January to March

Report on the first quarter of 2006

- Group operating result up 16 %
- Net income rises by 7 %
- Net financial debt reduced to €9.4 billion
- Construction of the world's first large-scale, CO_2-free, coal-fired power plant planned

At a glance

RWE Group—Key figures		Jan–Mar 2006	Jan–Mar 2005	+/– in %	Jan–Dec 2005
External revenue	€ million	13,807	11,020	25.3	41,819
Germany	€ million	7,440	6,174	20.5	23,038
Outside Germany	€ million	6,367	4,846	31.4	18,781
EBITDA	€ million	2,768	2,427	14.1	8,324
Operating result	€ million	2,256	1,950	15.7	6,201
Income from continuing operations before tax[1]	€ million	1,609	1,506	6.8	3,696
Net income	€ million	1,048	975	7.5	2,231
Earnings per share	€	1.86	1.73	7.5	3.97
Cash flows from operating activities	€ million	1,335	1,549	–13.8	5,304
Capital expenditure	€ million	730	695	5.0	4,143
Property, plant and equipment	€ million	720	632	13.9	3,667
Financial assets	€ million	10	63	–84.1	476
Free cash flow[2]	€ million	615	917	–32.9	1,637
		03/31/06	12/31/05		
Net financial debt	€ million	9,448	11,438	–17.4	
Workforce[3]		85,406	85,928	–0.6	

1 Prior-year figures restated (see comments on pages 14 and 41).
2 Cash flows from operating activities minus capital expenditure on property, plant and equipment.
3 Full time equivalent.

»Indicators are favourable for 2006, although the risks stemming from grid regulation cannot yet be fully assessed.«

Dear Investors,

The new fiscal year is off to a good start, as reflected by the key figures for the first quarter, some of which were considerably better than last year. Nevertheless, due to one-off effects, the first quarter results should not be seen as representative of performance for the year as a whole. All in all, we are confident about the prospects for the rest of the year, as explained in the outlook on pages 29 to 32. Our power generation activities in Germany continue to be the key factor behind the anticipated increase in earnings. While the unexpected collapse in prices for CO_2 emissions certificates resulted in a decline in wholesale electricity prices, the impact of this development on this year's result will be limited, as we had already sold forward most of our electricity production. On the other hand, we have identified factors that could represent risks to our electricity and gas grid activities in Germany: the regulatory authority is planning significant changes, some of which are questionable from a legal point of view. The impact of these changes cannot yet be determined. Despite this, we confirm our earnings forecast for the year, unless the negative effect of these changes is considerably greater than we currently anticipate. We will present information on the latest developments in the report on the first half of 2006.

The following is a summary of key facts and figures for the first quarter:

- The operating result improved by 16 %, with the strongest growth registered at RWE Power and RWE Energy. The unusually long, cold winter resulted in significant one-off effects. RWE npower's results were lower year-on-year, due to special effects, but it should be possible to make up this ground in the coming quarters. The water business closed the quarter slightly up on the previous year's corresponding level.
- Net income increased by 7 %, with the robust development of operating results offset by declines in the non-operating and financial results.
- Net debt declined to € 9.4 billion, a new low.

Furthermore, the starting shot was fired for an important large-scale project in the first quarter. We plan to build the world's first large-scale, CO_2-free, coal-fired power plant, underscoring our leadership role in technological progress in the utility sector.

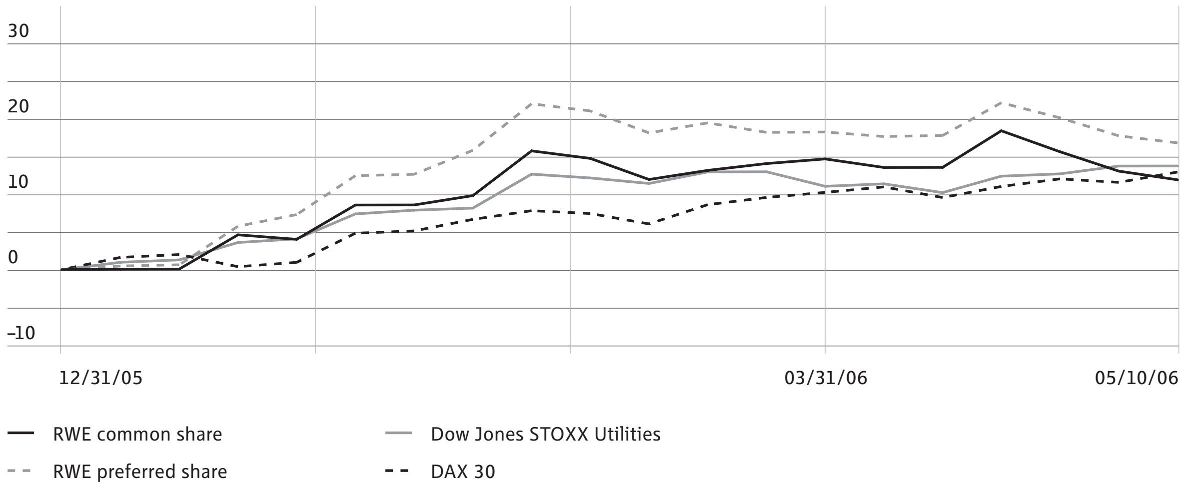
Sincerely yours

H. J. M. Roels
CEO of RWE AG

Essen, May 2006

RWE shares close Q1 with double-digit gain

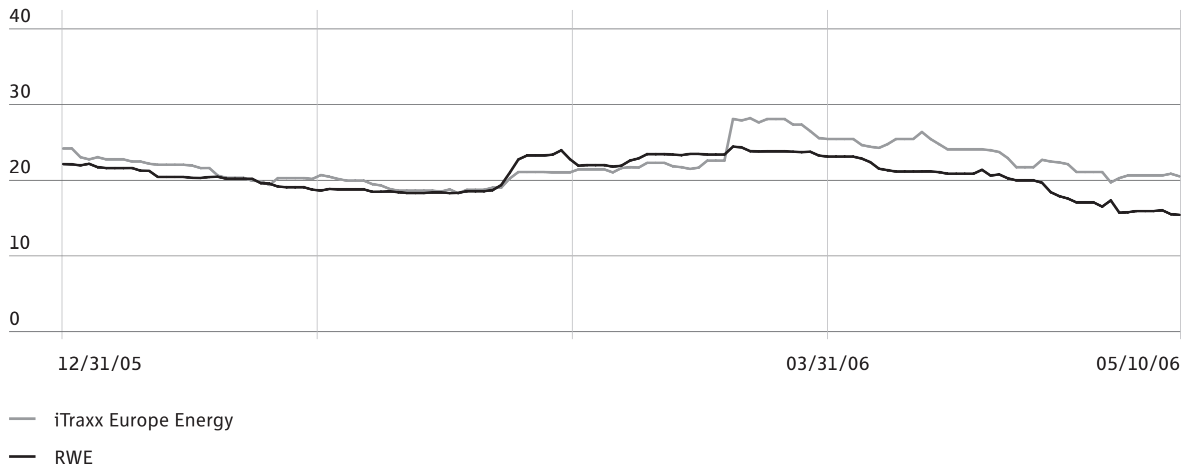
Performance of RWE shares compared with the DAX 30 and the Dow Jones STOXX Utilities
in %



The upward trend on the stock markets continued in the first quarter of 2006, with Germany's leading index, the DAX 30, rising by 10 % to close at 5,970 points on March 31, 2006. The index of the most important shares in the Eurozone, the Dow Jones Euro STOXX 50, posted a gain of 8 %. The dynamic performance of the stock markets was driven to a great degree by the increase in M&A activity by major corporates seen since the beginning of the year, but also reflected growing confidence about economic prospects. Dampening factors, such as higher interest rates, extremely high oil prices and geopolitical risks, were largely disregarded. On April 3, 2006, the DAX closed above the 6,000-point mark, for the first time since mid-2001.

RWE shares initially performed better than the market as a whole, with the price of RWE common stock rising 15 % to €71.82 in the first three months of the year. Our preferred shares gained 18 %, rising to €64.45. RWE thus clearly outperformed the European Dow Jones STOXX Utilities sector index, which rose 11 % in the same period. One of the factors behind the positive development of our share prices was that leading analysts made upward adjustments to their valuation of RWE. In doing so, they underlined the excellent earnings outlook in the German electricity generation sector. Moreover, the European utility sector was a focal point of plans for mergers and acquisitions, which also helped propel stocks higher. On February 22, RWE common shares hit a new all-time high, reaching €74.64. Since then, the market has calmed down somewhat. In April RWE share prices traded sideways at first, before falling significantly. This can be traced back to the decline in wholesale electricity prices due to the slump in prices of CO_2 emissions certificates (see page 9).

Development of RWE's five-year credit default swap (CDS) compared with the CDS sector index iTraxx Europe Energy
in basis points



Bond markets were also affected by speculation about M&A activity. This caused some unease, as investors were worried that debt-financed takeovers could have a negative impact on the credit ratings of the companies carrying out the acquisitions. Spreads on RWE bonds rose at times. In April, however, spreads returned to their normal levels. They benefited from our persistently solid financial situation. Market prices for hedging RWE credit risk via credit defaults swaps (CDSs) developed similarly to spreads on our bonds. During the first quarter they increased by one basis point, but in April they fell back again and are currently far lower than they were at the beginning of the year. A similar pattern can be seen in the European CDS sector index, iTraxx Europe Energy.

€0.7 billion in bonds come due for repayment on the capital market in fiscal 2006, settlement of which is scheduled to take place by the end of August, without the need for any refinancing measures.

Economic environment

Strong economic activity on RWE's core markets

Global economic growth continued to be strong in the first quarter of 2006, and the recovery became increasingly broad-based. Economic activity in the Eurozone is also beginning to pick up. The negative impact of higher oil prices has been countered by the abundant market liquidity, rising asset prices and good corporate earnings. Nonetheless, there are differences in the cyclical position of the economies in RWE's core regions:

- In the Eurozone, the economic recovery that began last year has continued to gain momentum. The modest growth in domestic demand was supported by corporate capital expenditure, whereas consumer sentiment remained gloomy due to rising energy prices and persistently high unemployment. In the first quarter of 2006, the Eurozone's real gross domestic product (GDP) was up 2.0 % on the same quarter of the previous year.

- In Germany, economic output climbed 1.4 %. Domestic demand gained some momentum, due to stronger investment in property, plant and equipment resulting from the positive development of foreign trade. A modest improvement was also seen in domestic consumption, which has been weak in the recent past. The high price of oil had a dampening effect.

- The pace of economic activity in the UK recently increased marginally, with real GDP up 2.2 % on the first quarter of 2005. The main factor driving economic growth was private consumption, spurred by increasing asset prices, including a recovery in real estate prices in particular.

- Economic growth remained strong in the new EU Member States in Central Eastern Europe, mainly driven by foreign trade. Economic activity has accelerated on the back of stronger domestic demand.

- In the USA, the economy continues to grow at a robust rate. Real GDP increased by 3.5 % compared to the same period of the previous year. The key factor behind this vigorous growth is domestic demand. Rising employment figures have resulted in an upswing in private consumption, and generally good corporate earnings have also had a beneficial impact on investment.

The aforementioned economic conditions in our core regions, however, only have a limited impact on the development of our business, as energy consumption generally shows relatively small reactions to changes in GDP. The impact of economic growth is primarily reflected in increases in demand from industrial enterprises, whereas household energy consumption predominantly depends on weather conditions. Economic cycles have even less of an effect on the water business.

Cold winter results in higher electricity and gas consumption

Energy consumption in our core markets increased sharply compared to the first quarter of the previous year. The main factors in this regard were the colder-than-average winter weather and the upturn in manufacturing activity. But this increase was mitigated by the rise in energy prices.

In Germany, electricity demand increased by roughly 3 %, due to growth in industrial production. More electricity was also required for heating purposes. Demand for gas rose sharply, jumping 10 % compared to the first quarter of 2005, as a result of a significant increase in consumption for heating.

Electricity consumption in the UK also advanced by 3 %. The temperature difference between the 2005 and 2006 winter in the UK was even greater than on the Continent. In the UK, however, economic developments only had a minor impact on the increase in demand. Despite the rise in demand for heating energy, gas consumption in the UK declined on the whole. The reason for this was that energy companies partially shifted to other sources of energy for electricity generation, in response to high gas prices.

Our Central Eastern European markets also saw considerable increases in demand as a result of cold winter temperatures and strong economic activity. According to initial estimates, electricity consumption in Hungary, Slovakia and Poland rose by more than 2 %. The volume of gas consumption increased even more strongly. In the Czech Republic, our core market, consumption was up 7 % on the same quarter of 2005.

Wholesale electricity prices remain high

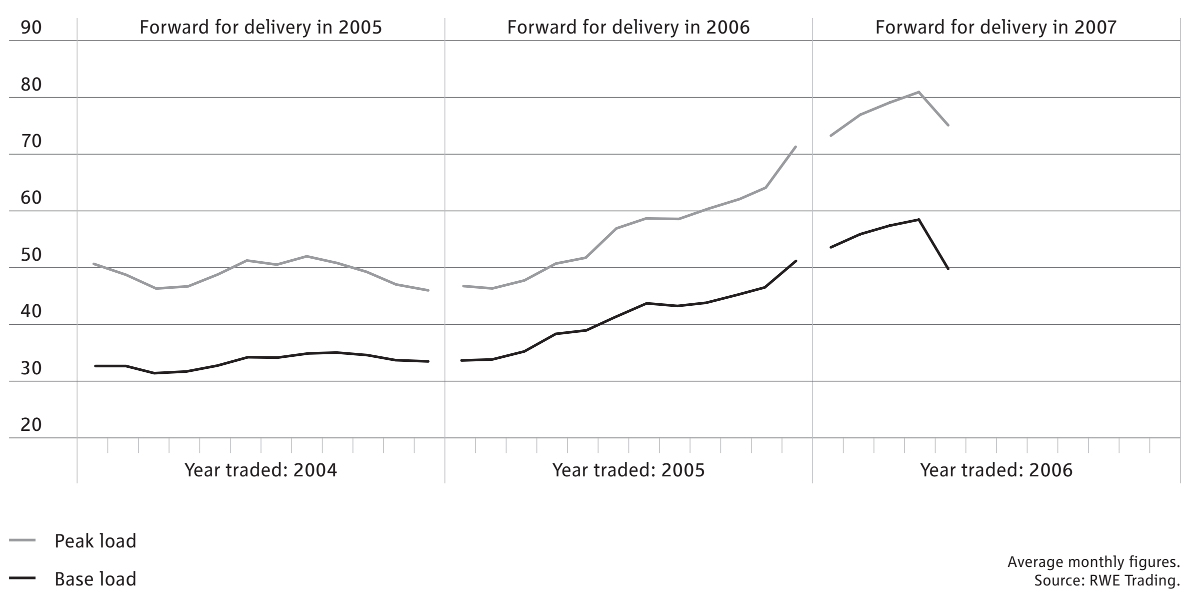
Prices on European electricity markets continued to rise sharply in the first quarter due to high fuel and CO_2 prices. Furthermore, spot trading was affected by the cold winter weather. At the end of April, however, electricity prices declined considerably, on the heels of a dramatic decline in prices of emissions certificates.

The German electricity market reflected the price trends on the European market. In spot trading at the European Energy Exchange in Leipzig (EEX), base-load contracts were settled at an average of €65 per megawatt hour (MWh) in the first quarter of 2006. This represents an increase of 69 % compared to the first quarter of 2005. Prices of peak-load electricity rose 77 % to €90. RWE sells almost all of its production one or more years forward, and thus the development of forward prices for 2006 contracts is the main determinant of our current earnings. In the two years prior to delivery (2004 / 2005), these contracts were traded by market participants at an average price of €38 per MWh of base-load power. The corresponding price for the 2005 contract was €31. Combined, these prices represented an increase of over 20 %. By the end of April 2006, prices were rising even faster. Purchasers of electricity for the coming calendar year had to pay up to €60 per MWh. The price decline on the emissions trading market, however, temporarily put an end to the upward trend in electricity prices. Forward base-load contracts for 2007 traded at €50 on May 10, while those for 2008 traded at €53.

Development of wholesale electricity spot prices in Germany
€ per MWh

Average monthly figures.
Source: European Energy Exchange (EEX), Leipzig, Germany.

Development of one year forward wholesale electricity prices in Germany
€ per MWh



Average monthly figures.
Source: RWE Trading.

The trend in electricity prices for end consumers and distributors in Germany reflected the rising prices on the wholesale market. Due to the sharp climb in electricity purchasing costs and an increase in the burdens stemming from the German Renewable Energy Act, utilities raised their tariffs for all customer segments. On average, prices paid by households and small commercial enterprises in Germany increased by 4 %, while industrial customers had to pay 19 % more.

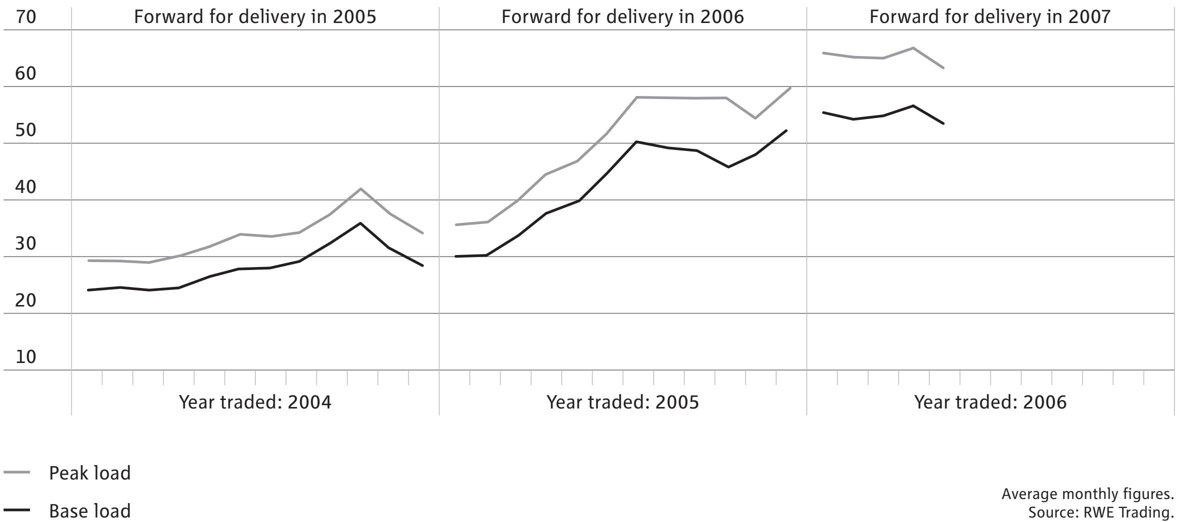
Electricity prices in the UK developed similarly to Germany, but at a generally higher level. In the first quarter, spot prices for base-load power traded at an average of £ 58 (€ 85) per MWh, and peak-load power at £ 73 (€ 107). This represented an increase of 84 % and 92 % respectively, compared to the first quarter of 2005. In addition to emissions trading and the cold weather, high gas prices also had a substantial impact. This is because in the UK, gas-fired power plants play a much more significant role in the formation of electricity prices than in most countries in Continental Europe. RWE npower sells most of its production one or two years forward. In the two years prior to delivery, the average market price for 2006 forwards was £ 35 (€ 52) per MWh of base-load power, whereas the average price of the 2005 forwards was just £ 24 (€ 36). This represents an increase of 45 %. Until the end of April, the upward price trend accelerated: wholesale purchasers of base-load electricity for 2007 had to pay up to £ 57 (€ 83) per MWh. The decline in prices for emissions certificates had less of an effect on the UK electricity market than on the German market, because of the stronger influence that gas-fired power plants have on prices in the UK. Compared to coal, gas-based power generation results in lower carbon dioxide emissions. As a result, price fluctuations in CO_2 certificates have less of an impact on costs. Currently (as of May 10), base-load forwards for 2007 are trading at £ 52 (€ 75).

Development of wholesale electricity spot prices in the UK

£ per MWh

Average monthly figures.
Source: RWE Trading.

Development of one year forward wholesale electricity prices in the UK
£ per MWh

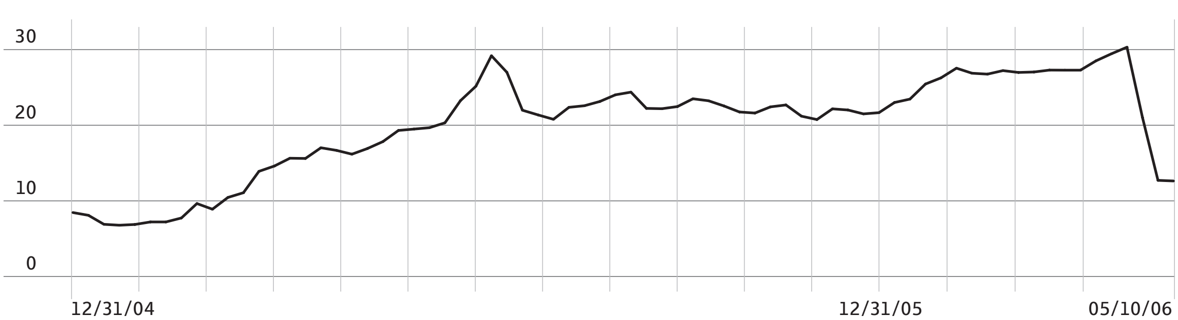


Average monthly figures.
Source: RWE Trading.

The development of UK wholesale prices also had a considerable impact on business with end customers. Due to the increase in procurement costs, most energy companies raised their prices sharply at the beginning of the year. In the first quarter of 2006, the UK's largest energy providers charged household and commercial customers 23 % more than in the same period of 2005. Price increases for industrial and corporate customers were even higher. Nevertheless, it would be incorrect to assume that suppliers have passed on the full increase in wholesale prices to their customers.

Rising electricity prices can also be seen in our Central Eastern European markets, where wholesale markets are developing sluggishly. End customers saw prices increase by 7 % in Hungary, where a state authority is responsible for regulating prices. In both Poland and Slovakia, electricity prices for end customers rose by roughly 5 %.

Development of CO_2 certificate prices*
€ per metric ton



* Forward contracts for 2006.
Source: RWE Trading.

CO_2 emissions trading: prices slump after peaking in the first quarter

In addition to the general scarcity of available power plant capacity, CO_2 emissions trading was another factor that drove electricity prices higher in the first quarter of 2006. On average, certificates for 2006, which entitle the holder to emit carbon dioxide, cost €26 per metric ton of CO_2 and were thus almost three times more expensive than in the first three months of the previous year when they cost €9 per metric ton. Amongst other things, this increase was related to the sharp rise in gas prices since mid-2005. In the UK in particular, this led to a shift in electricity production to hard coal-fired power plants, which generate higher emissions. This, in turn, led to stronger demand for emissions certificates. In 2005, dry weather conditions in Spain had a comparable effect, as CO_2-free hydropower generation had to be replaced by generation from fossil fuel-fired plants. As a result, more and more market participants were expecting a shortage of CO_2 certificates available for the first trading period (2005–2007). At the end of April, the situation changed. First, preliminary data on emissions balances for 2005 from certain countries, including France, the Netherlands, Spain and the Czech Republic, indicated that the scarcity of certificates might be far less serious than initially expected. This prompted many market participants to wind up their positions. The result of this was the most significant decline in prices since the introduction of the trading scheme. Certificates for 2006, which were trading at €30 per metric ton on April 24, lost nearly two-thirds of their value in just five trading days. The national emissions balances will be published by the EU Commission in mid-May.

Oil and gas prices reach new highs

Via the gas market, price developments on the international oil markets also pushed prices on the electricity exchanges higher. In the first quarter of 2006, crude oil continued to trade at very high price levels, with a barrel of Brent costing US$ 62 on average. This is more than twice as high as the average price for the last ten years. Compared to the first quarter of 2005, crude oil prices were 30% higher. This development can be attributed to the consistently strong demand and the relatively low level of spare production capacity in oil-producing countries. Moreover, political unrest in Nigeria and the increasingly bitter dispute regarding Iran’s nuclear programme have also led to fears of production shortfalls. Speculation about imminent supply bottlenecks in the USA has also been a factor behind the rise in oil prices.

In Continental Europe, gas prices generally track the developments of oil prices with an average lag of six months. The border prices of gas in Central Europe rose substantially compared to the same period of the previous year, increasing by more than 40%. This development was reflected in end customer prices as well. In Germany, prices for households rose by an average of 20% and by 28% for industrial clients. In the Czech Republic, an independent regulatory authority is responsible for setting gas prices. In doing so, the authority mainly takes into account prices on the international oil markets and the relevant exchange rates. Czech household customer prices rose 25%.

In the UK spot prices on the gas market more than doubled. This development was driven by the typical increase in demand for gas that is experienced in cold winter months. In addition to this factor, one of the country's large gas storage facilities was temporarily unavailable. UK household customers had to pay about 30 % more than in the first quarter of 2005, and major commercial consumers were largely hit with even greater increases in prices.

Hard coal prices persistently high

Yet another factor behind the very high electricity prices was the fact that prices for imported hard coal were considerably higher than the multi-year average. This mainly reflects the steady demand for raw materials in countries such as China and India. Following the record highs in mid-2004, trading prices on the Rotterdam spot market declined, only to pick up again this year. This was caused by worries about supply bottlenecks, due in part to problems with transporting coal to loading ports in South Africa. On average, in the first quarter, hard coal was traded at a price of € 57 per metric ton of hard coal equivalent (including freight and insurance to Rotterdam). The peak level of € 62 per metric ton from the first quarter of 2005, however, was not reached again. BAFA prices, which are relevant for German hard coal, are determined by the German Federal Office of Economics and Export Control, and reflect international price trends, albeit with a lag of several months. During the first quarter of 2006, BAFA prices are estimated to be € 63 per metric ton of hard coal equivalent and were thus marginally lower than the level for the same period in 2005.

Stable growth on the regulated water markets in Europe and North America

The impact of cyclical factors in RWE's core regions in the water business, i. e. Europe and North America, continues to be low. The key driver of growth in the water business is the need for investment in the infrastructure, which is financed through tariff increases approved by the regulator. The UK's new five-year regulatory period started on April 1, 2005. In line with conditions agreed with regulators, investments of £ 3.1 billion (€ 4.4 billion) will be made. The figure is quoted in 2002 / 2003 money terms, and must be adjusted by annual inflation. To pay for the investments, tariff increases of 22 % (plus annual inflation), will be implemented over the entire regulatory period. We were allowed to raise tariffs by 14.9 % (including inflation: 18.3 %) as of April 1, 2005, and by another 2.1 % (including inflation: 4.4 %) as of April 1, 2006.

Major Events

American Water public offering planned

In March 2006 the Executive Board of RWE AG decided to list the shares of American Water via a public offering. We believe that this is the most attractive option for RWE and the US company, its employees, customers and future shareholders. The preparations for selling the company have already been started: in April, initial applications for approval were filed with the regulatory commissions in a number of US states. A public offering of the company will also require an application for listing with the US Securities and Exchange Commission (SEC). The transaction is also still subject to approval by the Supervisory Board of RWE AG and is scheduled to be completed in 2007.

Water business: More peripheral activities sold

We successfully moved forward with our divestment programme in the water business. The Spanish subsidiary Pridesa is being sold to the construction and services group Acciona. The sale agreement was signed in March. The transaction is scheduled for completion in May. Pridesa specializes in the construction and operation of seawater desalination plants and holds a stake in a Spanish water utility. The sale of RWE Thames Water's majority shares in two Chilean water companies has been completed. We have also disposed of our activities in the United Arab Emirates.

Starting shot for the world's first large-scale CO_2-free coal-fired power plant

RWE plans to build the world's first large-scale coal-fired power plant with integrated coal gasification and CO_2 separation in Germany. We announced this at the end of March. One aspect of this project is the secure underground storage of carbon dioxide. The plant is designed to handle a gross capacity of roughly 450 megawatts and could go on stream as early as 2014, given optimal planning and implementation procedures. We estimate the investment for the entire project at roughly €1 billion, including transport and storage of the CO_2. At the present time, we are exploring the technical feasibility of the project. The political conditions must be suitable, too. Nonetheless, the first steps related to technical planning have already been taken. For example, plans call for the simultaneous testing of the use of hard coal and lignite. Depending on the results, in the second half of 2007, RWE will decide which primary energy source will be used and where the power plant will be constructed.

RWE npower has commenced work on a feasibility study to determine whether it is possible to retrofit its 1,000 MW coal fired power station in Tilbury, Essex with 'clean coal' technology by 2016. The study will investigate the possibility to isolate and store CO_2 produced during the combustion process which could reduce the CO_2 emissions of the plant by roughly 90 %.

Review of plans for building a new power plant in the Netherlands

In mid-April we announced that we are reviewing the possibility of building a hard coal-fired power plant in the Netherlands with the option of biomass co-firing. The planned gross capacity of the plant is 1,600 MW to 2,200 MW, with a net efficiency rate of 46 %. The power plant could come on stream in 2012 or 2013, if planning and implementation procedures proceed optimally. Two possible seaside locations are being examined for the state-of-the-art plant: Rotterdam Maasvlakte or Eemshaven. The plant, construction of which is expected to begin in 2008, is estimated to cost at least €1.5 billion. A final decision on the project will be taken following further feasibility studies. Furthermore, construction of the plant is conditional on approval by the Dutch authorities.

German federal government publishes draft of the national allocation plan for the second emissions trading period from 2008 to 2012

On April 13, 2006, the German federal government presented its proposal for the national allocation plan (NAP) for the second trading period from 2008 to 2012, which builds on the key conditions of the current NAP for 2005 to 2007. The draft for the second trading period envisages a reduction of the upper limit for CO_2 emissions by the energy sector and industrial emitters from 503 million metric tons to 495 million metric tons per year. Allocation of the certificates by the state is to continue free of charge. With regard to the allocation of emissions allowances, however, conditions for electricity producers are to be worse, while energy-intensive industries will see an improvement. The draft proposes the reduction of the compliance factor for the energy sector's existing plants to 85 % of the emissions, calculated on the basis of the average level of CO_2 emissions for the period from 2000 to 2005. The allocation regulations for the replacement of old plants with more efficient new facilities have also been tightened: While the allocation of the original amount of certificates is still planned for another four years, following this, the companies will only receive the emissions certificates needed for the new facilities for a period of ten years, instead of 14 years. For new facilities, which are not intended to replace old plants, the number of certificates needed will also be allocated for a 14-year period, if the facilities are operated with the best available technology for the fuel being used. Despite the stricter rules for the energy industry, RWE sees the draft as a reasonable proposal, which continues to provide a framework for investment in state-of-the-art power plants and thus for the further development of the existing energy mix. The draft must still be approved by the German parliament and by the EU Commission. It cannot be ruled out that it will be amended in the course of the political process.

UK allocation plan: 8-week consultation phase started

In April the British government tabled its first proposals for the NAP for the second trading period. Since then, public consultations with the affected sectors have been underway. Although major details will still have to be worked out as the process continues, even now it is clear that the number of certificates will be reduced considerably compared to the first trading period from 2005 to 2007. Reductions in emissions are to be borne exclusively by the energy sector. Two to ten percent of the CO_2 certificates are to be auctioned. Allocation to specific companies cannot be forecast at the moment.

Impact of German grid regulation still unclear

Express approval of our new electricity grid fee applications by the Federal Network Agency, which was originally expected by April 2006, has not yet occurred. In lieu of this, following expiration of the six-month approval period, we published our fees and implemented them, in line with current law. Grid fee regulations for electricity broadly establish the framework for the envisaged cost-oriented calculation method for the period until 2007. But the regulatory authority is presently interpreting individual components of the calculations, for example the equity ratio and the recognition of depreciation within the framework of the tariff-setting procedures—and apparently the approval period as well—one-sidedly to the disadvantage of the grid operators. Some aspects of the regulator’s approach are questionable from a legal point of view. Against this backdrop, we may have to reassess future investment projects in the grid business. For the gas grid, we expect the approval of the new fees to be issued in the autumn of this year.

In parallel with the above, on May 2, 2006, the Federal Network Agency presented a draft report on the introduction of incentive-based regulation as of January 1, 2008. The report is scheduled for completion and submission to the federal government by the middle of the year. This means that there are only two months available for consultation between grid operators and the stakeholder groups and associations involved, as called for by the legislators. Based on an initial assessment, it does not appear that the proposal set forth by the Federal Network Agency is suitable for creating positive incentives to increase efficiency. In this respect, there are shortcomings with regard to the achievement and outperformance of the targets by the grid operators, although this was explicitly stipulated by the German Energy Act. Moreover, in contrast to the view of the Federal Network Agency, there appears to be inadequate planning security for grid operators with regard to their planned investments. Within the framework of the consultation process, we will strive to convince the Federal Network Agency to place more emphasis on the equally important goals of ‘efficiency’ and ‘sustainable development of networks’ as envisaged in the Act. We will defend our position in the subsequent directive-forming process as well.

Notes on reporting

Our reporting for the first quarter of 2006 is affected by non-operating one-off effects resulting from changes in accounting standards and pending divestments:

- According to IAS 32, a contract that contains an obligation for the RWE Group to purchase its own shares gives rise to a liability. In line with the development of international accounting practice, this rule also applies to forward purchases of minority interests and put options, which were granted to minority shareholders of RWE Energy's German regional companies in the past. These minority interests had to be reclassified from equity to liabilities in the interim report for the period ending on March 31, 2006, in order to state the potential purchase price obligations. In addition, goodwill was capitalized in the amount of the difference between the present value of the liabilities and the carrying amount of the minority interests. In the income statement, the financial result decreases in favour of the minority interest; net income remains unchanged. Prior-year figures were restated because this accounting policy is retroactive. Detailed explanations on this issue can be found in the notes on page 41.

- We stopped assigning American Water to UK-based RWE Thames Water at the beginning of the fiscal year, because we plan to sell these activities separately. The 'RWE Thames Water' Division will be referred to as the 'Water Division' hereinafter. Effective January 1, 2006, we assigned RWE Aqua, including the minority interest in Berliner Wasserbetriebe to the RWE Energy Division. We sold our water activities in Chile and the United Arab Emirates in the first quarter. We intend to complete the divestment of Spanish-based Pridesa soon. Therefore, we are stating this company under the item 'Assets / liabilities held for sale.' New rules mandated by International Financial Reporting Standards (IFRS) also require us to restate our water operations in Izmit (Turkey). In consequence, they are now recognized as leasing activities instead of as operating activities. This reduces revenue, EBITDA, the operating result, and net financial debt.

- RWE Solutions, which is for sale, is still reported as a fully consolidated entity in the first quarter. We intend to sell this business in the course of the year. RWE Solutions' revenue, EBITDA, operating result, capital expenditure and workforce are no longer included in the forecast for the full year.

Business performance

Electricity production January – March	RWE Power[1]		RWE npower		RWE Group[2]	
billion kWh	**2006**	2005	**2006**	2005	**2006**	2005
In-house generation	51.9	50.2	9.8	8.3	62.5	59.2
Lignite	19.7	20.5	–	–	19.7	20.5
Nuclear	13.9	13.2	–	–	13.9	13.2
Hard coal	14.4	12.4	6.3	6.1	20.9	18.7
Gas	2.7	2.6	2.8	2.1	5.8	5.0
Hydro, oil, other	1.2	1.5	0.7	0.1	2.2	1.8
Electricity purchased from third parties	–	–	6.8[3]	7.0[3]	27.5	26.4
Total	**51.9**	**50.2**	**16.6**	**15.3**	**90.0**	**85.6**

1 Figures for RWE Power include electricity procured from power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. In the first quarter of 2006, they break down into 9.2 billion kWh (hard coal) and 0.6 billion kWh (hydro, oil, other).
2 Including generation and electricity purchases of RWE Energy's regional companies.
3 Electricity purchased by RWE npower largely via RWE Trading.

Power generation up 6 % year on year

In the first quarter, the RWE Group produced 62.5 billion kilowatt hours (kWh) of electricity — 6 % more than in the same period in 2005. In-house generation and power purchases combined for 90.0 billion kWh in total electricity production. Here again, the year-earlier figure was surpassed.

RWE Power generated 51.9 billion kWh of electricity, accounting for 83 % of total in-house production. This includes electricity generated from power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. RWE Power generated 3 % more electricity than in the same period last year. Due to the favourable market environment, we stepped up the use of hard coal power plants. In contrast, slightly less power was produced in lignite-fired power stations than in the same quarter last year, owing to maintenance outages.

RWE npower generated 9.8 billion kWh of electricity, up 18 % year on year. Additional generation came from our 420 MW gas power station in Great Yarmouth, which we acquired in November 2005. Furthermore, we increased the use of oil-fired power plants, since we were able to achieve improved margins from them owing to the rise in the price of electricity. Although profit margins were attractive, the amount of electricity produced from hard coal was only slightly higher than in the same period last year. This was because of the lower availability of our power stations. Hard coal blocks in Aberthaw and Tilbury were taken offline for certain periods due to transformer damage.

RWE Energy made a small contribution of 0.8 billion kWh to total power produced. This output is largely attributable to the German regional companies.

Gas production rises by one-third—oil production 7% up year on year

RWE Dea, the upstream company subsumed under the RWE Power Division, produced 821 million m^3 of gas in the first quarter. This was 35% more than in the same period last year. The rise is due to the fact that we commenced production in a concession area in the UK North Sea in September 2005. Furthermore, we stepped up our German production to cover increased demand. RWE Dea also recorded a rise in oil production. At 1.2 million m^3, it was 7% up on last year's first quarter. German production was increased as a result of the commissioning of a new pipeline connecting the Mittelplate oil platform with the mainland, eliminating the need for oil to be shipped. Production was higher in Norway and Kazakhstan as well.

External electricity sales volume January – March Billion kWh	RWE Power		RWE Energy		RWE npower		RWE Group	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Private and commercial customers	0.1	0.1	11.7	11.9	6.7	6.5	18.6	18.6
Industrial and corporate customers	0.6	2.0	14.5	14.6	9.0	7.9	24.1	24.5
Distributors	3.9	3.8	16.3	13.0	–	–	20.1	16.7
Electricity trading	22.4	20.6	–	–	–	–	22.4	20.6
Total	**27.0**	**26.5**	**42.5**	**39.5**	**15.7**	**14.4**	**85.2**	**80.4**

Electricity sales volume advances by 6%

In the first quarter of 2006, we supplied 85.2 billion kWh of electricity to outside customers. Electricity sales are typically somewhat lower than power produced and purchased. This is due to grid losses as well as the in-house consumption by lignite production and hydro-storage power plants. Electricity sales volumes were up 6% year on year. All of the divisions active in the energy business posted gains.

External electricity sales achieved by RWE Power totaled 27.0 billion kWh and were thus marginally higher than in the same period last year, reflecting the rise in power production. Most of the electricity sales (22.4 billion kWh) are attributable to RWE Trading's sales of in-house generation on the wholesale market. They do not include sales from trading with purchased electricity.

RWE Energy sold 42.5 billion kWh of electricity. This was 8% more than in the first quarter of last year. The increase is predominantly due to business with distributors. A lot more electricity from combined heat and power generation plants at industrial customer sites was fed into our grid and passed on to power utilities. In some of RWE Energy's sales regions, however, customer losses led to a decrease in sales volume.

RWE npower sold 15.7 billion kWh of electricity, or 9% more, than in the same period last year. This rise was driven by the weather-induced increase in demand. Furthermore, the UK energy company acquired a large number of new customers in part due to its competitive pricing.

External gas sales volume January – March Billion kWh	RWE Power		RWE Energy		RWE npower		RWE Group	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Private and commercial customers	–	–	37.2	34.4	18.0	15.7	55.2	50.1
Industrial and corporate customers	0.8	1.3	36.3	30.5	2.7	2.5	39.8	34.3
Distributors	5.3	4.4	47.5	44.2	–	–	52.8	48.6
Total	**6.1**	**5.7**	**121.0**	**109.1**	**20.7**	**18.2**	**147.8**	**133.0**

Gas sales volume up 11 % year on year, driven by temperatures

In the first three months of 2006, the RWE Group sold 147.8 billion kWh of gas. This represents an increase of 11 % over the figure for the corresponding period in 2005. The main reason for this was the unusually cold and long winter, which led to a rise in sales volumes generated by the sales operations of RWE Energy and RWE npower.

Gas sales achieved by RWE Power largely correspond to the quantities produced by RWE Dea, which were sold to distributors and end customers. In addition, small quantities of gas were sold by RWE Trading. Gas sales volumes posted by the division advanced by 0.4 billion kWh to 6.1 billion kWh. The main driver was the rise in gas production at RWE Dea.

Gas sold by RWE Energy amounted to 121.0 billion kWh. This clearly exceeded the level achieved a year earlier. Low temperatures increased consumption in all customer segments both inside and outside Germany. Deliveries to a combined cycle gas turbine plant in Antwerp, which was commissioned in August 2005, also contributed to the rise in sales volume. In addition, we enlarged our customer base in the Dutch gas market.

RWE npower's gas sales rose by 14 % to 20.7 billion kWh. Weather-related effects also played a role here. Moreover, we acquired new private household customers, which enabled us to grow sales correspondingly.

External revenue € million	Jan – Mar 2006	Jan – Mar 2005	+/– in %	Jan – Dec 2005
RWE Power	**1,817**	**1,419**	**28.0**	**6,832**
Power Generation*	1,325	1,099	20.6	5,254
RWE Dea	492	320	53.8	1,578
RWE Energy	**8,613**	**7,049**	**22.2**	**24,318**
German regions	5,292	4,374	21.0	14,838
International regions	1,791	1,327	35.0	4,077
Electricity & Gas Transmission	1,240	736	68.5	3,502
RWE Solutions	283	566	–50.0	1,707
Other, consolidation	7	46	–84.8	194
RWE npower	**2,366**	**1,688**	**40.2**	**6,382**
Water Division	**992**	**837**	**18.5**	**4,210**
Regulated UK business	494	401	23.2	1,905
North America	417	358	16.5	1,799
Other markets	81	78	3.8	506
Other, consolidation	**19**	**27**	**–29.6**	**77**
RWE Group	**13,807**	**11,020**	**25.3**	**41,819**
Electricity revenue	6,695	5,548	20.7	22,238
Direct electricity tax	272	264	3.0	971

* Including RWE Trading and Harpen.

Revenue jumps 25 %

In the first three months of 2006, the RWE Group generated €13.8 billion in external revenue. This corresponds to a strong 25 % increase over the prior-year level. We posted double-digit growth in revenue in all our divisions. An additional driver to higher electricity, gas and water tariffs was higher volume in the gas business. The rise was slightly curtailed by the absence of revenue from the Dutch-based coal trading company SSM Coal, which was sold as of November 30, 2005 (–€143 million). Conversely, changes in the US dollar and pound Sterling-to-euro exchange rates had a positive effect on revenue (+€62 million). The average US dollar-to-euro exchange rate in the first quarter was US$ 1.20 / €. US currency was thus much more expensive than in the same period in 2005 (US$ 1.31 / €). The pound Sterling also gained on the euro, albeit marginally. The exchange rate was £ 0.69 / €. Organically, i. e. net of one-off effects and changes in foreign exchange rates, the RWE Group posted a 27 % increase in external revenue.

The following is an overview of the development of revenue by division:

External revenue posted by **RWE Power** totaled €1,817 million. This represents a 28% rise compared with the same period last year. The Power Generation Business Unit (including RWE Trading and Harpen) increased external revenue by 21%. This was mainly due to the price-driven rise in electricity revenue, with the deconsolidation of SSM Coal having a counteracting effect. The RWE Dea Business Unit improved on the year-earlier figure by more than 50%. Here the company benefited from higher prices and increased production of both oil and gas.

External revenue recorded by the **RWE Energy** Division was up 22% to €8,613 million. Electricity revenue grew 12% year on year. This was largely because higher procurement costs were passed through to industrial and corporate customers. Furthermore, our German regional companies lifted general tariffs for households and small commercial enterprises as of January 1, 2006. However, the price increases approved by the federal states were usually far lower than what had been applied for. So far, Süwag Energie AG has not been granted approval to raise its tariffs. In the German transmission grid business, the rise in sales volumes from electricity fed into the grid from combined heat and power generation plants led to an increase in revenue. Our gas activities made an even larger contribution to the rise in RWE Energy's revenues than the electricity business. Here, revenue was 54% higher year on year. This was primarily due to weather-induced increases in volumes as well as price-related effects. Analogously to the electricity market, we passed procurement cost increases on to our customers. This was because prices set in our gas purchasing and supply agreements are linked to oil prices. Our German regional companies lifted tariffs effective January 1, 2006. The Czech regulator approved tariff increases at the beginning of the year as well.

RWE npower grew external revenue by 40% to €2,366 million. Due to the rise in procurement costs, the UK energy company lifted electricity and gas tariffs as of January 1, 2006. Furthermore, we experienced positive volume effects from the acquisition of new customers. The cold winter weather was an additional factor. This enabled us to sell far more heating gas.

External revenue was increased by 19% to €992 million in the **Water Division**. Revenue increased principally in the regulated UK business due to tariff increases effective April 1, 2005. Non-operating effects also had an impact on the development of revenue. Changes in foreign exchange rates had a positive impact to the tune of €51 million. Net of all non-operating effects from exchange rates, changes in accounting policies and divestments, revenue generated by this division rose by 13%. American Water posted a 3% rise in organic terms. This was mainly due to tariff increases approved by the regulators in individual US states, higher consumption, and growth in the non-regulated business.

EBITDA € million	Jan – Mar 2006	Jan – Mar 2005	+/– in %	Jan – Dec 2005
RWE Power	**1,207**	**833**	**44.9**	**2,800**
Power Generation*	931	694	34.1	2,158
RWE Dea	276	139	98.6	642
RWE Energy	**1,143**	**1,019**	**12.2**	**3,142**
German regions	740	664	11.4	1,954
International regions	222	193	15.0	476
Electricity & Gas Transmission	298	228	30.7	621
RWE Solutions	–8	5	–260.0	132
Other, consolidation	–109	–71	–53.5	–41
RWE npower	**65**	**172**	**–62.2**	**561**
Water Division	**418**	**405**	**3.2**	**2,045**
Regulated UK business	255	235	8.5	1,102
North America	149	138	8.0	744
Other markets	14	32	–56.3	199
Other, consolidation	**–65**	**–2**	**–**	**–224**
RWE Group	**2,768**	**2,427**	**14.1**	**8,324**

* Including RWE Trading and Harpen.

Operating result and EBITDA clearly improved net of one-off effects

The RWE Group improved its earnings especially thanks to the sustained operating success achieved by the Continental European energy business. EBITDA climbed 14 % to €2,768 million. The operating result rose 16 % to €2,256 million. Deconsolidations and changes in accounting standards did not have a major impact on the earnings trend.

Operating result € million	Jan – Mar 2006	Jan – Mar 2005	+/– in %	Jan – Dec 2005
RWE Power	**1,029**	**707**	**45.5**	**2,112**
Power Generation*	824	577	42.8	1,667
RWE Dea	205	130	57.7	445
RWE Energy	**1,013**	**852**	**18.9**	**2,507**
German regions	664	577	15.1	1,609
International regions	191	161	18.6	381
Electricity & Gas Transmission	263	191	37.7	452
RWE Solutions	–14	–3	–366.7	113
Other, consolidation	–91	–74	–23.0	–48
RWE npower	**38**	**150**	**–74.7**	**437**
Water Division	**253**	**247**	**2.4**	**1,416**
Regulated UK business	147	126	16.7	687
North America	87	81	7.4	491
Other markets	19	40	–52.5	238
Other, consolidation	**–77**	**–6**	**–**	**–271**
RWE Group	**2,256**	**1,950**	**15.7**	**6,201**

* Including RWE Trading and Harpen.

The following is an overview of our operating result by division:

RWE Power recorded a considerable gain. The operating result amounted to €1,029 million—up 46 % on the first quarter of 2005. The following is a breakdown of the operating result by business unit:

- Power Generation (including RWE Trading and Harpen): The operating result posted by this business unit was 43 % higher year on year. The main reason was the additional revenue generated through higher electricity prices on the wholesale market. In addition, the sales volume showed an improvement. But we also saw a rise in procurement costs. Increased fuel costs—especially for gas for generation—had an effect of –€41 million compared with the corresponding quarter last year. Higher prices for CO_2 emissions certificates were also a burden.

- RWE Dea: The continuing price boom on the oil and gas markets led to a clear improvement in the operating result recorded by our upstream activities. RWE Dea achieved a rise of 58 %. The increase in oil and gas production also played a role. Burdens stemmed primarily from the rise in production fees and exploration costs.

RWE Energy improved its operating result by 19 % to €1,013 million. The reasons for this were cost reductions and improved margins as well as the temperature-induced rise in sales volumes in the gas business. The considerable improvement in the operating result cannot be extrapolated for the full year owing to the strong weather-related effect. Moreover, we believe we face substantial risks from the introduction of grid regulation in Germany. This may burden the earnings situation of our regional and supra-regional grid activities over the remaining course of the year (see page 13). The following is a breakdown of the operating result by business unit:

- German regions: RWE Energy’s regional companies closed the quarter with an operating result that was 15 % higher than in last year’s first quarter. Here, they benefited from cost cutting and efficiency enhancements. Furthermore, they were able to take advantage of the weather-driven rise in gas sales volumes. In addition, some maintenance work on our transmission grids had to be postponed due to the cold winter weather. This reduced our expenses in the first quarter. However, this will be counteracted by the impact of catch-up work in subsequent months.

- International regions: We improved the operating result of our Continental European sales business outside Germany by 19 %. The marked gain is partially due to the Czech regional companies, which also sold more gas due to weather-related effects. Moreover, the regulator approved higher tariffs. In the Netherlands, we benefited from the expansion of our gas business.

- Electricity & Gas Transmission: This business unit oversees our German extra high-voltage power grid, our German gas transmission grid, and Czech-based RWE Transgas’ gas transmission and gas trading operations. Furthermore, this unit now also includes RWE Key Account GmbH, to which we transferred RWE Solutions’ key account business effective April 1, 2005. The operating result stated for ‘Electricity & Gas Transmission’ was up 38 %. This was predominantly a result of the fact that the Czech regulator allowed RWE Transgas to widen its margins in its business with regional distributors. This offset burdens stemming from the previous year, which had not yet been considered in prices. In the German electricity grid business, we grew our operating result by marketing spare capacity.

- RWE Solutions: Our subsidiary specializing in energy-related services closed the quarter down year on year. We plan to sell RWE Solutions in the months ahead.

Although the operating result earned by **RWE npower** of €38 million reached only a quarter of the level achieved a year earlier, it is on track to deliver our full-year expectation. The fall in earnings was primarily due to conditions in the retail business, as we were unable to fully pass on to our customers higher gas and electricity purchase costs. Furthermore, due to the cold winter and the large number of newly acquired customers, we had to purchase additional gas on the UK spot market, which experienced especially pronounced price spikes due to capacity bottlenecks. As of April 1, 2006, RWE npower increased electricity and gas tariffs by an average of 13.5% and 15%, respectively, in order to offset the aforementioned additional burdens. We thus expect an improvement in later quarters and that earnings for the full year will match last year's level. In the power generation business we posted a considerable improvement in earnings in the first quarter. This was due to higher wholesale prices. Conversely, unplanned power station outages as well as the rise in the price of CO_2 certificates imposed a burden on RWE npower's profit.

The operating result recorded by the **Water Division** rose by 2% to €253 million. This was based on operating improvements. Changes in currency exchange rates also had a positive effect. In contrast, changes in accounting standards and the transfer of RWE Aqua to RWE Energy eliminated some of the operating result. Net of accounting, currency and consolidation effects, this division raised its operating result by 7%. The most important operating factor was the increase in water tariffs in the regulated UK business. However, this was counteracted by the rise in expenses incurred for the maintenance of the London water pipe infrastructure. In addition, our operating costs rose in part due to the considerable increase in the cost of energy. American Water lifted its operating result by 7%, largely owing to currency effects. Revenue increases stemming from the rise in tariffs and higher consumption were contrasted by increased energy and material costs as well as the additional expense incurred to expand service activities. American Water had not yet been able to pass these burdens on to its customers. However, these costs have been included in the current applications to increase tariffs.

Net income improved by 7%

The reconciliation to net income is affected by the positive operating performance, the decrease in capital gains, and slightly weaker net interest.

Non-operating result € million	**Jan–Mar** **2006**	Jan–Mar 2005	+/– € million	Jan–Dec 2005
Capital gains	5	206	–201	326
Impairment losses	0	0	0	–814
Restructuring, other	–65	–129	64	–200
Non-operating result	**–60**	**77**	**–137**	**–688**

The **non-operating result** declined by €137 million to –€60 million. Changes break down as follows:

- Capital gains totaled a mere €5 million. In the first quarter of 2005, they were about €200 million higher in part due to the divestment of our 20% stake in Stadtwerke Düsseldorf and of real estate belonging to RWE Systems.
- As in the first quarter of 2005, no impairment losses were recognized.
- The result stated under 'Restructuring, other' advanced by €64 million to –€65 million. This was due to the absence of one-off charges incurred a year earlier: Among other things, the revision of the IAS 39 accounting standard required a revaluation of RWE Trading's forward transactions. The single-most important item in 2006 is the amortization of RWE npower's customer base. This had an effect of –€82 million, as in the corresponding period last year. Changes in nuclear provisions resulted in €33 million in income, compared with €29 million in the corresponding period in 2005.

Financial result € million	**Jan – Mar 2006**	Jan – Mar 2005	+/– in %	Jan – Dec 2005
Interest income	436	282	54.6	1,208
Interest expenses	–697	–504	–38.3	–2,193
Net interest	**–261**	**–222**	**–17.6**	**–985**
Interest accretion to non-current provisions	–292	–311	6.1	–1,238
Other financial result*	–34	12	–383.3	406
Financial result*	**–587**	**–521**	**–12.7**	**–1,817**

* Prior-year figures restated (see comments on pages 14 and 41).

The **financial result** declined by €66 million to –€587 million. Despite the continued progress in reducing debt, net interest was €39 million lower than in the previous year's first quarter. In part, this was due to the fact that short-term market interest rates increased. The other financial result also declined.

Our continuing operations generated income before tax amounting to €1,609 million, an improvement of 7% compared to the same quarter last year. Our effective tax rate increased from 29% to 32%, in part because we recorded a lower level of tax-free capital gains.

Income from continuing operations after tax amounted to €1,097 million, up 3%. A profit of €17 million was recorded on discontinued operations, resulting from a supplementary payment by Rethmann for the purchase of our environmental business. The minority interest decreased from €90 million to €66 million.

Net income generated by the RWE Group amounted to €1,048 million, representing an increase of 7% on the comparable period of 2005. Accordingly, earnings per share rose from €1.73 to €1.86.

Reconciliation to net income		Jan – Mar 2006	Jan – Mar 2005	+/– in %	Jan – Dec 2005
Operating result	€ million	**2,256**	**1,950**	**15.7**	**6,201**
Non-operating result	€ million	–60	77	–177.9	–688
Financial result[1]	€ million	–587	–521	–12.7	–1,817
Income from continuing operations before tax[1]	€ million	**1,609**	**1,506**	**6.8**	**3,696**
Taxes on income	€ million	–512	–441	–16.1	–1,221
Income from continuing operations[1]	€ million	**1,097**	**1,065**	**3.0**	**2,475**
Income from discontinued operations	€ million	17	–	–	–20
Income[1]	€ million	**1,114**	**1,065**	**4.6**	**2,455**
Minority interest[1]	€ million	66	90	–26.7	224
Net income[2]	€ million	**1,048**	**975**	**7.5**	**2,231**
Earnings per share	€	**1.86**	**1.73**	**7.5**	**3.97**
Effective tax rate[1]	%	**32**	**29**	**10.3**	**33**

1 Prior-year figures restated (see comments on pages 14 and 41).
2 RWE shareholders' share in income.

Cost-cutting programmes: € 60 million saved in the first quarter

Annual cost reduction € million	2003	2004	2005	2006	Total
Reorganization		150	160	190	500
Acquisition synergies	60	30	50	40	180
Total	**60**	**180**	**210**	**230**	**680**

We intend to reduce annual costs by € 680 million within the scope of two programmes which will be completed by the end of 2006:

- The first programme with a targeted volume of € 500 million encompasses measures linked to the reorganization of the RWE Group, which was initiated in October 2003. The main areas of focus are the German energy business, the water business and our IT operations. By the end of 2005, savings of € 310 million had been realized.

- The second programme, launched in 2002, capitalized on synergies from the large-scale acquisitions made in the last few years. Targeted savings total € 180 million. € 100 million of this sum was allocable to the combining of the back office functions of our UK-based companies RWE npower and RWE Thames Water. We intend to achieve € 80 million in savings at our Czech gas companies. By December 31, 2005, we had already realized a total of € 140 million in synergies.

Despite the planned sale of our UK and US water businesses, we remain confident that we will achieve the full €680 million in cost reductions. Lost synergy potential will be compensated for by additional cost-cutting measures. With regard to this fiscal year, the programmes have a target of €230 million, of which €60 million was realized by the end of March.

Capital expenditure on property, plant and equipment up 14% on the first quarter of 2005

In the first quarter of 2006, capital spending amounted to €730 million. This represents an increase of 5% on the first quarter of last year. Capital expenditure on property, plant and equipment climbed 14% to €720 million, primarily due to the increase at RWE Power. The single-most important project is the construction of a 2,100 MW dual-block lignite-fired power plant with optimized plant technology at the site in Neurath, Germany, which was decided upon in September of last year. Investment in the upstream business also increased, with RWE Dea spending additional amounts for the expansion of gas production in the UK and Egypt. RWE Energy's expenditure on property, plant and equipment was lower than in the comparable period of 2005, because the long, cold winter resulted in delays to measures to improve network infrastructure in Germany. For the year as a whole, however, RWE Energy is planning to increase its capital expenditure, as long as decisions made by the German regulator do not have a lasting negative impact on the framework conditions. The RWE Group's spending on financial assets was negligible, amounting to just €10 million.

Capital expenditure € million	**Jan – Mar 2006**	Jan – Mar 2005	+/– € million	Jan – Dec 2005
Capital expenditure on property, plant and equipment*				
RWE Power	305	176	129	842
RWE Dea	90	54	36	290
RWE Energy	82	103	–21	1,064
RWE npower	46	41	5	315
Water Division	285	306	–21	1,388
North America	73	74	–1	520
Other, consolidation	2	6	–4	58
Total	**720**	**632**	**88**	**3,667**
Capital expenditure on financial assets				
RWE Power	–	–	–	–
RWE Dea	–	–	–	–
RWE Energy	5	55	–50	174
RWE npower	–	–	–	227
Water Division	4	8	–4	17
North America	–	–	–	–
Other, consolidation	1	–	1	58
Total	**10**	**63**	**–53**	**476**
Total capital expenditure	**730**	**695**	**35**	**4,143**

* Including intangible assets.

Cash flow statement—Key figures

In the first quarter of 2006, we generated €1,335 million in cash flows from operating activities. This was €214 million below the high level achieved a year earlier. The main reasons for this were effects in working capital. During the period under review, working capital was increased, whereas in the first quarter of 2005, it was reduced. Capital expenditure was €502 million higher than proceeds from disposals of non-current assets and companies. Cash flows from financing activities totaled €469 million. This is the amount by which debt repayments and dividend payments exceeded new financial debt.

Cash flow statement[1] € million	**Jan–Mar 2006**	Jan–Mar 2005	+/– in %	Jan–Dec 2005
Cash flows from operating activities	1,335	1,549	–13.8	5,304
Change in working capital[2]	-348	441	–178.9	204
Cash flows from investing activities	–502	–406	–23.6	–2,049
Cash flows from financing activities	–469	531	–188.3	–3,384
Effect of changes in currency exchange rates and other changes in value on cash and cash equivalents	–3	11	–127.3	34
Total net changes in cash and cash equivalents	361	1,685	–78.6	–95
Cash flows from operating activities	1,335	1,549	–13.8	5,304
Minus capital expenditure on property, plant and equipment and intangible assets	–720	–632	–13.9	–3,667
Free cash flow	**615**	**917**	**–32.9**	**1,637**

1 Figures only relate to continuing operations. Please turn to page 38 for the complete cash flow statement.
2 Prior-year figures restated (see comments on pages 14 and 41).

Free cash flow is calculated by subtracting capital expenditure on property, plant and equipment from cash flows from operating activities. Free cash flow decreased by €302 million to €615 million, down from €917 million in the first quarter of 2005. The reason for this was the decline in cash flows from operating activities as a result of the aforementioned changes in working capital. In addition, capital expenditure was higher. Due to the traditionally high volatility of working capital, the trends in cash flows cannot be extrapolated for the year as a whole.

Net financial debt reduced to €9.4 billion

In the first quarter of 2006, we reduced our net financial debt by €2 billion to €9.4 billion. This development was mainly supported by the high level of free cash flow. Net financial liabilities of €404 million were removed from the balance sheet as a result of deconsolidations. Currency effects and changes in accounting policies in accordance with IFRS reduced the level of debt by €249 million and €246 million, respectively. Financial derivatives, which we use to hedge our liabilities against currency effects, had a market value of €1.3 billion as of March 31, 2006. Derivatives, however, are not taken into account in net financial debt.

Net financial debt € million	**03/31/06**	12/31/05	+/– in %
Cash and cash equivalents	1,792	1,431	25.2
Marketable securities	11,611	11,356	2.2
Other financial assets	4,484	3,603	24.5
Gross financial assets	**17,887**	**16,390**	**9.1**
Bonds, notes payable, bank debt and commercial paper	24,590	24,982	–1.6
Other financial debt	2,745	2,846	–3.5
Gross financial debt	**27,335**	**27,828**	**–1.8**
Net financial debt	**9,448**	**11,438**	**–17.4**

Modest rise in employee headcount net of divestments

As of March 31, 2006, the RWE Group employed 85,406 people (full time equivalent), about half of whom (49 %) worked outside Germany. The workforce decreased by 522 employees or 0.6 % vis-à-vis December 31, 2005. On balance, 1,128 employees left the Group as a result of acquisitions and divestitures. Net of consolidation effects, the employee headcount increased by 606, or 0.7 %.

Workforce*	**03/31/06**	12/31/05	+/– in %
RWE Power	18,828	18,702	0.7
RWE Energy	37,300	37,598	–0.8
RWE npower	10,729	10,125	6.0
Water Division	15,382	16,306	–5.7
Other	3,167	3,197	–0.9
RWE Group	**85,406**	**85,928**	**–0.6**

* Full time equivalent.

Research and development: focus on emissions reduction

Spending on research and development (R&D) amounted to €14 million in the first quarter of 2006, up €4 million on the same period of 2005. One project that got underway in January was the construction of a lignite pre-drying facility at the site in Niederaussem, Germany. Plans call for the plant to start operation at the end of 2007. Pre-drying the lignite can improve plant efficiency by four percentage points.

As efficiency enhancements and emissions reductions in fossil-fuelled power stations play an important role in ensuring a balanced energy mix, these two aspects continue to be main areas of focus in our R&D activities. We are supporting research projects for the development of procedures for capturing carbon dioxide in the power plant process. A CO_2-free 450 MW coal power plant is scheduled to be commissioned in 2014. This is currently the world's largest project of this nature (see page 11). For our newer power plants, we are developing methods to 'wash out' the carbon dioxide from the flue gas following combustion, working closely with our partners in plant construction and the chemical industry. Initial field tests are scheduled for the pilot project from 2008 and 2010 onwards and demonstration facilities at our lignite-fired power stations are planned. As the capture of CO_2 necessarily results in a loss of efficiency, in parallel with this research, we are also continually exploring new possibilities of improving plant efficiency. The aforementioned construction of a pilot facility for lignite pre-drying prior to combustion serves this purpose. Moreover, we are pushing forward with our development work on the '700-degree power station' which—similarly to lignite pre-drying—may allow for an increase of up to four percentage points in plant efficiency.

Distributed power generation is another field of RWE's R&D work, as is research into renewable energy sources. One example of this is our plan to construct a 700 kW biomass-fired power plant in Neurath, Germany. Within the scope of this project, we are exploring ways to optimize the technology and logistics involved, as well as the cultivation of plants used in the power generation process.

Outlook for 2006

Economic research institutes forecast stable economy

According to estimates made by leading economic research institutes, this year the global economy will grow by at least the same margin as in 2005. In Germany, the real gross domestic product (GDP) is expected to increase by 1.8 %, doubling the growth displayed in 2005. This is anticipated to be driven by higher investment in plant, machinery and construction as well as a slight resurgence in consumption. However, the rise in demand will also partially be based on the advance effect of the value-added tax increase planned for 2007. The moderate upturn currently witnessed in the UK is likely to continue as consumer confidence rises. Investment will probably pick up, given the presently low, long-term interest rates and mounting capacity utilization. Economists forecast real growth at above 2 %. Their prognosis for EU member states in Central Eastern Europe is even more favourable. Real GDP in these economies will probably expand by more than 4 %. Conversely, prognoses for the USA have worsened somewhat. In the US, growth might be dampened by additional interest rate increases and weaker consumer spending. Nevertheless, economic research institutes forecast that 2006 growth adjusted for prices will be only marginally lower than the 3.5 % recorded in 2005.

Fuel costs to remain high—strong fluctuation in the price of emissions certificates

The high level of prices on the world's energy markets is expected to persist over the remaining course of the year. In light of the continued tightness of production and refining capacity as well as geopolitical risks, no end to the oil price boom is in sight. In consequence, gas prices will remain high, as they track oil prices with a lag of several months. Hard coal prices in northwestern Europe have risen somewhat as of late. Nevertheless, we do not expect them to be markedly higher than 2005 levels, averaged over the year.

In addition to the effect of fuel prices, power production costs are now also affected by European emissions trading. This sector experienced an unexpected collapse in prices at the end of April. Certificates for 2006 traded at €9 per metric ton of CO_2 as of May 12, 2006, and are thus significantly down on the average recorded in 2005 (€18). Initial information on the national emissions balances for 2005 indicates that certificates in the first trading period (2005–2007) will not be as scarce as originally anticipated. Future price developments on the CO_2 market will largely hinge on whether this estimate will be supported by official figures.

Electricity prices react to fluctuations on the emissions certificate market

The dramatic decrease in prices on the CO_2 market has caused the price of electricity traded on Europe's wholesale market to decline considerably as of late. Due to persistently high fuel prices and continued tightness of generation capacity on Europe's largest energy markets, however, they are still high. Since we have already sold forward almost all our generation for the current fiscal year, the decline in prices would only have an impact on earnings after 2006. We have already sold more than three-quarters of our 2007 generation as well.

Slight year-on-year increase in Group revenue expected

We currently expect revenue for fiscal 2006 to be higher than in 2005. These and the following prognoses are based on assumed exchange rates of US$ 1.25 / € and £ 0.70 / € in 2006. We anticipate that the planned sale of RWE Thames Water and American Water will not impact our consolidated financial statements before 2007. The expected growth in revenue will result from increases in the price of electricity, gas and water in our European markets that have been made in order to pass through increasing procurement costs and capital expenditure on infrastructure to our customers. In addition, the gas business will benefit from its higher sales volume partially owing to the cold winter weather. Minor divestments at RWE Energy and RWE Trading will eliminate about €2.5 billion in revenue.

Further rise in the operating result expected; risks arising from German grid regulation

For the time being, we confirm the earnings forecast we published in our 2005 annual report in February this year. We are confident we will succeed in improving the key figures for all our main earnings positions compared with 2005. However, this forecast will only be upheld as long as regulatory intervention in the German grid business does not lead to burdens on earnings exceeding our current expectations.

According to our forecast, EBITDA will rise by a single-digit percentage. The operating result is expected to post a slightly stronger rise. We anticipate that it will grow by 5 % to 10 %.

Earnings trend by division:

We expect **RWE Power** to close 2006 with a marked improvement in its operating result. We anticipate double-digit percent growth. The earnings improvement will largely be driven by the Power Generation Business Unit, under which RWE Trading is subsumed. The rise in wholesale prices is the main factor. We have already sold forward most of our 2006 generation. Furthermore, we anticipate an improvement in the availability of our generation capacity. In contrast, the higher cost of fuel will have an adverse effect. Moreover, we expect to see shrinking margins on the market for balancing power, which is used to offset temporary fluctuations in supply and demand in the power grid. In addition, we do not expect RWE Trading to be able to match the high level of earnings achieved in 2005. We anticipate that the RWE Dea Business Unit will record a year-on-year gain in its operating result. The basis for this are persistently high oil and gas prices, which, however, will not yet take full effect on earnings since hedges were concluded early on. Furthermore, we expect burdens to arise from mounting production and exploration costs as well as from higher capital expenditure.

RWE Energy will not be able to maintain the high level of earnings recorded in 2005. This is due to burdens resulting from German grid regulation, the extent of which cannot be estimated at present (see comments on page 13).

We expect the operating result recorded by **RWE npower** to stabilize at the level achieved in 2005. We will lift earnings from the UK power plant business by increasingly benefiting from higher wholesale electricity prices. As RWE npower had already sold forward part of this year's electricity production in previous years, we will not be able to fully compensate for the additional cost caused by the rise in fuel prices and CO_2 emissions certificates for that output. In addition, power plant outages have had a negative effect. Margins in the UK sales business are increasingly coming under pressure. Although our market share is developing positively, we have not yet been able to fully pass on the rise in gas procurement costs to our customers. RWE npower increased end customer tariffs effective January 1 and April 1, in order to limit the burdens. Furthermore, we expect additional expenses to arise from the energy savings measures in UK households, which energy companies are obliged to promote by the government. We anticipate that RWE npower will succeed in posting a substantial improvement in its operating result in 2007.

The **Water Division** is expected to close the year on par with 2005, after adjusting the operating result to exclude non-operating one-off effects. Our regulated UK and North American water activities will see positive effects from tariff increases, contrasted by rising operating costs. We also anticipate the persistent dry spell in the UK imposing a burden. Including all non-recurrent effects, the Water Division will record a drop in its operating result. Effects felt here are changes in accounting standards and the transfer of RWE Aqua to RWE Energy.

Net income forecasted to post double-digit growth

We expect to grow net income by between 10 % and 20 %. This will principally stem from the relief to the non-operating result, which was characterized by considerable negative one-off effects in 2005. However, income from the adjustment to nuclear provisions and capital gains are expected to be down year on year. We expect the financial result to decrease considerably. This year, we will realize lower book gains from the sale of securities. In 2005, they were unusually high.

Capital expenditure on property, plant and equipment projected to be up year on year

We will clearly step up capital expenditure on property, plant and equipment this year. The greatest rise is planned for RWE Power's German power plant business. The construction of a dual lignite block in Neurath is the main project. Furthermore, this year, we will commence preparatory work for the 1,500 MW hard coal power plant in Hamm. More funds will be spent on our oil and gas production activities as well. RWE Energy will maintain its sizeable capex budget, as long as decisions made by the German regulator do not have a lasting negative impact on framework conditions. RWE npower will modernize and enlarge its power plant portfolio, which will draw more spending than in 2005. The Water Division will also expand its investment budget, above all in order to meet the requirements of the five-year UK regulatory period that began in 2005. In sum, we expect that capital expenditure on property, plant and equipment will be in the order of €4.5 billion to €4.8 billion.

Net financial debt will remain low

Based on our estimates, our net financial debt will be in the order of €10 billion to €11 billion. We want to keep debt at this level even after the planned sale of our water business. The new cap we have defined ranges between €10 billion and €12 billion. Prior to the announcement of the planned divestment, it was €17 billion. Thanks to the good reputation we have as bond issuer, we always have access to short- and long-term financing. €0.7 billion in bonds will mature in 2006. We do not intend to refinance them.

Employee headcount: decrease due to the sale of companies

In the year underway, the workforce will continue to shrink, in part as a result of the sale of peripheral activities in the Water Division. Furthermore, we are planning the divestment of RWE Solutions. Excluding these effects, however, the Group's labour force will probably increase.

Research and development: rise in spending on environmentally friendly power generation

We increased our R&D budget for the fiscal year underway to €68 million and will raise it significantly again after 2006. This sum does not yet include the planned construction of the CO_2-free power plant. We are stepping up our measures to improve efficiency and reduce emissions in electricity production (see page 28). We believe we shoulder a special responsibility in the development of climate-friendly technologies. Distributed power generation is another field of RWE's R&D work. We also intend to make inroads in the usage of biomass. Renewables-based energy is one of the pillars of RWE's climate-friendly energy policy.

Risk management

Continuous early detection and standardized recording, evaluation, control and monitoring of risks are handled by the RWE Group using a groupwide risk management system. We strive to obtain information on risks and their financial impact as early as possible in order to counter them with suitable measures.

We evaluate risks according to their damage potential and probability of occurrence and aggregate them at the business unit, divisional and Group levels. Here, a risk's damage potential is defined against reference variables, i. e. the operating result and equity of the business unit concerned or the Group as a whole. We can thus ensure a systematic and uniform analysis of our current risk situation throughout the Group, on the basis of which specific risk-control initiatives can be developed for the business units concerned.

The following is an overview of major risks and opportunities:

- **Changes in the price of commodities:** Certain risks and opportunities are inherent in our production operations, and above all in our electricity generation business. The latter is significantly influenced by the development of market prices for electricity, fossil fuels—especially hard coal and gas—as well as by the development of the price of CO_2 certificates. A risk arises, e. g., if increasing commodity prices cannot be passed on by increasing electricity prices. Opportunities stem from the widening of the spread between electricity prices and prices for fossil fuels. In addition to production, sales operations are also exposed to risks. Such risks arise, e. g., as a result of unexpected fluctuations in demand owing to changes in temperature. Our price risks on purchasing and sales markets are determined using special evaluation models, while taking current forward prices and expected price volatility into account. Among other things, we use financial derivatives to mitigate risks associated with sales and procurement. Additional risks and opportunities arise from our oil and gas production operations. Unexpected disadvantageous changes in price in this area are also minimized through the strategic use of derivative hedges.

  Our electricity and gas businesses face the price and sales risks as well as marketing opportunities resulting from the deregulation of Europe's electricity and gas markets. We address these risks with differentiated pricing strategies and appropriate marketing policies as well as with effective measures to cut costs.

  Our trading activities are principally designed to mitigate earnings risks stemming from price fluctuations on energy markets. In this context, our trading business functions as a central platform for hedging commodity price risks throughout the RWE Group. This enables us to create a stable basis of planning for our company. In addition, we conclude trades in order to take strategic advantage of price changes to a limited extent. This leads to risks from unexpected price fluctuations as well as credit risks in the event that trading partners fail to fulfil their contractual obligations. The RWE Group's integrated trading and risk management system is firmly aligned with best practice as applied to the trading business. Specific benchmarks for price risks are established on a daily basis. The RWE AG Risk Committee sets risk limits that are continuously monitored. Among other things, we use the value-at-risk method to quantify price risks associated with energy trading.

- **Operating risks:** We operate technologically complex and interconnected production plants all along our value chain. Earnings risks can arise from uninsured damage to our lignite mining equipment, production plants, or power plant components. Risks associated with possible outages caused by the ageing of components in our power stations will increase. Our grid business is exposed to the risk of facilities being destroyed by force majeure such as severe weather conditions. We address these risks through high safety standards as well as regular audit, maintenance and servicing work. As appropriate, insurance policies also limit possible effects of damage.

- **Changes in prices in the finance sector:** Within the scope of our operations, we are also exposed to currency, interest-rate and share-price fluctuation risks. Due to our international presence, currency risk management is very important. The pound Sterling and US dollar are our major foreign currencies. RWE conducts sizeable operations in these currency zones. Furthermore, fuel prices are quoted in these currencies. Group companies outside the Eurozone are generally obliged to hedge all local currency risks via the Group's holding company, RWE AG. The parent company determines the net financial position for each currency and hedges it with external market partners if necessary. Risks are quantified using the value-at-risk (VaR) method. The Executive Board of RWE AG has established a system that limits risks. At the end of the first quarter of 2006, the VaR for RWE AG's foreign currency position was €0.1 million. Interest rate management is also ascribed significant importance. Our interest-rate risk primarily stems from our financial debt and interest-bearing assets. Risks arise whenever the interest curve rises or falls. Negative changes in value caused by unexpected interest-rate movements are hedged with non-derivative and derivative financial transactions. As of March 31, 2006, the VaR from interest obligations connected to our financial debt and associated hedges was €43.3 million. The VaR from interest-bearing assets including hedges amounted to €21.0 million. We are also exposed to risks and opportunities when investing in stocks. At the end of the quarter, the VaR for share price risks was €18.4 million. Opportunities and risks from changes in the value of securities are controlled by a professional fund management system.

- **Credit risks:** Most of the credit transactions performed by our finance and trading departments are with banks and business partners of good credit standing. We mitigate credit risks for both activities by placing limits on transactions and—if necessary—receiving cash collateral. In addition, we conclude credit insurance policies and bank guarantees. Credit risks are monitored daily for trading transactions and weekly for finance transactions.

  In our sales business, we are exposed to credit risks due to the possibility that customers may fail to meet their financial obligations. We mitigate this risk by subjecting our customer portfolio to a regular creditworthiness check in compliance with our credit risk guidelines.

- **Regulatory risks:** The RWE Group's exposure to the constant change in the political, legal and social environment in which it does business can be expected to have an impact on earnings. Lignite and hard coal power plants account for a significant portion of our electricity generation portfolio. This represents a risk due to the EU-wide CO_2 emissions trading system. Risks can arise from changes made to the allocation rules and national emissions budgets for the second trading period (2008–2012) with corresponding effects on the price of CO_2 certificates. Therefore, CO_2 price risk management is an integral component of our centralized risk management system. We intend to continue reducing specific CO_2 emissions and make our overall portfolio more flexible by investing in power plants in the future.

  Clear earnings risks currently exist in our German electricity and gas grid businesses as a result of regulatory intervention. However, there is still some uncertainty as regards the extent of the impact from regulation (see page 13).

- **Legal risks:** RWE Group companies are involved in litigations and arbitration proceedings connected with their operations. However, RWE does not expect any major negative repercussions from these proceedings on the RWE Group's economic or financial position. Additionally, companies belonging to the RWE Energy Division are directly involved in various administrative and regulatory procedures (including approval procedures) or are directly affected by their results.

  Based on risks associated with official approvals for our opencast mines and nuclear power plants, reductions in the production of raw materials and the generation of electricity could arise. We prepare our applications for approval with great care and ensure that approval processes are handled competently in order to prevent such risks from arising.

  Outside shareholders initiated several legal proceedings to examine the appropriateness of the conversion ratios and the amount of cash paid in compensation in connection with company restructurings pursuant to German company law. We are convinced that the conversion ratios and cash compensation calculated on the basis of expert opinions and verified by independent auditing firms are adequate and will stand up to scrutiny in court.

We have included additional information on our risk management in our 2005 annual report.

Forward-looking statements. This report contains forward-looking statements regarding the future development of the RWE Group and its companies as well as economic and political developments. These statements are assessments that we have made based on information available to us at the time this document was prepared. In the event that the underlying assumptions do not materialize or additional risks arise, actual performance can deviate from the performance expected at present. Therefore, we cannot assume responsibility for the correctness of these statements.

Consolidated Income Statement of the RWE Group*

€ million	Jan – Mar 2006	Jan – Mar 2005
Revenue (including natural gas tax / electricity tax)	**13,807**	**11,020**
Natural gas tax / electricity tax	–456	–404
Revenue	**13,351**	**10,616**
Changes in finished goods and work in progress / other own work capitalized	116	123
Cost of materials	–8,679	–6,426
Staff costs	–1,229	–1,245
Depreciation, amortization, and impairment losses	–715	–685
Other operating result	–764	–622
Income from operating activities of continuing operations	**2,080**	**1,761**
Income from investments accounted for using the equity method	99	108
Other income from investments	17	158
Financial income	870	622
Finance costs	–1,457	–1,143
Income from continuing operations before tax	**1,609**	**1,506**
Taxes on income	–512	–441
Income from continuing operations	**1,097**	**1,065**
Income from discontinued operations	17	–
Income	**1,114**	**1,065**
Minority interest	–66	–90
Net income / income attributable to RWE AG shareholders	**1,048**	**975**
Basic and diluted earnings per common and preferred share in €	**1.86**	**1.73**
of which: from continuing operations in €	(1.83)	(1.73)
of which: from discontinued operations in €	(0.03)	(0.00)

* Prior-year figures restated.

Consolidated Balance Sheet of the RWE Group*

Assets € million	03/31/06	12/31/05
Non-current assets		
Intangible assets	18,060	18,551
Property, plant and equipment	35,107	36,089
Investment property	471	476
Investments accounted for using the equity method	2,676	2,617
Other non-current financial assets	1,981	1,842
Accounts receivable and other assets	8,633	8,315
Deferred taxes	3,822	3,790
	70,750	**71,680**
Current assets		
Inventories	1,923	2,257
Trade accounts receivable	10,029	8,325
Accounts receivable and other assets	13,579	14,543
Marketable securities	10,454	10,344
Cash and cash equivalents	1,792	1,431
Assets held for sale	289	878
	38,066	**37,778**
	108,816	**109,458**

Equity and Liabilities € million	03/31/06	12/31/05
Equity		
RWE Group interest	12,371	11,431
Minority interest	760	926
	13,131	**12,357**
Non-current liabilities		
Provisions	28,130	28,064
Financial liabilities	20,162	21,458
Other liabilities	9,764	10,670
Deferred taxes	4,854	4,873
	62,910	**65,065**
Current liabilities		
Provisions	5,102	4,784
Financial liabilities	7,076	5,994
Trade accounts payable	7,930	7,497
Liabilities held for sale	251	533
Other liabilities	12,416	13,228
	32,775	**32,036**
	108,816	**109,458**

* Prior-year figures restated.

Consolidated Cash Flow Statement of the RWE Group*

€ million	Jan – Mar 2006	Jan – Mar 2005
Income from continuing operations	1,097	1,065
Depreciation, amortization, impairment losses, write-backs	714	707
Changes in provisions	1	–168
Deferred taxes / non-cash income and expenses / income from disposal of non-current assets and marketable securities	–129	–496
Changes in working capital / other balance sheet items	–348	441
Cash flows from operating activities of continuing operations	**1,335**	**1,549**
Capital expenditure on non-current assets	–730	–695
Proceeds from sale of assets	290	32
Changes in securities and cash investments	–62	257
Cash flows from investing activities of continuing operations	**–502**	**–406**
Cash flows from financing activities of continuing operations	**–469**	**531**
Net cash change in cash and cash equivalents of continuing operations	364	1,674
Effects of foreign exchange rates and other changes in value	–3	11
Total net changes in cash and cash equivalents	**361**	**1,685**
Cash and cash equivalents at beginning of reporting period	1,431	1,526
Cash and cash equivalents at end of reporting period	**1,792**	**3,211**
Financial assets at beginning of reporting period	16,390	14,998
Financial assets at end of reporting period	**17,887**	**16,714**
Gross financial liabilities at beginning of reporting period	27,828	27,383
Gross financial liabilities at end of reporting period	**27,335**	**28,289**
Net financial debt at beginning of reporting period	11,438	12,385
Net financial debt at end of reporting period	**9,448**	**11,575**

* Prior-year figures restated.

Consolidated Statement of Changes in Equity of the RWE Group*

€ million	RWE Group interest	Minority interest	Total
Balance at 12/31/04	**9,581**	**874**	**10,455**
Dividends paid	–	–35	–35
Other comprehensive income / other	203	–14	189
Income	975	90	1,065
Balance at 03/31/05	**10,759**	**915**	**11,674**
Balance at 12/31/05	**11,431**	**926**	**12,357**
Dividends paid	–	–39	–39
Other comprehensive income / other	–108	–193	–301
Income	1,048	66	1,114
Balance at 03/31/06	**12,371**	**760**	**13,131**

* Prior-year figures restated.

Notes

Accounting policies

The interim report for the period ended March 31, 2006, was prepared in accordance with the International Financial Reporting Standards (IFRSs).

With the exception of the new and revised rules described below, this interim report was prepared using the accounting policies applied in the consolidated financial statements for fiscal 2005. For further information, please see the consolidated financial statements for the period ended December 31, 2005, which provide the basis for this interim report. In line with IAS 34, the scope of reporting for the presentation of the consolidated financial statements of RWE AG for the period ended March 31, 2006 was condensed compared with the scope applied to the consolidated financial statements for the full year.

The interest rates as per December 31, 2005 have been used for pension provisions, provisions for nuclear waste disposal, and provisions for mining.

Changes in accounting policies

The IASB and the IFRIC have approved a number of changes to the existing IFRSs and adopted several new Standards and Interpretations, which became effective as of January 1, 2006. The RWE Group is applying the following Standards and Interpretations in fiscal 2006 for the first time:

IFRS 6 "Exploration for and Evaluation of Mineral Resources": IFRS 6 includes rules for accounting for expenditures related to the exploration and evaluation of minerals, oil, natural gas and similar finite resources before the technical feasibility and commercial viability of extracting the resource can be demonstrated. IFRS 6 does not mandate an accounting policy specific to exploration and evaluation expenses. Instead, it sets forth the basic conditions under which the company preparing the accounts selects an accounting method. Furthermore, IFRS 6 prescribes that impairment tests pursuant to IAS 36 be carried out on exploration and evaluation assets. The first-time application of IFRS 6 does not have any material impact on the RWE Group's consolidated financial statements.

IAS 19 Amendment (2004) "Actuarial Gains and Losses, Group Plans and Disclosures": With the change to IAS 19 "Employee Benefits," the IASB introduced another option for treating actuarial gains and losses, also allowing for them to be accounted for without an effect on the income statement in the future. RWE has opted not to use this method for the time being. In addition, further footnote disclosures on pension commitments will become necessary in the future. With the exception of additional information in the notes, the first-time application of the new version of IAS 19 does not have an impact on the RWE Group's consolidated financial statements.

IAS 32 "Financial Instruments: Disclosure and Presentation": According to IAS 32, a contract that contains an obligation for an entity to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount. This is the case also if the obligation to purchase is conditional on the counterparty exercising a right to redeem and is independent of the probability of exercise.

In line with the development of international accounting practice, RWE is also applying this rule as of the first quarter 2006 analogously to forward purchases of minority interests and to minority shareholders with put options. Certain minority interests are thus now presented as other liabilities. The difference between the agreed purchase price and / or the agreed exercise price and the carrying amount of the minority interest is recognized as a contingent consideration that depends on future events, in line with the rules for the accounting for business combinations pursuant to IAS 22 and IFRS 3.

Prior-year figures were retroactively restated. As of January 1, 2005, this resulted in additional other liabilities of €2,082 million (of which €749 million were non-current), additional goodwill of €1,444 million, a reduction in advance payments made of €100 million, and a reduction in equity of €738 million. This primarily includes the retirement of the minority interest (€663 million) and goodwill amortization (€121 million) recognizable by the end of fiscal 2003. In the income statement, the minority interest's share in income decreased by €32 million in the first quarter of 2005, and by €132 million in fiscal 2005. This is contrasted by an increase in financial expenses by the same amounts.

In the first quarter of 2006, the liability from the purchase measured at its present value was reduced by €166 million to €1.936 million, which resulted in an adjustment to goodwill by the same amount.

Furthermore, various amendments to **IAS 39** became effective for the first time. These amendments relate to the option to classify financial instruments as "financial assets or financial liabilities recognized at fair value through profit and loss," to the recognition of cash flow hedges for hedging currency risks associated with forecast transactions that have a high probability of occurrence within a group, and to the recognition of financial guarantees issued, which will fall under the scope of IAS 39 in the future. The first-time application of these amendments does not have any material impact on the RWE Group's consolidated financial statements.

IFRIC 4 "Determining Whether an Arrangement Contains a Lease": IFRIC 4 contains criteria for identifying lease elements in arrangements which are not formally referred to as leases. Contractual elements that meet IFRIC 4 criteria must be accounted for as leases in accordance with IAS 17. The first-time application of this Interpretation had the impact described in the review of operations, which is not material for the RWE Group's consolidated financial statements.

IFRIC 5 "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds": IFRIC 5 governs the recognition and measurement of claims and obligations arising in connection with funds accrued for the decommissioning of plants and similar obligations. The first-time application of this Interpretation does not have an impact on the RWE Group's consolidated financial statements.

IFRIC 6 "Liabilities Arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment": This Interpretation governs the accounting of provisions related to disposal liabilities stemming from the European Union's Directive on Waste Electrical and Electronic Equipment. The first-time application of this Interpretation does not have an impact on the RWE Group's consolidated financial statements.

New accounting policies / Standards and interpretations that have been published, but are not yet effective

The IASB and IFRIC have adopted further standards and interpretations, which are not yet effective in the 2006 financial year. These IFRSs can only be applied if they are endorsed by the EU. This is still pending for some standards at present. The possible impact of the first-time application of the standards described below on the consolidated financial statements of the RWE Group is currently being assessed.

IFRS 7 "Financial Instruments: Disclosures": IFRS 7 combines and expands disclosures of financial instruments previously required under IAS 32 and those previously required under IAS 30 only for banks and similar financial institutions. IFRS 7 will be effective across all sectors in the future. As part of the development of IFRS 7, IAS 1 was amended to add requirements for disclosures about capital management.
IFRS 7 and the amendment to IAS 1 become effective for the first time for fiscal years that start on January 1, 2007, or thereafter. With the exception of additional information in the notes, the first-time application of the new version of IFRS 7 does not have a material impact on the RWE Group's consolidated financial statements.

IFRIC 7 "Applying the Restatement Approach under IAS 29 'Financial Reporting in Hyperinflationary Economies'": IFRIC 7 clarifies certain issues related to the application of IAS 29 for cases in which the country, the currency of which is the functional currency of the reporting enterprise, becomes a hyperinflationary country. This Interpretation becomes effective for the first time for fiscal years starting on March 1, 2006, or thereafter. The first-time application of IFRIC 7 is not expected to have any material impact on the RWE Group's consolidated financial statements.

IFRIC 8 "Scope of IFRS 2": IFRIC 8 clarifies the applicability of IFRS 2 "Share-based Payment" to agreements, in which the company preparing the accounts makes share-based payments for apparently nil or inadequate consideration. This Interpretation becomes effective for the first time for fiscal years starting on May 1, 2006, or thereafter. The first-time application of IFRIC 8 is not expected to have any material impact on the RWE Group's consolidated financial statements.

IFRIC 9 "Reassessment of Embedded Derivatives": IFRIC 9 addresses whether a contract must be assessed only upon inception of the contract or whether the contract must be assessed throughout the life of the contract if there is an embedded derivative as per IAS 39 „Financial Instruments: Recognition and Measurement." This Interpretation becomes effective for the first time for fiscal years starting on June 1, 2006, or thereafter. The first-time application of IFRIC 9 is not expected to have any material impact on the RWE Group's consolidated financial statements.

Scope of consolidation

In addition to RWE AG, the consolidated financial statements contain all material German and foreign companies which RWE controls directly or indirectly. Principal associates are accounted for using the equity method.

The scope of consolidation breaks down as follows:

	03/31/06	12/31/05
Fully consolidated companies	476	489
Investments accounted for using the equity method	158	158

Assets and liabilities held for sale

The sale of peripheral activities of RWE's Water Division has been initiated, making it mandatory to classify these as a disposal group and disclose them as "Assets / liabilities held for sale," as shown in the following table:

€ million	03/31/06	12/31/05
Assets held for sale	289	878
Liabilities held for sale	251	533

In the first quarter of 2006, assets and liabilities held for sale were mainly reduced due to the deconsolidation of the Chilean water activities.

Discontinued operations

The income from discontinued operations of €17 million after taxes results from supplementary payments in connection with the closing of the sale of RWE Umwelt to the Rethmann Group during fiscal 2005.

Revenue

Revenue from energy trading operations is stated net, reflecting only the margins.

Research and development costs

In the first quarter of 2006, research and development costs totaled €14 million (first quarter of 2005: €10 million).

Intangible assets

Intangible assets include €1,278 million (previous year: €1,444 million) in goodwill from put options and forward purchases of minority interests that are recognized in accordance with IAS 32.

Own shares

In the first quarter of 2006, RWE Group companies bought 4,555 common shares on the capital market at an average cost of €66.68 per share. They account for €11,660.80 of the Corporation's share capital (0.01 ‰ of subscribed capital). Employees of RWE AG and its subsidiaries received a total of 150 common shares at an average price of €44.68 per share within the scope of capital formation and 4,405 common shares at an average price of €46.20 on the occasion of service anniversaries. Aggregate proceeds amounted to €210,213.00. Differences to the purchase price were recognized in the income statement.

Stock option plans

Contingent capital in the amount of €51,200,000 is available to offer subscription rights to common shares in the name of the bearer to members of the Executive Board as well as to other executives of RWE AG and subordinate affiliates.

Pursuant to the resolution passed by the Annual General Meeting on April 14, 2005, the Executive Board was authorized to purchase shares of any class in RWE totalling up to 10% of the Corporation's share capital until October 31, 2006. This resolution was replaced by the resolution passed by the Annual General Meeting on April 13, 2006, to authorize the Executive Board to purchase shares of any class in RWE totalling up to 10% of the Corporation's share capital until October 12, 2007.

Stock options were issued under the executive stock option plan. They have a waiting period of three years and a term of five years after their respective issue. The stock options can only be exercised if the quoted market price of the common share—calculated on the basis of the total return approach—has increased by at least 6% annually on average (absolute performance) before being exercised and has not trailed the Dow Jones STOXX share index by more than ten percentage points (relative performance) in the same period. The four-week exercise periods start on the 21st trading day following the publication of the revenue and earnings figures for the completed fiscal year and of the semi-annual results.

The stock options can only be exercised by payment of the exercise price. The exercise price equals the quoted market price of the common share on the first trading day after expiry of the relevant exercise period, minus a markdown, which is composed of the absolute and relative performance components. The markdown is limited to 40 percentage points.

Exercise conditions stipulate that the stock options can be settled by already existing common shares instead of new shares from contingent capital and that the markdown can be paid in cash instead of in common shares. If the persons holding stock options are not employed by RWE AG, the expenses associated with the exercise are borne by the respective Group company.

Originally, 5,262,300 stock options were issued from the AOP-F 2001A tranche. As of March 31, 2006, there were 14,500 stock options outstanding, the same number as at December 31, 2005.

Further stock appreciation plans are also offered to employees, Executive Board members and other executives of RWE AG and its subordinate affiliates, on which we reported separately in the financial statements for the period ended December 31, 2005. An additional tranche was issued in the first quarter of 2006.

Dividend distribution

RWE AG's April 13, 2006, Annual General Meeting decided to pay the proposed dividend of €1.75 per common and preferred share for fiscal 2005.

Other liabilities

Other liabilities include €769 million (previous year: €763 million) in non-current and €1,167 million (previous year: €1,333 million) in current purchase price obligations from put options and forward purchases of minority interests that are recognized in accordance with IAS 32.

Earnings per share

		Jan – Mar 2006	Jan – Mar 2005
Net income	€ million	1,048	975
Number of shares outstanding (weighted average)	thousands	562,405	562,405
Basic and diluted earnings per common and preferred share	€	**1.86**	**1.73**

When determining diluted earnings per share, stock options issued by RWE as part of the stock option programmes are taken into account if they are dilutive. The earnings per share are the same for both common and preferred shares.

Contingent liabilities

Contingent liabilities principally relate to commitments ensuing from guarantees and warranty agreements. They increased by €128 million to €398 million since December 31, 2005. This increase is essentially attributable to commitments arising from guarantees.

Reconciliation to the operating result

Reconciliation of income from operating activities to the operating result € million	**Jan – Mar 2006**	Jan – Mar 2005
Income from operating activities	2,080	1,761
+ Income from investments	116	266
– Non-operating result	60	–77
Operating result	**2,256**	**1,950**

The reconciliation addresses the following points:

- Income from investments includes all expenses and income that have arisen in connection with operating investments. Income from investments thus constitutes an integral part of the Group's operating activity.
- Income and expenses that are unusual from an economic perspective, or are the result of exceptional events, prejudice the assessment of operating activities. They are reclassified to the non-operating result.

Reconciliation of EBITDA to the operating result € million	**Jan – Mar 2006**	Jan – Mar 2005
EBITDA	2,768	2,427
– Operating depreciation and amortization	–627	–604
EBIT	2,141	1,823
+ Income from operating investments	115	127
Operating result	**2,256**	**1,950**

Supervisory Board

Dr. Thomas R. Fischer
Chairman

Frank Bsirske
Deputy Chairman

Dr. Paul Achleitner

Sven Bergelin
– since April 13, 2006 –

Werner Bischoff
– since April 13, 2006 –

Carl-Ludwig von Boehm-Bezing

Heinz Büchel
– since April 13, 2006 –

Wilfried Donisch

Dieter Faust

Simone Haupt

Heinz-Eberhard Holl

Berthold Huber
– until April 13, 2006 –

Dr. Dietmar Kuhnt
– until April 13, 2006 –

Dr. Gerhard Langemeyer

Dagmar Mühlenfeld

Erich Reichertz
– since April 13, 2006 –

Dr. Wolfgang Reiniger

Günter Reppien

Bernhard von Rothkirch
– until April 13, 2006 –

Dr. Manfred Schneider

Prof. Dr. Ekkehard D. Schulz
– since April 13, 2006 –

Klaus-Dieter Südhofer
– until April 13,2006 –

Uwe Tigges

Prof. Karel Van Miert

Jürgen Wefers
– until April 13, 2006 –

Executive Board

Harry Roels
Chairman

Berthold A. Bonekamp

Alwin Fitting

Dr. Klaus Sturany

Jan Zilius

*Financial Calendar 2006 / 2007**

08/10/2006 Interim report for the first half of 2006
- Press conference
- Analyst conference

11/09/2006 Interim report for the first three quarters of 2006
with analyst conference call

02/23/2007 Annual report for fiscal 2006
- Press conference
- Analyst conference

04/18/2007 Annual General Meeting

04/19/2007 Ex-dividend date

05/15/2007 Interim report for the first quarter of 2007
with analyst conference call

08/09/2007 Interim report for the first half of 2007
- Press conference
- Analyst conference

11/14/2007 Interim report for the first three quarters of 2007
with analyst conference call

* All events will be broadcast live on the Internet and can thus be followed by the public at large, investors and analysts simultaneously. We will keep the recordings on our website for at least three months.

This is a translation of the German interim report. In case of divergence from the German version, the German version shall prevail.

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