included a corresponding passage in our purchasing guidelines, but it has already become reality in the Rhenish lignite mining district.

***Environmental protection and regional planning.*** The way we plan and operate our facilities has a major influence on how we are perceived as a company. Opencast mining, power stations, high-voltage transmission lines and installations for water supply and sewage disposal all have a significant impact on regional landscapes. The consent of the local population is essential if the sites and facilities in which we have invested huge sums of money are to enjoy many years of trouble-free operation. The Rhenish lignite mines are a good example of how RWE can work in partnership with local communities: here the required resettlement procedures are developed in a consultation process lasting many years, in which the communities in question are able to work alongside our specialists in planning their “new home”.



*For comprehensive information on our industrial health and safety programme visit our website.*

After opencast mining has ceased a team of internationally renowned restoration experts is brought in to help restore the site and redesign the landscape. Plans are worked out in close collaboration with the communities affected so that our proposals for the site are acceptable to all concerned. Our expertise in biodiversity management also has a positive impact on our water supply operations (cf. chapter "Water", page 42) and when planning the routes for our high-voltage transmission lines.

**Sponsoring activities.** RWE's "good neighbour" policy also means providing support for the communities living around our operating sites. We have therefore restructured our sponsoring activities and in the spring of 2005 developed a sponsoring strategy that is now being applied on a Group-wide basis. Much of this effort focuses on community projects, young people and the disadvantaged. Our sponsoring strategy is in alignment with our core capabilities and is based on three pillars:

- RWE accepts its responsibility towards the local community and responds to the increasing demands on the company arising from structural changes in society.
- By linking community activities with its professional expertise in the area of energy and water supply RWE is able to underpin its brand and performance commitments.
- By assuming a responsibility for the environment, RWE demonstrates its future-oriented approach.

In 2005 we spent around €17 million on this, in particular for sponsoring cultural and social projects and as a member of e7, an association of leading electric utilities, to promote a sustainable power industry worldwide.

**Employee volunteer work.** We actively encourage employees to volunteer for our community projects, knowing that this can help improve their soft skills as well as their professional competence. Even more significantly, the efforts of our employee volunteers help establish RWE as part of the local community. Here are three current examples of company volunteers in action:

**Time to give:** RWE Thames Water releases employees in the UK for up to two days a year so that they can work voluntarily for local projects run by non-profit-making organisations such as "WaterAid", "The Royal Society for the Protection of Birds" and "Age Concern".

**Help where it's needed:** Trainees from RWE Systems and RWE Energy help charitable organisations with internal projects that could otherwise not be undertaken due to lack of funds.

**Volunteering:** The RWE npower volunteering programme, run in partnership with Community Service Volunteers (CSV), provides an opportunity for employees to participate in education, environment and health related projects. In 2005 more than one thousand RWE npower employees took part in this programme.

We welcome it when our employees become involved in democratic political causes. However, it is important to know that they do this not as representatives of the company, but as private persons. Hence we have drawn up a code of conduct and relevant guidelines containing clear statements as to what is permitted and what is not (cf. chapter "Strategy and management", page 10). In Germany around 320 company employees sit on village and town councils, representing their fellow citizens.



An extensive overview of our sponsoring activities can be found on the Internet.



Further corporate responsibility projects in which we are involved at Group or management company level are listed on the Internet.

# *Facts and figures*







A clear appraisal shows how far we have come in terms of sustainable development and which course we have to take. For years, CO<sub>2</sub> emission control has been a key target. At Neurath in North Rhine-Westphalia, we are building another lignite-fired power plant with optimised plant engineering to replace obsolete plants with higher emission levels, one of many activities in our Group programme for sustainable development.

## Portrait of our energy activities



Further information  
can be found on the  
companies' websites.

The RWE Group supplies 20.1 million customers with electricity and 10.4 million customers with gas Europe-wide. This energy business is operated through four management companies - RWE Power, RWE Energy, RWE npower and RWE Trading.

**RWE Power: Germany's biggest power supply company.** RWE Power AG operates in Germany and Hungary primarily as a generating utility and lignite producer, though it is also involved in oil and gas exploration and production worldwide through RWE Dea (turnover in 2005: €6,832 million, workforce: 18,700).

RWE Power generates electricity using a broad mix of fuels: base-load cover is provided by lignite from the company's own open-cast mines and also by nuclear power in Germany, while middle and peak-load demands are met from coal, gas and renewables (mainly wind and hydro power). RWE Power produces 32 percent of total German electricity output, making it the largest generator.

RWE Power is also the world's largest producer of lignite, with production currently standing at around 108 million tonnes a year. More than 90 percent of production is used for generating electricity at company-owned power stations, while the rest is converted into briquettes and lignite coke.

Up to the end of 2005 the RWE Power-owned subsidiary Harpen AG (turnover in 2005: €43.4 million, workforce: 545) was responsible for managing our renewables and decentralised-energy operations. Beginning in 2006, RWE Power will retain responsibility for renewable energies, while decen-

tralised-energy operations will be transferred to RWE Energy. During the period under review Harpen expanded its renewables-based generating capacity to 303 megawatt (MW) in the reporting period. This includes the operation of wind power and hydro electric installations, mainly in southern Europe (France, Italy, Portugal and Spain). With a capacity to deliver some 1,600 MW<sub>th</sub> of thermal energy into the heating grid, the company has now become one of Germany's leading district-heat suppliers.

Under its parent company RWE Power, the focus of RWE Dea AG activities is the exploration and production of oil and natural gas. Facilities are located in the North Sea along the coast of Schleswig-Holstein, where Germany's largest oilfield – the Mittelplate – is located, and in Lower Saxony, between the rivers Elbe and Weser. The company also operates natural gas reservoirs in Bavaria. RWE Dea is additionally involved in exploration and production activities in Algeria, Denmark, Dubai, Egypt, Kazakhstan, Libya, Norway, Poland and the UK. In 2005 the company increased its gas production capacity by a total of nine percent to 2,353 million cubic metres (m<sup>3</sup>).

**RWE npower: UK market leader in wind power.** Our energy operations in the UK are in the hands of RWE Npower plc (formerly RWE Innogy), which is one of Britain's leading power producers (turnover in 2005: €6,382 million, workforce: 10,125). With a diversified portfolio of coal, gas and oil fired power stations RWE npower has a generating capacity of over MW 8,900. RWE npower also operates 16 gas-fired CHP installations for a number of industrial customers.

RWE npower is one of the UK's market leaders in renewables. The company operates, develops and manages wind farms with a total generating output of 267 MW, comprising 139 MW of own plant and 128 MW of fixed-contract generation capacity. In 2005 RWE npower accounted for an estimated 20 percent of the UK renewables market. The company is also responsible for the Group's gas operations in the UK. RWE npower supplies electricity to some 4.3 million households, businesses and industrial consumers and has another 2 million gas customers.

**RWE Energy: Europe's third-largest electricity supplier.** RWE Energy AG's core business is the transport, distribution and marketing of electricity and gas.

With some 395,000 km of overhead transmission lines RWE Energy is one of Europe's biggest private-sector carriers. The company now supplies electricity to approximately 15.8 million customers and on the basis of electricity sales RWE Energy is the third-largest power supply company in Europe

(turnover in 2005: €24,318 million, workforce: 37,600). Business operations are carried out by 12 regional management companies, of which 6 are located in Germany and 6 in continental Europe.

Legally independent companies are responsible for transporting electricity and gas. The takeover of the Czech company Transgas in 2002 made RWE Energy into one of the leading gas supply companies in Europe.

RWE Key Account, a new company founded in April 2005, belongs to RWE Energy. It provides industrial customers with integrated supply solutions as well as system and contracting services that were formerly offered by RWE Solutions. It also operates three CHP plants for chemicals companies. The Group parted with the production activities of RWE Solutions, which belongs to RWE Energy, during the period under review. As of 2006 RWE Energy has taken over the decentralized supply of energy from Harpen AG.

**RWE Trading: One of the leading European energy traders.** First set-up in the year 2000, RWE Trading AG has developed to become one of Europe's leading energy trading companies. RWE Trading is now represented at 11 international stock exchanges with an external sales base of €3,768 million and a workforce of 488 in 2005. The company's core business is trading in electricity – both physically and financially – and in energy derivatives, which provide a hedge against price risks, though it also has interests in gas, coal and oil. In mid-2002 the company successfully commenced trading in environmental certificates, which promises to be a lucrative market. The business includes trading Europe-wide in CO<sub>2</sub> emissions certificates, renewables certificates and weather derivatives.

### Power plant capacity of plants in 2005

Plant type	Number of sites	Capacity in MW (net)
Lignite	9	10,849
Hard coal	11	7,508
additional contract capacity available	10	6,487
Nuclear	3	6,308
Natural gas	33	7,096
of which own CCGT plants	18	1,836
Petroleum	2	1,484
Hydro (excl. pumped reservoir)	130	745
additional contract capacity available	4	135
Windparks	10	184
additional contract capacity available	15	263
Biomass	4	63
Other (excl. district heat)	4	80

## Portrait of our water activities



Further information can be found on the websites of the operating companies.

Our water activities, which are managed by RWE Thames Water, currently make us the world's third-largest private-sector water supply utility. It is our intention to pull out of the international water business by 2007, subject of the approval of the Supervisory Board, though we will be maintaining our interests in water supply services in continental Europe. These operations will be taken over by RWE Energy.

**The international water market.** With some 56 million customers in more than 12 countries RWE Thames Water plc is now the world's third-largest water services provider and is the market leader in the UK (turnover in 2005: €4,210 million, workforce: 16,306). The company offers both water supply and sewage treatment services and delivers an average of 15 million cubic metres (m<sup>3</sup>) a day to its customers – based on some 550 drinking water treatment plants and a water pipeline system totalling 150,000 km in length. RWE Thames Water also operates more than 650 sewage treatment plants, which handle some five million cubic metres of sewage a day, and manages a further 90,000 km of sewage drains.

RWE Thames Water also owns the UK water company Thames Water Utilities, which operates mainly in the Greater London area and in the adjacent Thames Valley, plus until end of 2005 the US-based water company American Water. It is responsible for supplying drinking water to more than 15 million customers in 27 American states and in four Canadian provinces. RWE Thames Water is currently selling its water supply business in Chile and also disposed of its holdings in Thailand during the review period.

### **The water market in continental Europe.**

Our water interests in mainland Europe include a majority shareholding in the Rhine-Westphalia water supply company RWW, which has some one million customers in the Ruhr area (Germany). We also have various minority holdings, including interests in the Berlin municipal waterworks and in other operations in Zagreb (Croatia) and Izmir (Turkey). We plan to sell our holdings in Pridesa, the Spanish-based manufacturer of sea-water desalination plants.

### Key characteristics of our water activities

Characteristics	US	UK	Germany
<b>Water price regulation</b>	<b>Yes:</b> State level regulation with different models	<b>Yes:</b> Central regulation by OFWAT	<b>No:</b> Political-democratic price control at municipal level
<b>Participation of private investors</b>	<b>Yes:</b> Equity investments in municipal entities and capital investment contracting schemes	<b>Yes:</b> Full privatization with 100% privatized companies	<b>Yes:</b> Equity investments in municipal entities and capital investment contracting schemes
<b>Private-sector involvement</b>	<b>100% private-sector shareholdings</b>	<b>100% private-sector:</b> No (partial) public ownership	<b>Private minorities</b> in municipal utilities and some 100% private companies
<b>Water &amp; sanitation service provision responsibility</b>	<b>Municipalities and districts:</b> Strongly driven by politics and local considerations	<b>Private-sector:</b> Under government licence	<b>Municipalities:</b> Strongly driven by politics and local considerations
<b>Degree of fragmentation</b> (population served per company)	<b>High:</b> Drinking water: 4,500 Wastewater : 12,000	<b>Low:</b> Drinking water: 1,000,000 Wastewater : 1,000,000	<b>High:</b> Drinking water: 6,000 companies/ municipalities Wastewater : 12,000
<b>Degree of privatization</b>	<b>Low:</b> Drinking water: 16% private customers Wastewater: 2% private customers	<b>High:</b> Fully privatized	<b>Low:</b> Drinking water: 41% of private customers served by private companies Wastewater: 14% private customers
<b>Development of privatization (until 2015)</b>	<b>Slowly increasing</b>	<b>Stable:</b> Not decreasing	<b>Slowly increasing</b>
<b>Competitive intensity</b>	<b>High:</b> Competition for outsourcing contracts/privatization	<b>Low:</b> Competition limited in the industrial sector and some outsourcing contracts	<b>High:</b> Competition for outsourcing contracts/privatization

## Key environmental data



The input-output data of the management companies is available on the Internet.

**Consolidated environmental data.** We have been collecting the environmental data presented below on a Group-wide basis since 2000. This is done using our Environmental Reporting and Information System (ERIS), which in recent years has progressively incorporated details from our subsidiary companies and other affiliates overseas. ERIS is used not just for logging the input/output data from our operating companies but also for monitoring their environmental management activities and associated environment programmes (cf. chapter “Strategy and Management”, page 14).

In the 2003 Report we attempted for the first time to consolidate the essential environmental data on a Group-wide basis and these figures are updated in the table below. Most of the RWE Group’s environmental impact can be attributed to energy supply operations. The impact of our water supply business, by comparison, is on a much smaller scale (less than one percent). The ecological problems facing both these sectors are quite different in nature and sep-

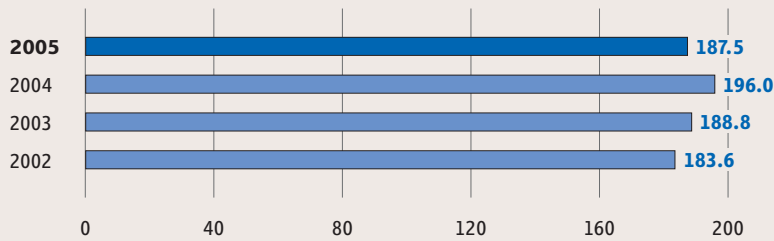
arate solutions are needed in each case. For this reason the specific parameters governing the environmental impact of our operations are presented separately below according to each supply sector.

**Acquisitions and disposals during the reporting period.** Since 2003 we have made the following changes to our power station contingent: the Niederaussem lignite-fired power station with optimised engineering (BoA system), which was commissioned in September 2002, completed its trials at the end of 2003. It has now been operating at normal duty – and trouble-free – since early 2004 and is producing over eight billion kilowatt-hours of electricity a year. In 2005 we dispensed with our Portuguese power station operations, which comprised one 800-megawatt gas-fired power station. In November 2005 RWE npower acquired the 420-megawatt CCGT power station at Great Yarmouth in the UK. There were no significant changes to the composition of RWE Thames Water during the reporting period.

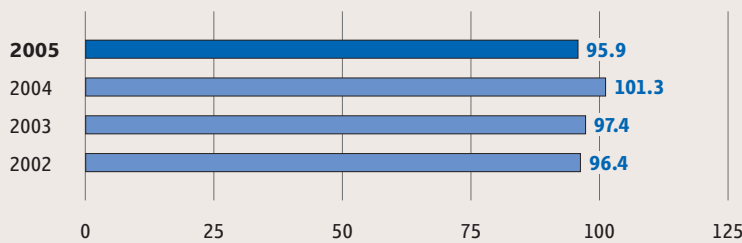
### Group environmental impact in thousand metric tonnes

	2005	2004	2003	2002
CO <sub>2</sub> emissions	149,900	151,927	155,787	149,814
SO <sub>2</sub> emissions	113	140	170	172
NO <sub>x</sub> emissions	138	142	158	145
Waste volume	8,765	7,589	7,533	7,291

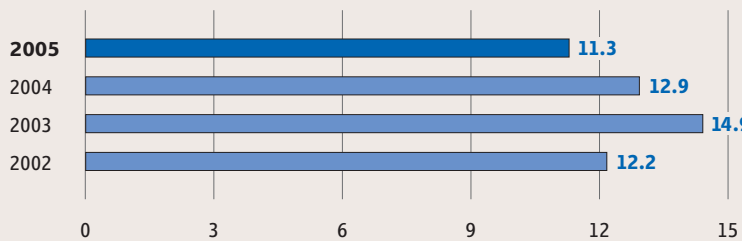
### Electricity volumes generated by RWE power plants in terawatt hours (TWh)



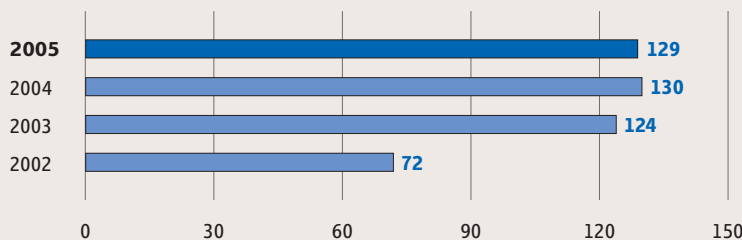
### Use of lignite in RWE power plants in million metric tonnes



### Use of hard coal in RWE power plants in million metric tonnes



### Use of nuclear fuel in RWE power plants in metric tonnes



### Environmental data for our energy activities

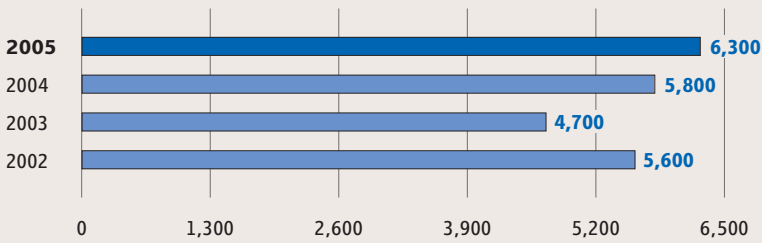
The figures below relate exclusively to our power station operations in Germany, the UK and Hungary. They do not include reference quantities and emissions for those installations where we have secured long-term generation contracts but where we have no control whatsoever over plant operations and environmental management. This line of demarcation is needed in order to ensure consistency with the CO<sub>2</sub> data ascribed to us under the National Allocation Plans. We have included all those installations that are consolidated in the Group's financial statement.

#### Generation, fuel inventory and emissions.

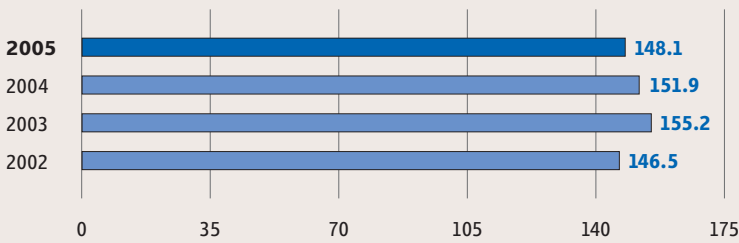
These parameters are mutually dependent and the actual figures recorded are also affected by the make-up of our power-station portfolio and by the availability of the individual installations. Conflicting developments during the reporting period 2004/2005 meant that no clear trend could be distinguished.

While electricity production from company-owned installations again increased in 2004, output fell in 2005 by nearly five percent. This was partly attributable to changes in the power-station sector. After completing its commissioning phase the new 1,000-megawatt lignite-fired BoA 1 generating unit has demonstrated a much improved level of availability. The resulting increase in production will have significant consequences for fuel input and CO<sub>2</sub> emissions in the lignite-fuelled generating sector.

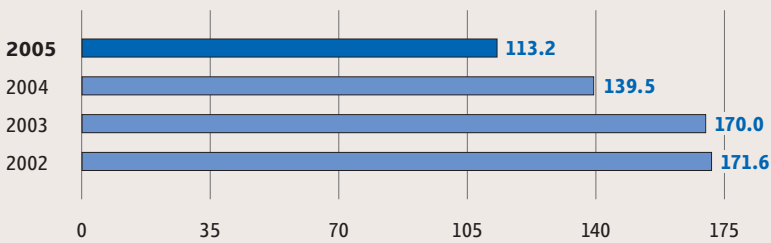
**Use of natural gas in RWE power plants**  
in million cubic metres



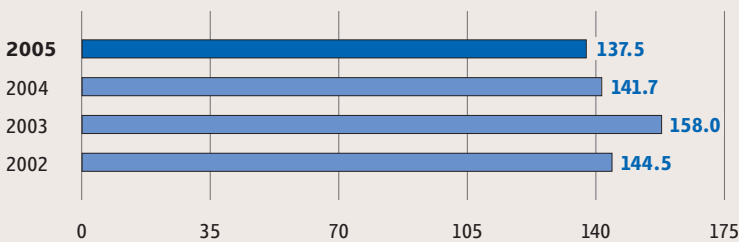
**CO<sub>2</sub> emissions from RWE power plants**  
in million metric tonnes



**SO<sub>2</sub> emissions from RWE power plants**  
in thousand metric tonnes



**NO<sub>x</sub> emissions from RWE power plants**  
in thousand metric tonnes



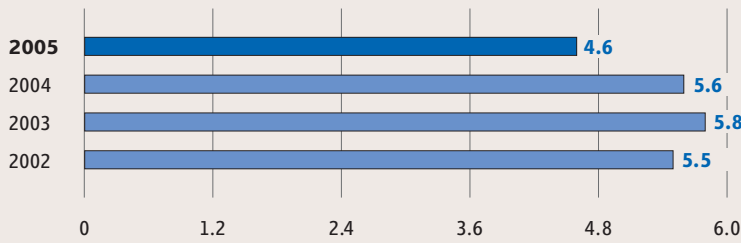
Because of the high price of CO<sub>2</sub> emissions certificates we took the decision, in 2005, to cut back somewhat on coal and lignite-based power generation at our German power stations. The upturn in electricity production in the UK in 2005 can be attributed to the increased output from hard coal power plants, whose profit margins are more attractive than those of gas-fired power plants.

The downturn in production from our nuclear installations during the reporting period can be attributed to the reduced availability of the generating stations: in 2004 unit C at Gundremmingen nuclear power station suffered generator damage, while in 2005 unit B at Biblis power station was shut down for several months for inspection.

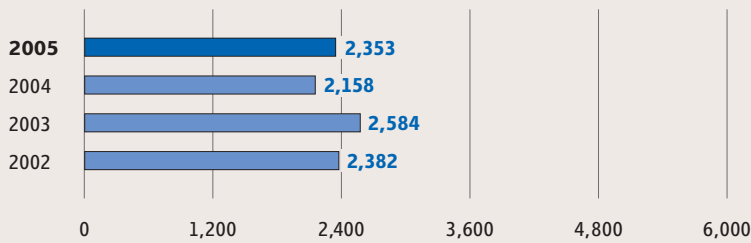
The consequence of these developments was that specific CO<sub>2</sub> emissions fell slightly to 0.808 tonnes of CO<sub>2</sub> per megawatt-hour. The output of SO<sub>2</sub> and NO<sub>x</sub> emissions also depends essentially on the same set of parameters. The increasing use of low-sulphur fuel in the UK has had a positive impact and further reductions in SO<sub>2</sub> emissions are anticipated once the new flue-gas desulphurisation plant comes on stream at Aberthaw power station in Wales.



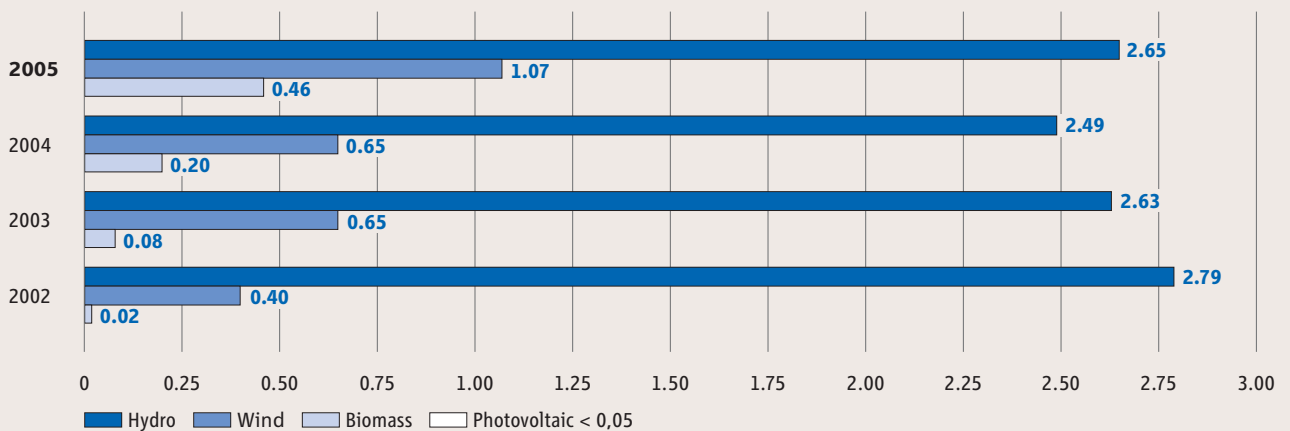
**Crude oil production**  
in million cubic metres



**Natural gas production**  
in million cubic metres



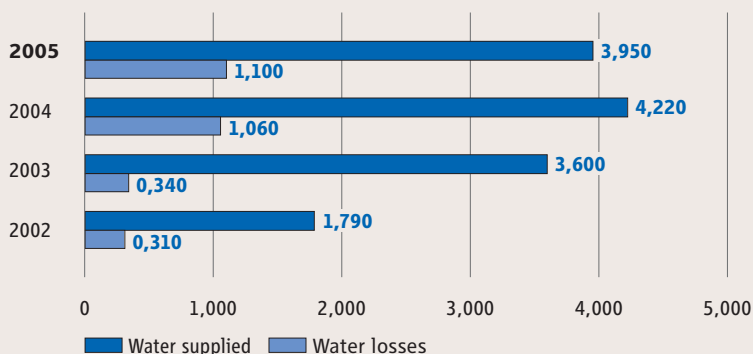
**Annual generation from renewables**  
in terawatt hours



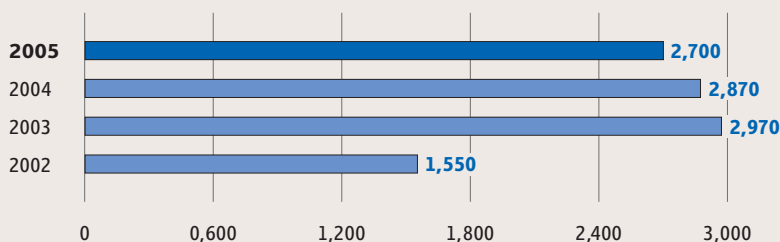
**Exploration.** Gas output has increased in 2005, while oil production has shown a downward trend. The latter development can be attributed in part to production stoppages at a drilling platform in Norway as well as to the planned reduction in oil production in Kazakhstan and the downturn in reserves.

**Renewable energies.** Hydro electric installations continue to provide a disproportionately large share of the total power output from renewable sources, though their performance is of course weather dependent. Because of the dry summers in 2003 and 2004 electricity production from hydro power stations was noticeably down. The increase in wind power capacity since 2002 can be attributed to the efforts made by RWE npower in the UK and the RWE Power subsidiary company Harpen, which has significant operations in Spain. Electricity production from biomass sources increased significantly as result of the efforts of RWE npower to boost the use of biofuels in conventional power plants.

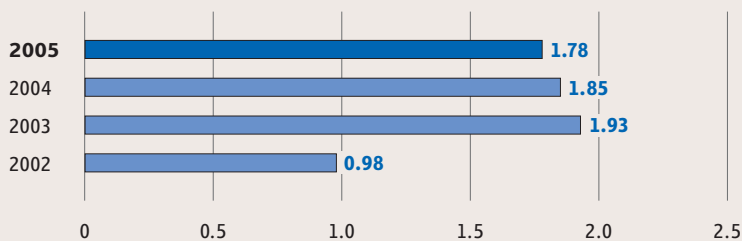
**Water supplied and water losses**  
in million cubic metres



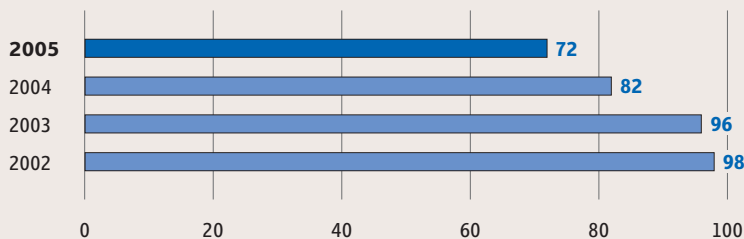
**Waste water treated**  
in million cubic metres



**CO<sub>2</sub> emissions from power generation and transport**  
in million metric tonnes



**Sewage sludge reuse**  
percentage



**Water business.** During the reporting period RWE Thames Water again increased the quantity of drinking water supplied to customers. However, 2005 was marked by a slight fall in water supplies, due primarily to the extremely dry weather that year – especially in the UK. As a result of this situation RWE Thames Water was obliged to launch a “save it” campaign to encourage its customers to adopt water saving measures.

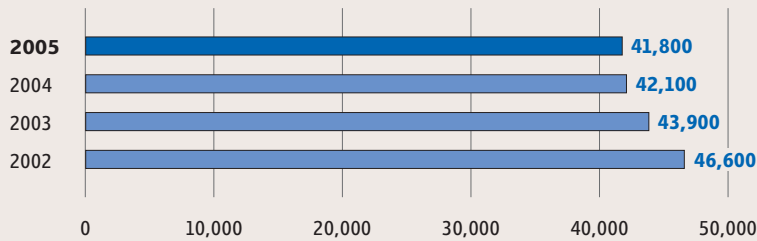
The figures for sewage and wastewater treatment reflect this trend. Unfortunately we have not been able to reduce the quantities of water lost through leakage. In fact, leakage loss has actually increased slightly as a proportion of water supplied.

Most of the energy consumed by the water industry is required for pumping operations and for water and wastewater treatment processes. Because of increasingly stringent quality requirements water treatment operations are now tending to consume increasing quantities of energy. Nevertheless, RWE Thames Water has been quite successful in its efforts to reduce CO<sub>2</sub> emissions, due in no small measure to the use of biogas and sewage sludge for energy generation.

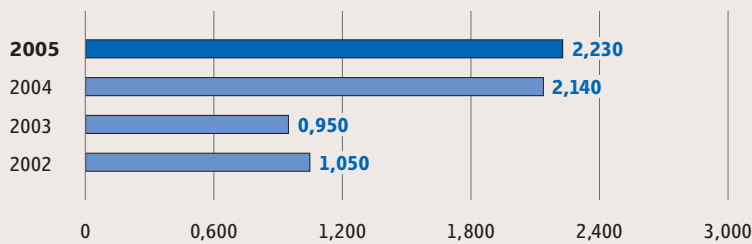
Sewage sludge residue is an important by-product of wastewater treatment and it is RWE Thames Water policy to recycle this material for use as a fertiliser or fuel source. In the UK RWE Thames Water recycles all its sewage sludge, whereas in Chile and in the USA this practice has not yet been adopted to the same extent. RWE Thames Water is now making great efforts to create a market in Chile for the disposal of treated sewage sludge so that the recycling quota can be increased.

## Key economic data

### External revenue of the RWE Group in € million



### Net income in € million



### Distribution of added value in € million

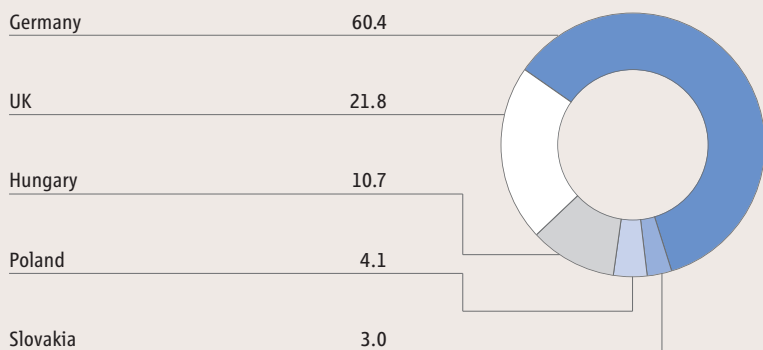
	2005	2004	2003	2002
<b>Added value</b>	<b>14,469</b>	<b>15,638</b>	<b>15,564</b>	<b>17,805</b>
<b>Distribution</b>				
To employees (wages, salaries, benefits)	5,370	6,122	7,530	7,527
To the government (taxes and duties)	2,522	2,662	2,291	4,513
To creditors	3,990	4,440	4,807	4,410
To minority interest	0,356	0,277	-0,017	0,305
Net income	2,231	2,137	0,953	1,050
thereof to shareholders	0,984	0,844	0,703	0,619

**Business development.** In 2005 the RWE Group recorded an operating profit of €2,231 million based on external sales amounting to €41,819 million. The downturn in sales as against previous years can be attributed primarily to the disposal of shares in Consol, Heidelberger Druck and Hochtief (2003) and in RWE Umwelt (2004).

**Distribution of real net output.** After deduction of material costs a total of €10,906 million in sales revenue was retained as real net output for the trading year 2005. Staff costs have continued to decline in recent years – due both to the disposal of several large holdings and to the ongoing efforts towards company streamlining. Interest costs have fallen dramatically as a result of the consistent reduction in debt levels.

RWE paid €1,010 million in taxes on income in 2005. Of this amount 60.5 percent was paid in Germany, 13.5 percent in Norway, 8.7 percent in the Czech Republic and 6.7 percent in the UK. The remaining 10.3 percent came from the US, Hungary and other states.

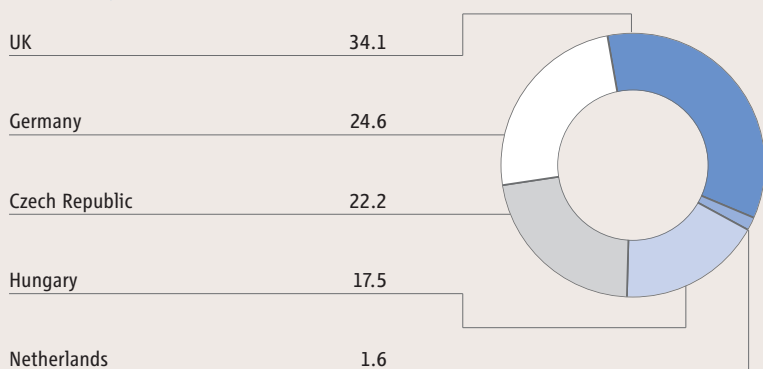
### Distribution of our customers in the electricity business percentage (31 Dec 2005)



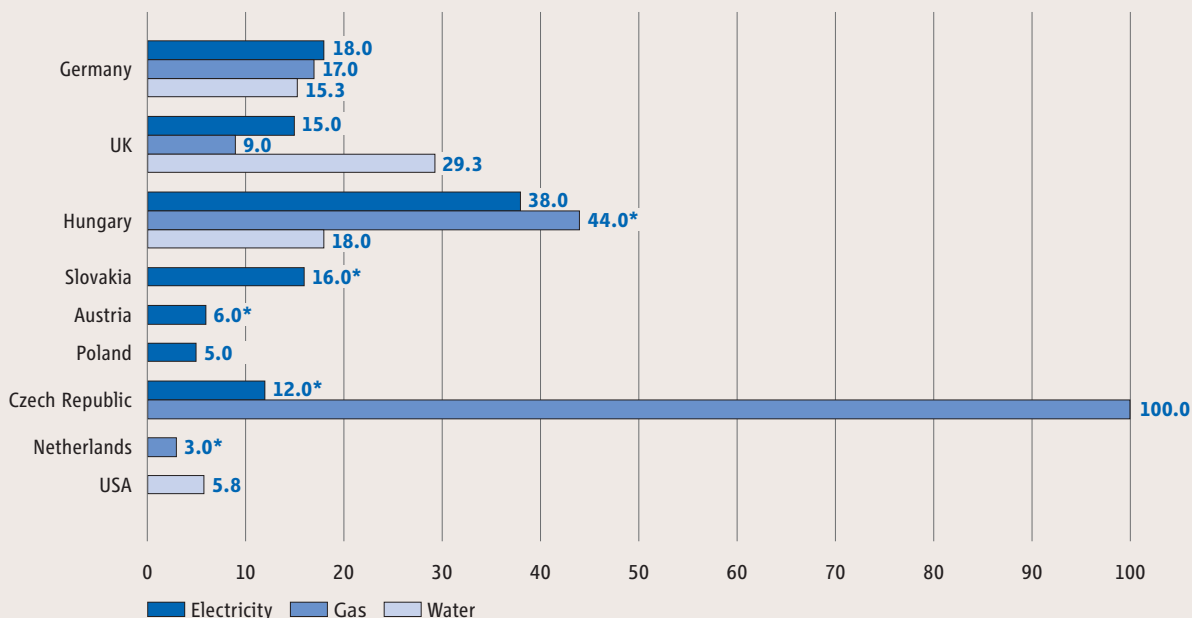
**Customer profile.** Some 60 percent of our electricity customers are based in Germany, which continues to be our most important market. Our gas division, on the other hand, has more customers in the UK as well as a sizeable consumer-base in the Czech Republic. Central and eastern Europe will continue to be a promising growth market for the company in the years ahead.

We remain the largest private water utility in the UK and in the USA, although we have now pulled out of some markets – including China. We have also started to dispose of our interests in Chile.

### Distribution of our customers in the gas business percentage (31 Dec 2005)

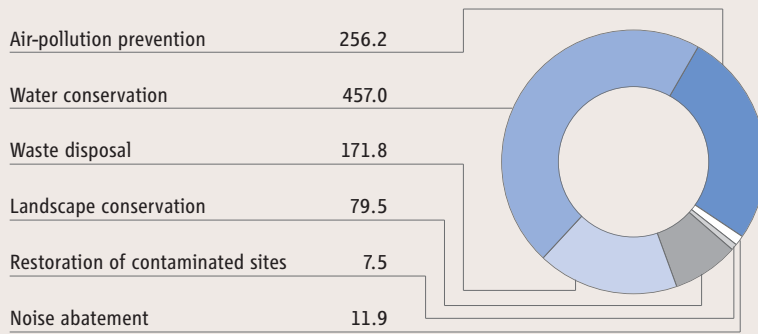


### National market shares in 2005 percentage

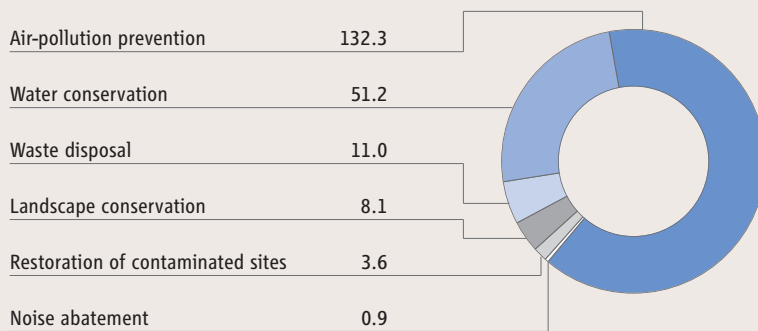


\* Including investments > 20%

### Expenses for environmental protection by area in 2005 in € million



### Investments in environmental protection by area in 2005 in € million



**Supplier relations.** Although we do not have statistics for reviewing our supply chain management efforts over the years, we nevertheless want to present the main supplier data for 2005, since we consider that this information is becoming increasingly important for sustainable development within the Group (cf. chapter “Marketplace”, page 51).

Over 68 percent of the costs for materials in 2005 (a total of €24,500 million) were incurred for electricity and gas supplied by third parties, fees for using the grids of other companies, mineral oil, heating oil and natural gas taxes as well as other expenses that do not directly involve the supply of goods or services. We have left aside these expenses from the Supply Chain Management.

**Environmental costs.** In the financial year 2005 the RWE Group as a whole spent €984 million on environmental services, which includes the operation of pollution control systems, the deployment of environmental protection staff and the payment of external charges and fees. Most of the charges for water pollution prevention were incurred by RWE Thames Water, primarily in the area of wastewater treatment. The operation of flue-gas desulphurisation systems to reduce air pollution continues to be a significant cost item, as does waste disposal. The cost of restoring contaminated sites is now on a downward trend, as the RWE Group no longer has any major redevelopment projects of this kind to deal with.

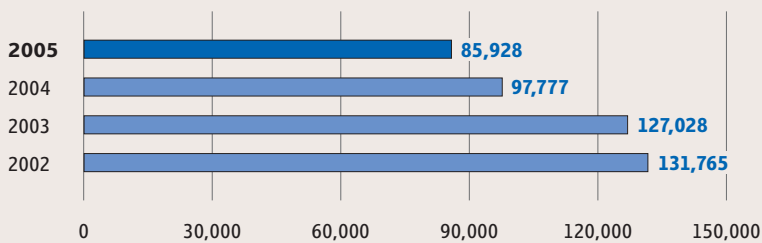
Spending on new pollution control technology (downstream systems) totalled €207 million in 2005. Wastewater treatment plants in particular require ongoing investment. This cost item also includes expenditure on flue-gas desulphurisation equipment, with construction work now having begun on a new FGD plant at Aberthaw power station in Wales.

The remaining 32 percent essentially comprises fuel, merchandise and outside supplies and services. With the exception of the fuels, RWE purchases the majority of these items either directly from other power generation companies in Germany and the UK or from international partners.

A figure of €4,400 million, or ten percent of RWE’s sales revenue, can be allocated to other miscellaneous material costs, mainly comprising capital equipment and commodities. RWE procures these items for the most part from OECD countries, where it can be assumed that manufacturers are abiding by certain ecological and social standards.

## Key social data

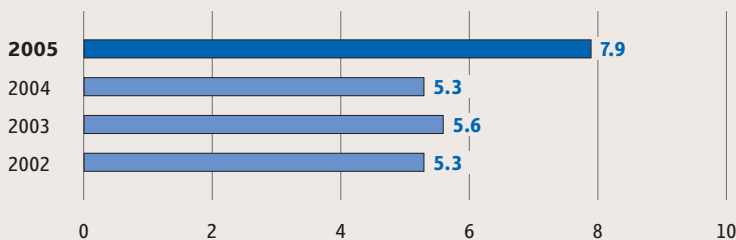
### Workforce in employee equivalents



### Workforce by region in employee equivalents

	2005	2004	2003	2002
Germany	43,579	55,407	59,504	62,688
UK	16,847	15,881	15,814	16,960
Other European countries	15,698	16,276	18,424	17,572
USA and Canada	7,115	7,335	7,895	7,807
Other	2,689	2,878	3,355	3,278

### Proportion of women in senior management percentage

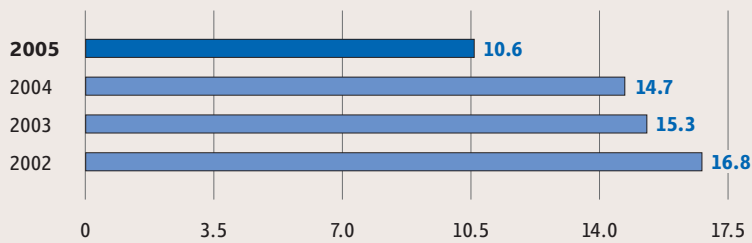


**Workforce.** Our workforce has continued to decline in size in recent years due mainly to the deconsolidation of our affiliate companies Consol, Heidelberger Druckmaschinen, Hochtief and RWE Umwelt. Downsizing can also be attributed – albeit to a much smaller degree – to restructuring within the RWE Group and to various rationalisation programmes.

**Social provisions.** As we do not yet have a valid statistical database for the Group's social welfare provisions we can do no more than present a qualitative review of the current situation: all our employees in Europe, the USA and Canada are normally protected by a sickness insurance and retirement pension scheme. This means that about 95 per cent of our total workforce has access to these provisions. The basic level of protection provided will vary from country to country, depending on the statutory requirements in place.

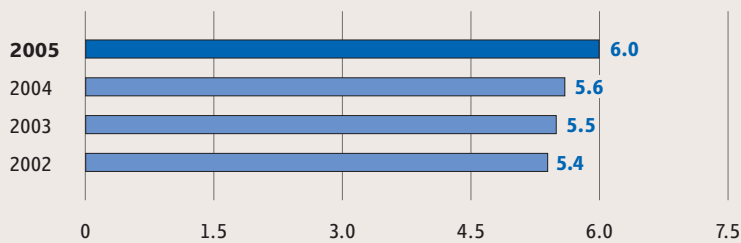
**Equal opportunities.** According to the Group-wide standardised grading system RWE currently has a management and executive staff of some 1,100 persons. In 2005 female members of staff made up 7.9 per cent of this category, which represented an increase of almost 50 per cent from the year 2002. In 2005 our female employees accounted for 23.4 per cent of the total workforce of the RWE Group.

### Accident rate\* per thousand employees

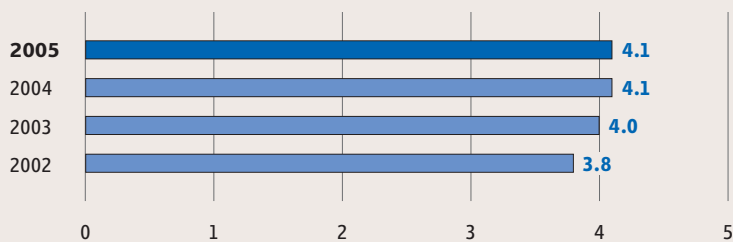


\* Subject to registration according to national criteria

### Ratio of trainees in Germany percentage



### Ratio of employees with disabilities in Germany percentage



**Health and safety.** We have also been successful in reducing the number of notifiable accidents per thousand employees. The deconsolidation of RWE Umwelt, a business segment with a relatively high accident rate, did of course contribute towards this positive result. However, the downward trend was already well established prior to this: notifiable accidents fell from 16.8 per thousand employees in 2002 to the current figure of 10.6 per thousand. Germany is unique in this respect in that its accident figures also include incidents occurring en route to the workplace.

**Trainees.** By providing training places we hope that we are contributing towards reducing youth unemployment. In Germany apprenticeship places are particularly important because of the formalised arrangements for industrial training and its significance for a person's career. As the other countries in which we operate have no comparable system in place, we present here only the figures as they apply to Germany. While the number of training places has actually fallen in absolute terms, because of Group deconsolidation, the trainee ratio has in fact increased continuously over the years.

**Careers for disabled persons.** Disabled persons must also have opportunities to develop their talents and capabilities in the course of their working life. Companies operating in Germany are therefore required to make five percent of their employment opportunities available to handicapped and disabled persons. RWE, like most German companies, falls below this threshold and is taxed accordingly.

It is not possible to produce a similar survey for the UK, where it is left up to employees to register their level of disability with their employer. The disabled-persons quota therefore relates exclusively to RWE operations at German-based sites, where the ratio currently stands at 4.1 percent - an increase of 2.5 percent from the 2003 figure.

# Our sustainability programme



The environment and CR programmes of RWE operating companies will be available on the Internet.

The present report details Group developments in the six sustainability areas for action (cf. chapter "Group portrait", page 6/7) during the 2004/2005 period. Here it can be reported that we have in essence achieved all the objectives we set ourselves. Some of these actions will require further effort in the years ahead and we will also have to deal with a number of issues that have newly appeared on the horizon.

**Climate protection.** The issue of climate protection has grown in significance over the course of the last two years. Recent objectives have now been achieved and can be put behind us. RWE has been intensively engaged in procuring CO<sub>2</sub> emission permits and in conjunction with this has given the go-ahead for a number of new high-efficiency power stations. The company's future remit is now to implement its ambitious programme of climate protection measures.

**Social responsibility.** Here too we have achieved our targets. Thanks to our sponsoring strategy we are moving away from a collection of individual measures and towards a targeted approach. The voluntary-based social commitment that has become firmly established in the UK is now being extended throughout Germany. Demographic development has come very much to the fore and we expect much greater focus on this area in the coming years.

**Sustainability management.** By extending the responsibilities of the Coordination Committee to include Corporate Responsibility we have succeeded in establishing sustainability management firmly in our corporate strategy. By introducing a code of conduct we have brought our corporate practices into line with the most progressive international standards. The code of conduct also

provides us with the stimulus we need to include sustainability criteria in our supplier management strategy.

Our sustainability strategy is based on experience acquired from 2003. This is to be revised in 2006. We also intend to develop performance indicators that will allow us to firm-up our control of the sustainability management process.

**Stakeholder dialogue.** We have extended our dialogue with external stakeholders on a number of levels and we intend in future to investigate how external stakeholders can be increasingly incorporated into RWE projects.

The stakeholder dialogue policy has also seen our first Group-wide employee survey, which was carried out during the review period. We propose to continue with this poll, as it is an important element in our personnel management system.

**Efficient use of resources.** Greater effort is now being focussed in-house on the recording and classification of the Group's environmental costs; legislative changes mean that further action is needed in this area. However, we believe that our biggest challenge lies in the contribution we can make towards climate protection. Here the RWE Group intends to develop a unified approach to providing clients with support and advice on the efficient use of energy.

**Nature conservation and landscape protection.** The activities of our operating companies are governed by national performance targets and by various operational requirements. Decisions on nature conservation and landscape protection will therefore continue, as far as possible, to be made at operating-company level.



Key issues	Deadline	Status/commentary
<b>Climate protection</b>		
Prepare for emissions trading	12/04	Completed and fully-fledged emissions trading established
Decide to invest in further power plant renewal	12/04	Decision to build 2,100 MW of lignite-fired and 1,500 MW of hard-coal-fired capacity was taken in 2005, to be commissioned until 2012
Prepare an inventory for greenhouse gas emissions not yet covered by the emissions trading scheme	12/04	Done in 2004; with approx. 1.5 million tonnes amounting to some 1% of total emissions
Test JI/CDM mechanisms within the scope of the Prototype Carbon Fund and e7	Ongoing	Project extended to all JI/CDM options through PCF and e7
Develop new technologies to improve efficiencies of coal power plants	2009	Construction of prototype plant for fluidised-bed drying of lignite was started in new high-temperature materials are being tested
Develop a carbon-neutral coal power plant	2013	Development project started in March 2006
Expand wind power capacity by approx. 100 MW/year	2010	Budget included in medium-term planning
<b>Social responsibility</b>		
Develop a groupwide strategy for sponsoring activities	12/04	Sponsorship strategy adopted in 2005, step-by-step integration into retail activities
Try new forms of social commitment, e.g. by encouraging employees to become involved in volunteering	12/05	Established in the UK, pilot projects in Germany, pilot projects to be extended into a Group-wide programme by 12/07
Advance international cooperation between employees and management	Ongoing	Organisational platform created by establishing the European Water, Energy and Power Forums
Develop a strategy to address demographic change	12/07	Foreseeable development and effects analysed
Improve work-life balance	12/08	"Work-life balance" audit initiated
<b>Sustainability management</b>		
Include sustainability aspects into the Corporate Directive on Environmental Management	12/04	Postponed in order to gain more experience in Group-wide CR coordination; CR Coordination Committee and CR Representatives established
Reconciliation of corporate rules and policies with international requirements of responsible corporate governance	06/05	Full compliance with German Corporate Governance rules; Code of Conduct introduced
Develop Code of Conduct applicable across the Group	12/05	Code of Conduct adopted and introduced in 2005
Include sustainability aspects in internal reporting (ERIS)	12/05	Partially completed, will be continued until 12/07
Introduce a system of key indicators for controlling sustainable development	12/05	Key indicators partially incorporated into reporting; will be continued in connection with the review of the focal areas of action
Introduce a Group-wide audit system for compliance with environmental legislation	12/04	Completed: Group-wide workshop in 2004; Audit Policy adopted in 2005; verification within the scope of internal audits
Apply sustainability criteria to the chain of suppliers	12/04	Included in the Code of Conduct; projects for implementation in procurement processes initiated
Re-assess the focal areas of action for a sustainable development and derive appropriate indicators for controlling and monitoring purposes	2007	Planning of a workshop initiated
Extend Group-wide coordination in the field of occupational health and safety	2008	Comparison of key indicators and procedures initiated in 2005
<b>Stakeholder dialogue</b>		
Analyse existing stakeholder relationships throughout the Group	06/04	Study prepared in 2004; continuous monitoring via Issue Management and internal energy and environmental policy network
Create an institutionalised continuous stakeholder dialogue	As from 06/04	Established in the UK, dialogue extended in Germany; integration of stakeholders into development processes to be tested until 12/07
Record and analyse results	Ongoing	Evaluation of market analyses and discussion forums
Continue Group-wide staff survey	Ongoing	First survey was conducted in 2005; next survey scheduled for 2007
Develop specific reporting criteria for the electricity industry	12/07	Collaboration with the GRI in the development of an Energy Utilities Sector Supplement assured; project scheduled to start in 6/2006
<b>Efficient use of resources</b>		
Improve recording and allocation of environmental costs	12/01	Groupwide harmonisation in the recording of environmental costs initiated; environmental officers involved in the controlling of environmental costs; new legislation taken into account
Identify best practices within the Group and in the cooperation with customers	12/04	Groupwide working party established in 2005; prepare a brochure with best practice examples in 2006
Apply results at a Group-wide level	12/05	Development of a concept for extensive support to our customers in using energy efficiently not scheduled before 2006
<b>Nature conservation and landscape protection</b>		
Identify best practices throughout the Group	12/04	Best practice examples published on the Internet
Derive Group-wide standards	12/05	Will not be further pursued since there are only very few synergies between the operating companies because of different operating activities.

## Companies included in this report\*

(At 31 December 2005: Coverage of the environmental management: 90.5 percent of employees)

### RWE Power

RWE Power Aktiengesellschaft, Essen/Germany  
Kernkraftwerk Gundremmingen GmbH,  
Gundremmingen/Germany  
Kernkraftwerk Lippe-Ems GmbH, Lingen/Germany  
Kraftwerk Ibbenbüren Betriebsgesellschaft mbH,  
Ibbenbüren/Germany  
Mátrai Erőmű Részvénytársaság (MÁTRA), Visonta/  
Hungary  
STEAG und RWE Power Gemeinschaftskraftwerk  
Bergkamen OHG, Bergkamen/Germany  
TE Plomin, d.o.o., Plomin/Croatia\*\*  
Turbogas Produtora Energietica S.A., Lisbon/Portugal  
VEW-Harpen Kraftwerk Werne OHG, Werne/Germany  
Harpen Aktiengesellschaft, Dortmund/Germany  
Agrupacion de Energias Renovables S.A., Barcelona/  
Spain  
EKT GmbH, Berlin/Germany  
Energies France SAS, Paris/France  
Harpen CR s.r.o., Prague/Czech Republic  
Harpen Italia Sp.A., Milan/Italy  
Harpen Polska z.o.o., Wroclaw/Poland  
Harpener Portuguesa SGPS, Lda, Estoril/Portugal  
HEC GmbH, Dortmund/Germany  
RWE Dea Aktiengesellschaft, Hamburg/Germany  
RWE Trading GmbH, Essen/Germany

### RWE Energy

RWE Energy Aktiengesellschaft, Dortmund/Germany  
Budapesti Elektromos Művek Rt (ELMÜ), Budapest/  
Hungary  
Emscher Lippe Energie GmbH, Gelsenkirchen/  
Germany  
envia Mitteldeutsche Energie AG, Chemnitz/Germany  
Észak-magyarországi Áramszolgáltató Rt. (ÉMÁSZ),  
Miskolc/Hungary  
EWV Energie- und Wasser-Versorgung GmbH,  
Stolberg/Germany  
Jihomoravská plynárenská a.s., Brno/Czech Republic  
Koblenzer Elektrizitätswerk und Verkehrs-AG,  
Koblenz/Germany  
Lechwerke Aktiengesellschaft, Augsburg/Germany  
MITGAS Mitteldeutsche Gasversorgung GmbH,  
Halle/Germany  
RWE Energy Beteiligungsgesellschaft mbH, Dortmund/  
Germany  
RWE Obragas N.V., Helmond/Netherlands  
RWE Rhein-Ruhr Aktiengesellschaft, Essen/Germany  
RWE Transgas a.s., Prague/Czech Republic  
RWE Transportnetz Gas GmbH, Dortmund/Germany  
RWE Transportnetz Strom GmbH, Dortmund/  
Germany  
RWE Westfalen-Weser-Ems Aktiengesellschaft,  
Dortmund/Germany

\* Investments of more than 50 percent are fully consolidated

\*\* Only 50 percent included

RWW Rheinisch-Westfälische Wasserwerksgesellschaft mbH, Mülheim/Germany	SAG Dandl GmbH, Boos/Germany
STOEN S.A., Warsaw/Poland	SAG Energietechnik GmbH, Vienna/Austria
Süwag Energie AG, Frankfurt am Main/Germany	SAG Energieversorgungslösungen GmbH, Frankfurt am Main/Germany
Thyssengas GmbH, Duisburg/Germany	SAG Montagegesellschaft mbH, Berlin/Germany
VSE Aktiengesellschaft, Saarbrücken/Germany	SAG Netz- und Energietechnik GmbH, Langen/Germany
RWE Solutions Aktiengesellschaft, Neuisenburg/Germany	Strüder Rohr-, Regel- und Meßanlagen GmbH, Schneeberg/Germany
BLS Berliner Licht- und Signaltechnik GmbH, Berlin/Germany	STT Société Technique des Travaux SA, Ecrouves/France
Elbud Gdansk Holding S.A., Gdansk/Poland	TESSAG Hungaria Kft., Budapest/Hungary
Entreprise d' Elec. Thépault S.A., Jouy-aux-Arches/France	Turbo Service GmbH, Duisburg/Germany
Enterprise Lestrade E.U.R.L., Dun-le-Palestel/France	VIGILEC S.A., Saint-Pourcain-sur-Sioule/France
Erwin Peters GmbH, Hamburg/Germany	<b>RWE npower</b>
Fahrleitungsbau GmbH, Essen/Germany	RWE npower plc, Swindon/UK
IDS GmbH, Ettlingen/Germany	<b>RWE Thames Water</b>
NIS Ingenieurgesellschaft mbH, Hanau/Germany	RWE Thames Water plc, London/UK
RGB Strüder GmbH, Schneeberg/Germany	American Water Works Company Inc., Wilmington/USA
RWE EMG spol sro, Plzen/Czech Republic	Elizabethtown Corporation Inc., Westfield/USA
RWE Industrie-Lösungen GmbH, Duisburg/Germany	Engenica Ltd, London/UK
RWE NUKEM GmbH, Alzenau/Germany	IzmitSu AS, Izmit/Turkey
RWE NUKEM Inc., Danbury/USA	PRIDESA S.A., Madrid/Spain
RWE NUKEM Ltd, Risley/UK	Stirling Water, Edinburgh/UK
RWE Solutions Austria GmbH, Vienna/Austria	Thames Pam Jaya, Jakarta/Indonesia
RWE Solutions Beteiligungsgesellschaft mbH, Alzenau/Germany	Thames Water Chile Limitada, Santiago/Chile
RWE Solutions Netherland B.V., Schiedam/Netherlands	Thames Water International Ltd, Bangkok/Thailand
RWE Solutions UK Ltd, London/UK	RWE Systems Aktiengesellschaft, Dortmund/Germany
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28 February 2006

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[www.rwe.com](http://www.rwe.com) > RWE Group > Press > Media center  
[www.rwe.com](http://www.rwe.com) > RWE Group > Responsibility > Dialogue > Reports and brochures

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## Index according to GRI (explanations)

- 3.5 Linkage between executive compensation and achievement of the company's sustainability goals:  
Our sustainability strategy is closely linked to our corporate strategy. As a result, the remuneration of RWE Executive Board members is indirectly connected with target achievement in the field of sustainability. RWE npower has even explicitly associated the achievement of sustainability targets with remuneration.
- 3.8 Shareholder recommendations to the Executive Board  
Every shareholder is entitled to put forward suggestions at the Annual General Meeting. We also consider recommendations by investors and shareholders in connection with the analysis of ratings and rankings.
- 3.9 Identification of stakeholders  
In our first CR Report 2003, page 9, we gave an account of our comprehensive stakeholder analysis involving a study of our most important stakeholders. This study remains valid.
- EC4 Contracts paid in accordance with agreed terms.  
As a rule, RWE pays invoices within a period of 90 days.
- EC9 Government funding/subsidies by country  
RWE does not receive any direct government funding or subsidies for energy generation or water supply and water treatment. Neither does RWE benefit from subsidies when selecting the locations of power plants or other installations.
- EN2 Utilisation of waste materials  
The majority of waste produced by RWE consists of ashes from power plants and gypsum from flue-gas desulphurisation plants. The ashes are either incorporated into opencast lignite mines or landfilled. Most of the gypsum is recycled.
- EN3 Direct energy use (segmented by primary source)  
Direct energy is predominantly used for power plants and opencast mining operations. Energy demand is met by our own generation capacities.
- EN12 Significant discharges to water by type  
RWE mainly discharges cooling water which is chemically and biologically unpolluted.
- LA3 Percentage of employees (broken down geographically) represented by trade unions or by collective bargaining agreements  
All employees enjoy the right to unionise or form works councils. The establishment of the European Forums for Water, Energy and Power, plus the agreement with the US Utilities Workers Union guarantee implementation.
- LA7 Injuries, absentee rates and number of work-related fatalities  
Annual fatalities in the RWE Group have always been below ten. A trend cannot be derived from this figure.
- LA8 Principles and programmes on HIV/AIDS  
This aspect is relatively insignificant for RWE since the company does not employ people in countries with high HIV infection rates. Nevertheless, RWE joined the "Global Business Coalition" in October 2003, which is an association of more than 70 leading international companies for the fight against AIDS.
- LA9 Training hours by employee category  
Currently, no suitable data is available for this aspect.
- HR1 Principles/policies on monitoring human rights  
In the Code of Conduct adopted in 2005, RWE subscribes to the principles of the Global Compact and consequently to the protection of internationally recognised human rights. This is valid within the Company and also applies to our chain of suppliers. As a result, RWE does not maintain any business relationships with suppliers who are known to violate of principles of the Global Compact.
- HR2 Consideration pertaining to investments and procurement  
(cp. comments on HR 1)
- HR3 Principles/policies in respect of the supply chain  
(cp. comments on HR 1)
- HR6 Principles/measures related to the prevention of child labour  
(cp. comments on HR 1)
- HR7 Principles/measures related to the prevention of forced labour  
(cp. comments on HR 1)
- PR1 Principles related to health and safety of customers  
Our main products electricity, gas and water do not represent risks that go beyond what is considered to be socially accepted.
- PR3 Principles/measures related to consumer privacy  
Our customers/final consumers are almost exclusively based in OECD countries. In these countries, strict statutory consumer privacy rules are generally applicable, which RWE complies with.

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AR = Annual Report 2005

PR = Personnel Report 2005

# Auditor's report



The Executive Board of RWE Aktiengesellschaft commissioned PricewaterhouseCoopers Aktiengesellschaft WPG to review the Corporate Responsibility Report 2005 of RWE Group. The report covers the period from 1 January 2004 to 31 December 2005 and was prepared in accordance with the reporting standard criteria issued by the Global Reporting Initiative (2002).

The responsibility for proper sustainability management at the various levels of the Group and for the correct preparation of the sustainability report lies solely with the Executive Board of RWE Aktiengesellschaft and the Executive Boards of the subsidiaries.

We conducted our audit in accordance with the auditing standard "Principles for the Proper Execution of Sustainability Report Audits" (IDW EPS 821) of the German Institute of Certified Public Accountants (Institut der Wirtschaftsprüfer in Deutschland e.V.). Moreover, we applied the standard AA 1000 AS (2003) and the standard of the Global Reporting Initiative (August 2003), as applicable.

IDW EPS 821 requires that the audit is planned and executed such that a confident judgement can be made on whether the data in the report are essentially complete, appropriate, correct, as well as clear and comprehensible. Within the scope of the audit, the effectiveness of the underlying information systems as well as the evidence supporting the data published in the report are primarily evaluated on a spot-check basis. We believe that our audit provides a reasonably sound foundation for our opinion. In accordance with the scope of the audit the following opinion refers solely to the printed German version of the report.

During our audit, we did not become aware of any circumstances or facts leading to objections. In all essential matters, the information audited is in

compliance with our auditing standards in terms of accuracy, materiality and completeness.

In our audit, we were able to benefit from the work of the Internal Auditing Department of RWE Aktiengesellschaft which had audited the data provision processes of RWE Power and RWE Energy for the Corporate Responsibility Report during the period under review. In addition, we were able to draw upon two Corporate Responsibility Reports of RWE npower and RWE Thames Water already audited by Enviro Ltd.

During the period under review, RWE Aktiengesellschaft initiated several major change processes concerning corporate responsibility; these include the development of a climate protection strategy, the adoption of the Code of Conduct, the establishment of the CR Coordination Committee, and the project on CR Supply Chain Management. We also appreciated the quality of the dialogue between the stakeholders and the company – and specifically the talks held with critical NGOs.

We, nevertheless, observed in individual cases that the change processes initiated had not been consistently implemented in day-to-day operations. We therefore recommend to continue further implementation of the measures initiated and to especially review their effectiveness systematically and on a regular basis.

PricewaterhouseCoopers Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Bernd Saitz  
Wirtschaftsprüfer

Dieter Horst

Frankfurt am Main, 22 March 2006



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