January to March

Report on the first quarter of 2005

- Group operating result up 7 % year-on-year net of one-off effects
- Net income improved by 5 % — outlook for fiscal year confirmed
- Net financial debt reduced to €11.6 billion
- Moody's improves A1 rating outlook from "negative" to "stable"

At a glance

RWE Group		Jan – Mar 2005	Jan – Mar 2004	+/– in %	Jan – Dec 2004
External revenue	€ million	11,020	12,172	–9.5	42,137
EBITDA	€ million	2,427	2,615	–7.2	8,400
Operating result	€ million	1,950	1,970	–1.0	5,976
Income before tax	€ million	1,538	1,612	–4.6	3,935
Net income	€ million	975	925	5.4	2,137
Earnings per share	€	1.73	1.64	5.5	3.80
Cash flows from operating activities	€ million	1,549	1,276	21.4	4,928
Capital expenditure	€ million	695	832	–16.5	3,737
Free cash flow[1]	€ million	917	571	60.6	1,499
		03/31/05	**12/31/04**	**+/–** in %	
Net financial debt	€ million	11,575	12,385	–6.5	
Workforce	FTE[2]	86,817	97,777	–11.2	

1 Cash flows from operating activities minus capital expenditure on property, plant and equipment.

2 Full time equivalent (1 FTE = 1 full-time position).

»The new fiscal year got off to a good start. RWE is on track to generate further growth in earnings.«

Dear Investors and Friends of the Company,
RWE embarked on the new financial year as a focused energy and water company. Tables presenting revenue and earnings figures in this interim report show how focused and lean our corporate structure is today. For the first time, the divisions on which we are reporting solely consist of our core businesses. RWE is thus well positioned to improve the Group's performance, which is already both strong and stable. As evidenced by the first quarter, RWE is on track in terms of its operating performance and has also improved the quality of its balance sheet.

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

- The operating result declined by 1 %. However, it displayed a much more favourable organic trend: Net of consolidation and currency effects, the operating result was up 7 %. This was mainly due to the Continental European energy business. The operating result generated by the water business was adversely affected by maintenance investments in the UK that were made during the regulatory period which expired at the end of March. RWE aims to make up for this in subsequent quarters. The UK energy subsidiary RWE npower closed the quarter down year-on-year. A more significant deterioration is expected for the full year. You were already informed about the declining earnings trend for 2005 in February.
- Net income rose by 5 % despite the slight decline in the operating result. Here, RWE benefited from the improved financial result. Furthermore, the effective tax rate temporarily dropped due to one-off effects.
- Net financial debt decreased by another €0.8 billion to €11.6 billion compared with the end of 2004. This was primarily due to the high level of cash flows from operating activities.

We forecast an improvement in the operating result excluding consolidation and currency effects by a single-digit percentage over the year as a whole. In addition, net income is also expected to see single-digit growth. Following a successful first quarter, we are confident that these growth rates are achievable.

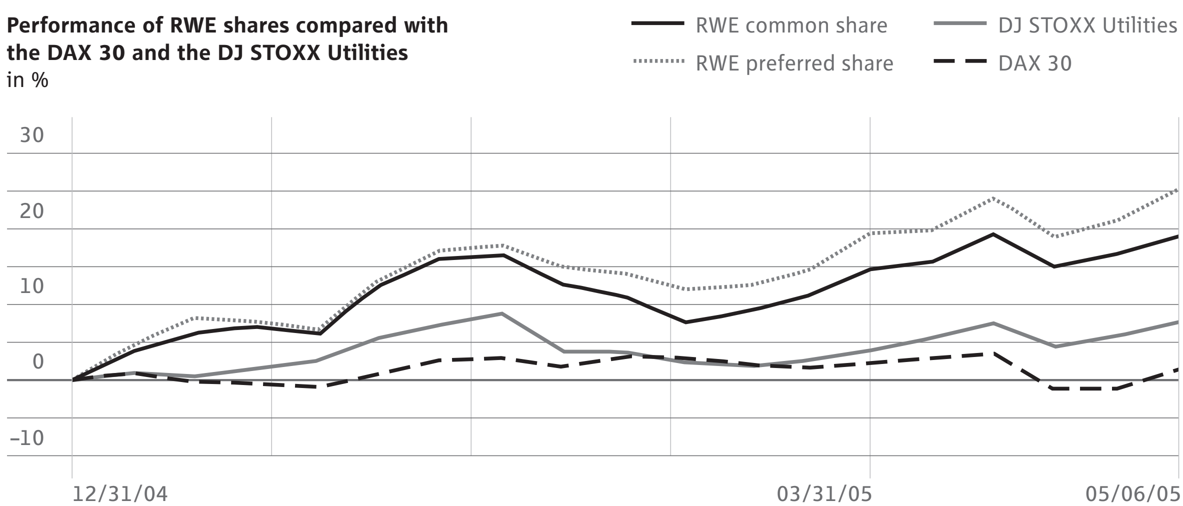
Essen, May 2005

H. J. M. Roels
CEO of RWE AG

RWE shares continue to outperform the overall market significantly

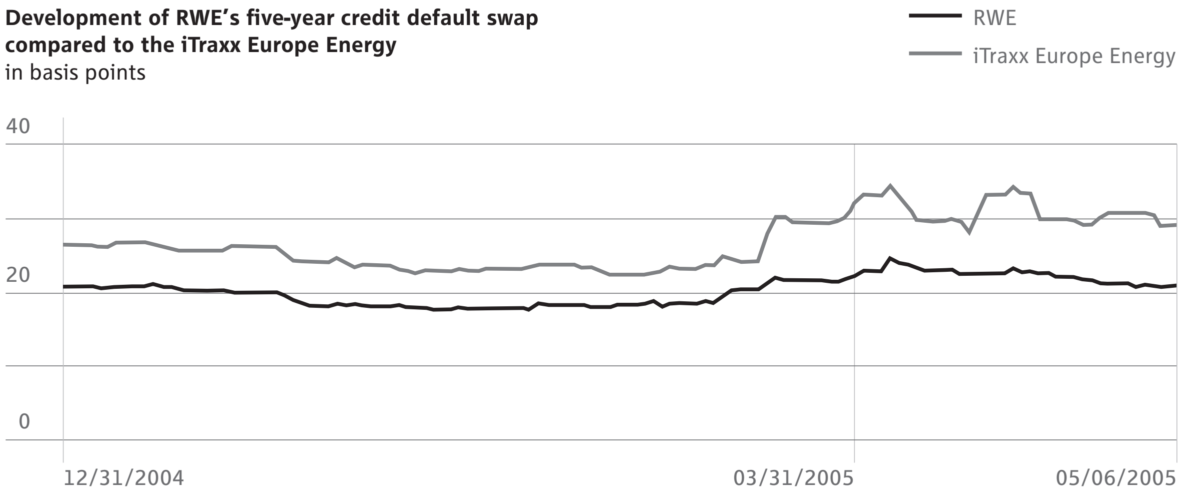
The upward trend on the stock markets that set in at the end of 2004 lost steam again in the first quarter of 2005. All in all, share prices on Europe's stock exchanges recorded moderate growth. The **Euro STOXX 50**, the index representing the most important stocks in the Eurozone, was up 3.6 %. Growth posted by the **DAX 30** was slightly weaker. Germany's lead index closed March at 4,349 points, surpassing the level achieved at the end of 2004 by 2.2 %. Largely positive corporate quarterly results only provided the stock market with limited momentum. This was due to the strong rise in crude oil prices, which triggered fear among investors of cyclical setback and long-term burdens on corporate results. Profit warnings from the US automotive sector fuelled uncertainty on the capital markets.

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



RWE shares continued to perform far better than the overall market. Our common stock was up 15 % to €46.65. Preferred shares gained 19 % to €40.82. They thus clearly outperformed the Dow Jones STOXX Utilities, the European utility index, which was up 4 %. The pleasing development of our share price reflects the fact that leading analysts made upward adjustments to their evaluations of RWE and issued buy recommendations for RWE shares. This was predominantly a result of the strong position we have in the German electricity generation sector. Our goal of considerably increasing our dividend and achieving a payout ratio of 50 % by 2006 also met with positive reactions from the stock exchanges. In contrast, higher interest rates in the US dampened share price perfomance, increasing the attractiveness of investing in bonds. Bonds are often regarded by investors as substitutes for utility shares. RWE shares continued their good performance after the end of the reporting period. Common shares reached their year-to-date high of €48.51 in the middle of April. This also represents the highest level since August 2001.

Development of RWE's five-year credit default swap compared to the iTraxx Europe Energy
in basis points



Sentiment on **bond markets** deteriorated in the first quarter. Bondholders became increasingly fearful of mounting inflationary pressure in the US, which could result in the US Federal Reserve increasing interest rates even further. Bad news from the US automotive sector led to additional uncertainty and credit rating downgrades. Furthermore, there have recently been heightened expectations that companies might increasingly return to making credit-financed acquisitions, which could put their present credit ratings at risk. As a result, our bond spreads widened as well. In consequence, it became more expensive to hedge credit risks using RWE credit default swaps (CDSs). They increased in price by 7 % in the first quarter. However, they did not gain as much as the iTraxx Europe Energy, the European CDS sector index (+22 %). The main reasons for the fact that RWE showed a better development were our strong single A rating and the robust development of our key financials. Prices for RWE CDSs fell again after the reporting period.

Group operating result up 7 % net of one-off effects

Economic trend on RWE core markets: growth in Eurozone continues to slow

The economy lost some momentum in the first quarter of 2005. Most importantly, the high price of primary energy hampered the pace of growth. In addition, many regions pursued more restrictive monetary policies. Nevertheless, money market interest rates largely remained at historically low levels.

Economic trends differed among RWE's core markets. The Eurozone's economy had already become weaker in the second half of 2004. This tendency persisted in 2005. The strength of the euro compared to the US dollar continued to hamper exports. Industrial production expanded only moderately. Many companies recently experienced a drop in incoming orders. The Eurozone's consumer confidence index, which had been unchanged for about half a year, declined slightly in March. This was partly due to the unsatisfactory trend on the labour market. Real gross domestic product (GDP) was up slightly more than 1 % compared with the first quarter of 2004.

In Germany, RWE's largest market, the economy grew by an estimated 0.5 %. Industrial output increased in January, driven by exports. But the economic situation deteriorated over the course of the quarter. The Ifo business climate index has fallen three consecutive times since February. Owing to the crisis on the job market and the difficult financial situation faced by public authorities, domestic demand was not able to provide significant growth.

The United Kingdom, our second-largest core market, continued to rank among the fastest-growing economies in Europe. GDP in the UK was a real 3.5 % higher than in the first quarter of 2004. Good corporate earnings supported the investment climate. Higher interest rates and slower growth in the value of real estate, which is often used as collateral for consumer loans in the UK, dampened the rise in private consumption.

Central Eastern Europe's good economic situation remained intact as well. However, growth in industrial production decelerated temporarily due to the unfavourable effects of currency exchange rates.

The US economy was still robust at the beginning of the year. However, the economy's dynamism recently slowed considerably. Both high energy prices and dwindling fiscal stimuli dampened the growth of domestic demand. According to estimates, the US economy grew by 3.1 % in the first quarter.

The aforementioned economic developments in our core markets had a limited impact on our business trend. Energy consumption generally shows minimal reaction to changes in GDP. Economic dynamism is primarily reflected in demand from industrial enterprises. Household energy consumption predominantly depends on weather conditions. The economy has even less of an effect on the water sector.

Notes on reporting

Due to changes in the Group's structure and accounting policies, we slightly adjusted our reporting procedures from the first quarter of 2005 onwards. The adjustments address the following issues:

- From January 1, 2005 onwards, RWE Trading will no longer be presented separately in our financial reporting. Instead, RWE Trading is now subsumed under RWE Power's Power Generation Business Unit. The rationale for this change lies in the fact that, as an integral component of the energy value chain, RWE Trading's primary function is to contribute to sustaining the value of our power production operations over the long term. The change in our reporting structure does not affect our operations. From now on, Harpen will also be subsumed under the Power Generation Business Unit in our financial reports.
- On February 25, 2005, we completed the sale of 70 % of RWE Umwelt's business to the Rethmann Group. A bidding process for the remaining 30 % was initiated at the beginning of May. RWE Umwelt's operations have been disclosed on the consolidated balance sheet under "Assets/liabilities held for sale" since January 1, 2005. They are no longer included in revenue, EBITDA, the operating result, capital expenditure, or employee figures. Expenses and income are included in the non-operating result.
- The item "Assets/liabilities held for sale" has also included major parts of our water business outside RWE's core regions since the beginning of the year. They comprise our companies in Chile, Spain, the United Arab Emirates, China, Thailand and Australia. These activities are for sale.

Revenue 8 % up year-on-year net of one-off effects

External revenue € million	**Jan – Mar** **2005**	**Jan – Mar** **2004**	**+/–** in %	**Jan – Dec** **2004**
RWE Power[1]	1,419	1,505	–5.7	6,741
RWE Energy	7,049	6,406	10.0	22,450
RWE npower	1,688	1,633	3.4	5,605
RWE Thames Water	837	964	–13.2	4,065
Other/consolidation	27	1,664[2]	–98.4	3,276[2]
RWE Group	**11,020**	**12,172**	**–9.5**	**42,137**

1 Including RWE Trading.

2 Including RWE Umwelt (Q1 2004: € 438 million; fiscal 2004: € 1,830 million) and Heidelberger Druckmaschinen (Q1 2004: € 1,202 million; fiscal 2004 until the deconsolidation in May: € 1,359 million).

In the first quarter of 2005, the RWE Group generated € 11.0 billion in external revenue. This corresponds to a 9 % decrease from last year's level, principally due to the following deconsolidations:

- Heidelberger Druckmaschinen was excluded from the scope of consolidation at the beginning of May 2004. This group of companies generated € 1,202 million in revenue in the first quarter of 2004.
- As explained previously, we deconsolidated RWE Umwelt after we sold 70 % of its business volume. The 30 % stake we still hold in the business is no longer included in the Group's revenue either. This eliminated a total of € 438 million in revenue compared with the first quarter of 2004.
- We shed our Portuguese Turbogas/Portugen power plant operations as of September 30, 2004, which contributed € 62 million in revenue in the first quarter of 2004.

Another one-off effect stemmed from the fact that we no longer include the majority of our water business outside RWE's core regions in revenue due to a change in accounting policies (see explanation on page 5). In addition, the weaker US dollar and pound Sterling resulted in negative currency effects. Averaged for the quarter, the British pound-to-euro exchange rate was 0.69 to 1, compared with 0.67 to 1 in the same period last year. This reduced UK revenue by 2 % when converted to euros. The US dollar-to-euro exchange rate was 1.31 to 1 following 1.23 to 1 in the first quarter of 2004. This diluted US revenue by 6 % on a euro basis.

Net of all major non-recurrent effects and changes in currency exchange rates, external revenue increased by 8 %. This organic growth is largely attributable to RWE Energy and was the result of price increases in our Continental European electricity and gas sales operations. Tariff increases were implemented in order to pass on higher procurement costs—and in Germany, also additional burdens caused by the Renewable Energy Act—to end customers.

Operating result posts an organic improvement of 7 %

The RWE Group's earning trend was marked by one-off effects. Our organic performance remained positive.

EBITDA € million	**Jan – Mar 2005**	**Jan – Mar 2004**	**+/– in %**	**Jan – Dec 2004**
RWE Power[1]	833	824	1.1	2,571
RWE Energy	1,019	957	6.5	2,927
RWE npower	172	186	–7.5	698
RWE Thames Water	405	449	–9.8	1,979
Other/consolidation	–2	199[2]	–101.0	225[2]
RWE Group	**2,427**	**2,615**	**–7.2**	**8,400**

1 Including RWE Trading.

2 Including RWE Umwelt (Q1 2004: € 47 million; fiscal 2004: € 190 million) and Heidelberger Druckmaschinen (Q1 2004: € 149 million; fiscal 2004 until the deconsolidation in May: € 96 million).

EBITDA was down 7 % to € 2,427 million. Our operating result amounted to € 1,950 million, just shy of the level achieved in the corresponding period last year. Lower depreciation due to the sale of asset-intensive activities (–€ 112 million) and higher income from investments (+€ 56 million) were primarily responsible for the fact that the operating result developed better than EBITDA. The decline in earnings mainly stems from the deconsolidation of the Heidelberg Group, which caused EBITDA and the operating result to decline by € 149 million and € 94 million, respectively. Moreover, an effect was felt from the sale of RWE Umwelt (–€ 47 million/–€ 15 million) and the Portuguese-based power plant company Turbogas (–€ 13 million/–€ 7 million). A further one-off effect stems from the change in the way we report the majority of our water business outside RWE's core regions on our balance sheet. These activities are no longer included in EBITDA or the operating result. Moreover, the weak dollar and pound had an adverse effect on our earnings position (–€ 29 million/–€ 20 million). Excluding the aforementioned one-off and currency effects, EBITDA and the operating result improved by 3 % and 7 %, respectively.

Our Continental European energy business had the strongest positive influence on our operating result net of one-off effects. RWE Power benefited from higher wholesale electricity prices, which however, were contrasted by the increased cost of fuel. RWE Energy implemented further measures to reduce costs and enhance efficiency and posted a slight improvement in electricity and gas margins in the sales business. RWE npower saw a decrease in its operating result: the UK energy company faced substantial burdens resulting from higher fuel costs and the shortfall of emissions allowances, which could not be offset by price-driven increases in income from the end customer business. RWE Thames Water closed the first quarter with an operating result net of one-off effects slightly down year-on-year because the company incurred additional maintenance expenses at the end of the regulatory period that concluded on March 31. But we expect that the operating result of RWE Thames Water will grow for the full year. This will be driven by tariff increases in the new regulatory period.

For a detailed commentary on the earnings trend by division, please turn to pages 21 to 32.

Operating result € million	**Jan – Mar 2005**	**Jan – Mar 2004**	**+/– in %**	**Jan – Dec 2004**
RWE Power[1]	707	623	13.5	1,846
RWE Energy	852	796	7.0	2,192
RWE npower	150	162	–7.4	604
RWE Thames Water	247	295	–16.3	1,389
Other/consolidation	–6	94[2]	–106.4	–55[2]
RWE Group	**1,950**	**1,970**	**–1.0**	**5,976**

1 Including RWE Trading.

2 Including RWE Umwelt (Q1 2004: €15 million; fiscal 2004: €76 million) and Heidelberger Druckmaschinen (Q1 2004: €94 million; fiscal 2004 until the deconsolidation in May: €34 million).

Net income improved by 5 %

The reconciliation to the RWE Group's net income reflects the positive effects felt by the financial result and the low effective tax rate, whereas the non-operating result was considerably lower than the high level achieved in the corresponding period last year.

Non-operating result € million	**Jan – Mar 2005**	**Jan – Mar 2004**	**+/– € million**	**Jan – Dec 2004**
Capital gains	206	256	–50	678
Impairment losses	0	0	0	–492
Restructuring/other	–129	22	–151	258
Non-operating result	**77**	**278**	**–201**	**444**

The non-operating result declined by € 201 million to € 77 million. Changes break down as follows:

- Capital gains amounted to € 206 million—down € 50 million year-on-year. Major drivers were the sale of the third tranche of our stake in US-based CONSOL Energy, which had contributed € 220 million to the non-operating result in the corresponding period last year. Substantial book gains in the period under review were made above all on the sale of our 20 % interest in Stadtwerke Düsseldorf as well as of real estate.
- As in the first quarter of 2004, no impairment losses were recognized in the reporting period.
- Items grouped under the "Restructuring/other" line item decreased by a total of € 151 million to –€ 129 million. Income from the change in nuclear provisions experienced an especially significant decrease. It dropped from € 169 million to € 29 million. Moreover, changes in the IAS 39 accounting standard mandated a revaluation of forward transactions concluded by RWE Trading. This dampened our non-operating result by € 62 million. Conversely, the period under review no longer includes substantial restructuring expenses.

Financial result € million	**Jan – Mar 2005**	**Jan – Mar 2004**	**+/–** in %	**Jan – Dec 2004**
Interest income	282	282	–	1,117
Interest cost	–504	–573	12.0	–2,247
Net interest	**–222**	**–291**	**23.7**	**–1,130**
Interest accretion to long-term provisions	–311	–338	8.0	–1,327
Other financial result	44	–7	–	–28
Financial result	**–489**	**–636**	**23.1**	**–2,485**

The financial result improved by € 147 million, or 23 %, to –€ 489 million. This is partially due to the reduction in debt, which had a positive effect on net interest. In addition, long-term provisions declined, in part due to the deconsolidation of Heidelberger Druckmaschinen and RWE Umwelt. Associated interest accretion was thus lower. The earnings situation of our asset management activities improved considerably.

Reconciliation to net income		Jan – Mar 2005	Jan – Mar 2004	+/– in %	Jan – Dec 2004
Operating result	€ million	**1,950**	**1,970**	**–1.0**	**5,976**
Non-operating result	€ million	77	278	–72.3	444
Financial result	€ million	–489	–636	23.1	–2,485
Income before tax	€ million	**1,538**	**1,612**	**–4.6**	**3,935**
Taxes on income	€ million	–441	–552	20.1	–1,521
Income after tax	€ million	**1,097**	**1,060**	**3.5**	**2,414**
Minority interest	€ million	122	135	–9.6	277
Net income*	€ million	**975**	**925**	**5.4**	**2,137**
Earnings per share	€	**1.73**	**1.64**	**5.5**	**3.80**
Effective tax rate	%	**29**	**34**	**–14.7**	**39**

* RWE shareholders' share in income.

As a result, income before tax was down 5 % from the first quarter of 2004 to € 1,538 million. Conversely, income after tax was up 3 % to € 1,097 million. This was due to the effective tax rate, which dropped from 34 % to 29 %. The decline is due to one-off effects and must not be extrapolated for the full year. It partially stems from the fact that we were able to make use of tax loss carryforwards in the RWE AG tax group, which had not been capitalized. In addition, companies included at equity made an increased contribution to income. Income from investments is already taxed and is thus tax-free at the Group level. The minority interest decreased by € 13 million to € 122 million, largely as a result of the deconsolidation of the Heidelberg Group.

Net income amounted to € 975 million. It thus surpassed the level achieved in the first quarter of 2004 by 5 %. Corresponding earnings per share increased from € 1.64 to € 1.73.

Cost-cutting programmes: € 30 million in additional savings realized

Ongoing cost-cutting programmes € million	2002	2003	2004	2005	2006	Target
Reorganization			150	160	190	**500**
Acquisition synergies	60		30	50	40	**180**

Having successfully completed the cost-cutting programme launched in February 2000 that concentrated on our German electricity business at the end of 2004, we are now focusing on the two ongoing cost-saving programmes. They are designed to reduce annual costs by € 680 million by the end of 2006. € 500 million are allocable to measures taken to reorganize the RWE Group. The programme was launched in October 2003 and had already achieved € 150 million in savings by the end of 2004. With the second programme, we intend to capitalize on synergies from the large-scale acquisitions made in the last few years. By the end of the last financial year, we had already achieved half of the target volume of € 180 million. This year, we want to cut costs by € 210 million through the two programmes. We had already achieved € 30 million of this sum in the first quarter. A considerable part of the measures for 2005 will have a cost-reducing effect in the second half of the year.

Capital expenditure down year-on-year after sale of companies

In the first quarter of 2005, capital spending totaled € 695 million. This corresponds to a decline of 16 %, or € 137 million, year-on-year. Capital expenditure on property, plant and equipment amounted to € 632 million. It was down by € 73 million, or 10 %. This is largely due to the deconsolidation of Heidelberger Druckmaschinen (–€ 53 million) and RWE Umwelt (–€ 21 million). Furthermore, substantial parts of the water business outside RWE's core regions are no longer included in capital expenditure (–€ 17 million) owing to changes in accounting policies. Currency effects also contributed to the decline (–€ 16 million). Net of these one-off effects, capital expenditure on property, plant and equipment rose by 6 %. Additional capital was spent on the construction of two gas topping turbines with which we intend to improve the efficiency of the lignite-fired power plant at our Weisweiler site. RWE Thames Water spent more capital on infrastructure in Greater London.

Capital expenditure on financial assets totaled € 63 million, equaling a mere half of the level achieved in the first quarter of 2004, which was already low. The decline is due to the deconsolidation of RWE Umwelt and Heidelberger Druckmaschinen, which spent € 47 million and € 17 million on acquisitions in the same period last year, respectively. Excluding these one-off effects, capital expenditure on financial assets was unchanged. The single-most important project was the increase in our stake in the Polish electric utility STOEN from 85 % to nearly 100 % (+€ 50 million).

Capital expenditure € million	**Jan – Mar 2005**	**Jan – Mar 2004**	**+/–** in %	**Jan – Dec 2004**
RWE Power[1]	176	156	12.8	681
RWE Energy	158	152	3.9	1,024
RWE npower	41	28	46.4	166
RWE Thames Water	314	347	–9.5	1,531
Other/consolidation	6	149[2]	–96.0	335[2]
RWE Group	**695**	**832**	**–16.5**	**3,737**
Capital expenditure on property, plant and equipment	632	705	–10.4	3,429
Capital expenditure on financial assets	63	127	–50.4	308

1 Including RWE Trading.

2 Including RWE Umwelt (Q1 2004: € 68 million; fiscal 2004: € 156 million) and Heidelberger Druckmaschinen (Q1 2004: € 70 million; fiscal 2004 until the deconsolidation in May: € 70 million).

Cash flow statement — key figures

In the first quarter, cash flows from operating activities increased by 21 % to € 1,549 million despite the deconsolidation of Heidelberger Druckmaschinen (–€ 364 million). This is due to the positive effects felt by working capital. Trade accounts payable were increased considerably compared with last year's corresponding period. Capital expenditure exceeded proceeds from the sale of companies and asset disposals. On balance, this resulted in a cash flow of –€ 406 million. In the first quarter of 2004, cash flows from investing activities and divestments largely offset each other.

Free cash flow amounted to € 917 million, up € 346 million year-on-year. In addition to the improved cash flow from operating activities, lower capital expenditure on property, plant and equipment had an effect.

Cash flow statement* € million	**Jan – Mar** **2005**	**Jan – Mar** **2004**	**+/–** in %	**Jan – Dec** **2004**
Cash flows from operating activities	1,549	1,276	21.4	4,928
Change in working capital	409	–398	202.8	–623
Cash flows from investing activities	–406	–1	–	–1,574
Cash flows from financing activities	531	–609	187.2	–4,009
Effect of changes in currency exchange rates and other changes in value on cash and cash equivalents	11	11	–	–
Total net changes in cash and cash equivalents	**1,685**	**677**	**148.9**	**–655**
Cash flows from operating activities	1,549	1,276	21.4	4,928
Minus capital expenditure on property, plant and equipment and intangible assets	–632	–705	10.4	–3,429
Free cash flow	**917**	**571**	**60.6**	**1,499**

* Please turn to page 37 for a complete cash flow statement.

Net financial debt reduced to € 11.6 billion despite negative currency effects

As of March 31, 2005, net financial debt totaled € 11.6 billion. This was € 810 million less than at the end of 2004, and was principally due to our high cash flows from operating activities. In addition, the market value of securities held under asset management increased, thus reducing debt by € 163 million. Furthermore, we received € 110 million in proceeds from divestments. This does not yet include the cash flow pending from the sale of our 20 % stake in Stadtwerke Düsseldorf, although the transaction was completed in the first quarter. We will receive the purchase price in the second quarter. The largest debt-increasing effect came from capital expenditure (+€ 695 million). Changes in currency exchange rates also had a similar effect (+€ 410 million) since the euro weakened relative to the US dollar and the pound Sterling as of the cut-off date. As of March 31, the key currency exchange rates were US$ 1.30/€ and £ 0.69/€, as compared to US$ 1.36/€ and £ 0.71/€ as of December 31, 2004. Financial derivatives, which we use to hedge liabilities against currency exchange and interest rate effects, had a market value of € 1.9 billion as of the end of the quarter. However, derivatives are not taken into account in net financial debt.

Net financial debt € million	**03/31/05**	**12/31/04**	**+/–** in %
Cash and cash equivalents	3,211	1,526	110.4
Marketable securities	11,671	12,049	–3.1
Other financial assets	1,832	1,423	28.7
Gross financial assets	**16,714**	**14,998**	**11.4**
Bonds, notes payable, bank debt and commercial papers	24,893	24,882	–
Other financial debt	3,396	2,501	35.8
Gross financial liabilities	**28,289**	**27,383**	**3.3**
Net financial debt	**11,575**	**12,385**	**–6.5**

The ratio of EBITDA to net interest, which is a key credit rating indicator in controlling our debt, was 10.9 in the first quarter of 2005. We expect this ratio to be close to 8 for the year as a whole. This is because we generate above-average earnings in the first quarter due to seasonal conditions.

Workforce in FTE[1]	**03/31/05**	**12/31/04**	**+/–** in %
RWE Power[2]	18,905	18,792	0.6
RWE Energy	38,912	39,861	–2.4
RWE npower	9,894	9,555	3.5
RWE Thames Water	15,980	16,051	–0.4
Other	3,126	13,518[3]	–76.9
RWE Group	**86,817**	**97,777**	**–11.2**
Germany	44,622	55,407	–19.5
Outside Germany	42,195	42,370	–0.4

1 Full time equivalent (1 FTE = 1 full-time position).

2 Including RWE Trading.

3 Including RWE Umwelt (10,408 FTE).

Employee headcount stable net of divestments

As of March 31, 2005, the RWE Group employed 86,817 people (full time equivalent), 42,195, or about half (49 %) of which worked outside Germany. The workforce decreased by 10,960 employees, or 11 %, vis-à-vis December 31, 2004. Consolidation effects in the first quarter exclusively stem from the sale of companies. As a result of these divestments, 11,217 staff members left the Group, 10,408 of which are attributable to the deconsolidation of our environmental activities. Net of divestments, the employee headcount increased slightly by 257, or 0.3 %. The German workforce was essentially unchanged.

Research and development: focus on efficiency and environmental protection

Capital expenditure on research and development (R&D) was down on the first quarter of last year, which still included Heidelberger Druckmaschinen. Product innovations are of relatively low importance to our core businesses in the fields of energy and water. In addition, we conduct most of our R&D projects in cooperation with external partners from the fields of industry and research, which means that these activities are often only partially reflected in our own expense figures.

One of the focal points of our R&D work consists of projects to enhance efficiency and reduce emissions in our power plants as well as to modernize our water and electricity networks. In the field of power generation, our sights are set on technologies to improve efficiency, involving the development of lignite drying methods on a large scale. Moreover, we are looking into ways to further reduce CO_2 emissions from electricity generation operations, running the gamut from the use of novel power plant technology to the compression and underground storage of CO_2. RWE Thames Water is developing methods to reduce sewage sludge production in wastewater treatment plants and is testing innovative techniques for maintaining water pipe networks.

Major events

In the period under review:

UK emissions allowance allocation plan not approved by the EU

The UK government revised its national allocation plan (NAP) for the trading of CO_2 emissions allowances and submitted the revised version to the EU Commission for approval on February 14, 2005. The plan envisioned an increase of emissions allowances allocated free of charge in the first trading period from 2005 to 2007 from 736.3 to 756.1 million metric tons of CO_2. In the meantime, however, the UK government announced that the intended increase was not approved by the Commission and that it will take legal action against this. Plants are expected to receive their allotments in May. RWE npower is likely to receive a little more than the 14.9 million metric tons per year envisioned in the original NAP. The volume of emissions allowances falls clearly below actual emissions caused by RWE npower in the reference period from 2000 to 2003.

RWE npower plans to modernize its power plant portfolio

In January 2005, RWE npower applied for a permit for the construction of a 2,000 MW gas power station at the old oil power plant site in Pembroke (South Wales). We are also looking into further options to expand our power plant capacity in the attractive UK electricity market.

RWE share one of the major shares in Deutsche Börse's new dividend index

On March 1, 2005, Deutsche Börse introduced the DivDAX stock index, which is based on dividend yield. The new index includes the 15 DAX 30 companies with the strongest dividend yields. RWE currently ranks among the three companies with the highest weighting in the new index. The DivDAX stock index primarily targets investors with conservative, value-safeguarding investment strategies. Its composition will be reviewed once a year in September. Weighting is determined on the basis of the market capitalization of freely tradable shares, also referred to as the free float. Weightings are recalculated once a quarter.

After the period under review:

Preparations for German grid regulation enter final phase

The German Lower House passed the new German Energy Act (EnWG) on April 15, 2005. It establishes the statutory framework for the German energy supply sector and is designed to increase transparency and competition on the electricity and gas markets. At the core of this act is the introduction of a regulatory authority, known as the Federal Grid Agency ("Bundesnetzagentur"), which will monitor grid access as well as electricity and gas grid fees on the basis of four ordinances simultaneously passed by the German Federal Cabinet. Current cost accounting forms the basis for the calculation of grid fees. Corporate taxes will be passed through as a cost when incentive regulation begins. The real return on equity for power and gas grids will be fixed at 6.5 % and 7.8 %, respectively, until the beginning of the incentive regulation scheme. The new federal agency is to develop a method for this second regulatory phase within a year and implement it immediately, without passing it into law. This would increase the economic risk of investing in grids. Grid fee increases sought prior to the introduction of the incentive regulation scheme are subject to ex-ante approval from the regulator. Provisions for the unbundling of grid and power generation operations as well as of trading and sales mandated by European law are also included in the Act. The German Upper House called on the mediating committee on April 29. Therefore, it is likely that the act will be amended. At present, we expect that the act will come into force in the middle of this year.

Moody's improves RWE credit rating outlook

Moody's, the rating agency, changed the outlook of the A1 credit rating it gave RWE from "negative" to "stable" on April 26. This is partially due to the marked reduction in our net financial debt within the last two years. Another positive effect came from the rapid implementation of our strategy of focus and the successful integration of acquisitions into the Group. In addition, the agency believes that RWE will benefit from the positive environment on the power generation market.

Outlook for 2005

Economic development and energy consumption on RWE's core markets

The economies of our key markets will grow at a slightly slower pace in 2005. Major stimuli will continue to come from economies outside the Eurozone. In their spring forecast, the leading economic research institutions anticipate that the German economy will grow by 0.7 %. The UK is expected to feel the adverse effects of a tighter monetary policy. But the general economic situation should remain positive. This also holds true for EU countries in Central Eastern Europe. The USA's economic upswing should lose steam compared with 2004 owing to slackening fiscal stimuli.

The European economy's slight loss in momentum is likely to cause a slowdown in the growth of energy consumption. Weather influences, which led to a moderate rise in volume in the first quarter, could become a factor especially in the summer months. On the whole, we expect that Germany and the UK will experience a slight increase in energy consumption. Growth recorded by the economies of Central Eastern Europe is likely to be slightly stronger, as long as these countries' currently weak exports do not jeopardize the robust economy.

High fuel costs and emissions trading characterize electricity price trend

Fuel costs will remain above average in 2005. In light of the rapidly mounting need for fuel in newly industrializing countries and persistently low capacity reserves, it is currently impossible to predict whether the situation on the oil market will ease up over the long term. As a result, gas prices should be high, since they reflect developments on the oil market with a lag of about half a year. Hard coal spot prices on Europe's markets remain high. At above €60 per metric ton of hard coal units, they are currently lower than the record level achieved in mid-2004 of just under €75. But prices set by the German Federal Office for Economic and Export Control (BAFA) for coal in Germany will exceed the 2004 average. This is due to the fact that they lag spot prices by several months.

The commencement of the CO_2 emissions trading system adds a significant cost factor to the power generation business. Certificate prices have recently increased considerably. In April, they temporarily exceeded €17 per metric ton of CO_2 and were thus twice as high as at the beginning of the year.

All in all we therefore expect that power generation costs will surpass the high level achieved in 2004. This should also be reflected in prices. The increasing scarcity of available power plant capacity in Europe constitutes yet another factor. Electricity wholesale prices in Germany and the UK, RWE's key markets, recently rose again, as they did in other European countries. A downturn is currently unlikely.

Slight decline in Group revenue due to divestments

Group revenue is expected to drop below the €42.1 billion achieved in 2004. These and the following prognoses are based on assumed exchange rates of US$1.30/€ and £0.70/€ in 2005. The decline is principally due to the deconsolidation of RWE Umwelt, Heidelberger Druckmaschinen, the Portuguese power plant company Turbogas and of the peripheral activities of RWE Solutions. In addition, revenue was eliminated as a result of the change in the balance sheet treatment of parts of our water business. The aforementioned effects should reduce revenue by a total of approximately €4 billion. Net of this impact as well as currency effects, revenue is expected to post a single-digit percentage rise. We anticipate that organic growth will come primarily from our Continental European gas sales operations.

Operating result expected to improve

We confirm the earnings forecast we published in our 2004 annual report in February this year. We believe we stand a good chance of increasing the Group's operating result. Excluding the aforementioned one-off and currency effects, we expect to grow our operating result by a single-digit percentage. The increased cost of hard coal, a shortfall of CO_2 emissions allowances and the onset of regulation in the German electricity and gas markets are expected to have an adverse impact on earnings. These effects will be contrasted by a rise in income from higher energy and water prices in our volume-driven markets. Furthermore, we plan to cut costs by €210 million in 2005.

We anticipate that EBITDA excluding one-off and currency effects will close the fiscal year on par with the last one. The deviation from the development of the operating result is in part due to the fact that we expect depreciation to decrease. In addition, EBITDA does not include income from investments, which will probably improve even more in 2005.

Our forecast for the operating result by division:

We expect **RWE Power's** operating result to close the fiscal year up on the last one. This prognosis is based on RWE Power including RWE Trading for both 2004 and 2005. We expect this business to post a single-digit percent gain in its operating result. This growth will be largely driven by the Power Generation Business Unit, which we expect will post an increase of between 10 % and 15 % excluding RWE Trading. This will be primarily due to increases in wholesale prices. We have sold forward nearly our entire electricity output for 2005. A counteractive effect will arise from higher hard coal prices, which should result in an additional cost of roughly €150 million. Combined with costs associated with emissions certificates, which will have to be met for the first time in 2005, this could lead to a reduction in coal power plant usage. Further added costs will stem from a comprehensive maintenance programme that we intend to implement in our power stations in the current fiscal year. We expect RWE Dea to experience a slight decline in its operating result. This will be mainly due to lower oil production and the increase in production and exploration costs. Positive price effects are unlikely to be able to fully compensate for this. The significant increase in earnings in the first quarter was due to the advanced appropriation of some of our income from investments and can therefore not be extrapolated for the full year.

We expect the operating result posted by **RWE Energy** to be on par with last year's level. Savings and synergies within the framework of the Group's reorganization will have a positive impact on its operating result. This will be contrasted by burdens that may arise from the regulation of the German electricity and gas markets. These burdens are likely to be moderate in 2005 since the new German Energy Act (EnWG) will probably come into force in the middle of the year at the earliest. The amendment to the German Renewable Energy Act (EEG) will also have a negative effect. It will cause a rise in expenses for the short-term provision of electricity to offset fluctuations in power fed into the public grid from wind farms. Overall, our non-German regional companies are expected to record a stable operating result.

We anticipate that **RWE npower's** operating result will close the fiscal year down on the last one. Our initial forecast envisioned the operating result declining by up to 20 %. However, it was based on prices for CO_2 emissions allowances which were far below the current market level. Therefore, the operating result is at risk of deteriorating even more. The weak earnings trend is mainly attributable to the generation business. It has to cope with substantial additional costs resulting from the increase in fuel prices as well as the insufficient allocation of emissions allowances and will be able to benefit from higher wholesale electricity prices to a limited extent. This is because RWE npower sold forward part of its electricity output for 2005 in the past few years at market prices, which were much lower at the time. All of these contracts will have expired by the end of 2006. We are confident of being able to continue improving the earnings situation of our sales operations. But this will not suffice to offset the shortfalls in the generation business. Furthermore, we expect a rise in costs associated with measures to promote energy savings in UK households, which energy companies are obliged to take by the government. Conversely, the synergy project carried out in cooperation with RWE Thames Water will make an increasing contribution to the operating result. Positive effects will also be felt from the expansion of our renewables-based electricity generation.

RWE Thames Water is expected to post a single-digit percent rise in its operating result. The key factor will be tariff increases in the UK, which we were allowed to introduce from the beginning of the new five-year regulatory period on April 1, 2005. Furthermore, we will benefit from cost reductions. We anticipate that American Water will grow its operating result on the back of successfully negotiated tariff increases and efficiency enhancements.

Net income expected to post single-digit growth

We expect the Group to post a single-digit percent rise in net income. Our non-operating result will fall significantly shy of last year's figure (€444 million). This prognosis is based on the assumption that capital gains will decrease considerably. Furthermore, the adjustment of nuclear provisions is anticipated to produce far less income, which we expect will be of the order of €200–300 million as compared to €717 million in 2004. We expect a further improvement in our financial result. This reflects the reduction in debt, among other things. In addition, we are no longer burdened by the one-off charges incurred in 2004 in connection with the buyback of bonds. Moreover, long-term provisions and their associated interest cost will decline. Our effective tax rate will be higher than in the first quarter (29%), but will remain below last year's level (39%). We do not expect the minority interest to change significantly compared with 2004.

Rise in capital expenditure on property, plant and equipment planned

We will increase capital expenditure on property, plant and equipment in the current financial year. Spending will focus on measures to modernize power plants and grids in Germany as well as on the UK water business. We anticipate capital expenditure of the order of €4 billion. No major acquisitions are planned at present. However, we cannot rule out the possibility of rounding off our existing competitive positions through minor acquisitions. In sum, capital spending will be up year-on-year.

Net financial debt and financing

By the end of 2005, net financial debt is anticipated to have fallen below last year's level (€12.4 billion). Drivers in addition to positive free cash flow will include deconsolidations and proceeds from divestments.

We use various instruments to secure the Group's future financing. Centre stage is taken by our €20 billion debt issuance programme as well as our US$ 5 billion commercial paper programme. One of the instruments used as a liquidity reserve is our €4 billion syndicated credit line. We continue to make use of local credit and capital markets to cover our foreign subsidiaries' financing needs and comply with regulatory requirements. Here we benefit from the high credit ratings we receive from leading rating agencies. In 2005 €1.2 billion in bonds come due.

Expenditure on research and development net of deconsolidations to match last year's level
Spending on research and development will fall shy of the level achieved in 2004 (€114 million), which included the Heidelberg Group's figures until May. Net of this effect, however, capital expenditure in this area will not change significantly. Since, in line with the investment cycles typical of our branch of industry, major projects are very long-term in nature, there will not be a change in key developments this year (see p. 13).

Employee headcount down due to divestments
The deconsolidation of RWE Umwelt caused the RWE Group's workforce to decrease considerably in the first quarter. We expect our labour force to fall slightly from its current level (86,817 employees) by yearend owing to additional minor divestments.

Risk management

Our operations are exposed to a number of risks that are inseparably associated with entrepreneurial activity. We record, assess, control and monitor risks via our Group-wide risk management system. At the same time, existing opportunities are monitored within the scope of our planning and controlling process with a view to identifying and taking advantage of resulting earnings potential.

Risks are evaluated according to their damage potential and probability of occurrence and aggregated at the divisional, business unit 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: Results achieved by our electricity business are significantly influenced by the development of market prices of electricity and fossil fuels, i.e. hard coal and gas. This can result in earnings risks and profit opportunities. We determine ensuing price risks on purchasing and sales markets using special evaluation models, while taking current forward prices and expected price volatility into account. We also 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 are minimized through the strategic use of derivative hedging instruments as well as the steady reduction of production and development costs.

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

Our **trading activities** are principally designed to mitigate earnings risks stemming from price fluctuations on energy markets by hedging future prices of energy sources. This leads to risks from major unexpected price fluctuations as well as credit risks in the event that trading partners fail to fulfil their contractual obligations. We manage these risks via a systematic risk management system that determines specific risk benchmarks for market and credit risks on a daily basis.

Regulatory risks: Exposure to the constant change in the political, legal and social environment can be expected to have an impact on earnings. Clear earnings risks exist in the grid business as a result of the establishment of a regulator for the German electricity and gas sectors. The German Lower House passed the new German Energy Act (EnWG) in the middle of April 2005. However, the Upper House has referred the Act to the mediation committee for the time being. Generally, the new law will increase the room for manoeuvre given to the new regulatory authority and, in turn, the economic risk of investing in grids. The legislative process is expected to be completed by the middle of 2005 (cf. p. 14).

Lignite and hard coal power plants account for a significant portion of our electricity generation portfolio. This represents a considerable risk due to the introduction of the EU-wide **greenhouse gas emissions trading system**. Risks can arise from changes made to the allocation rules and emissions budgets for the second trading period (2008 – 2012) by the legislator and from unexpected increases in the price of CO_2 certificates. To counteract this, CO_2 price risk management is fully integrated in the Group’s risk management system. Furthermore, we will continue to reduce specific CO_2 emissions and make our overall portfolio more flexible by investing in power plants in the future.

Operating risks: We operate technologically complex and interconnected production plants 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 downtimes caused by the aging of components in our power stations will increase. Related earnings risks have risen in light of the increase in electricity prices. We address them through high safety standards as well as regular audits, maintenance and repair work.

Legal risks: Based on risks associated with official approvals for our opencast mines and nuclear power plants, reductions in the delivery of raw materials and the generation of electricity could arise. This risk will be prevented as much as possible through the careful preparation and monitoring of our applications for approval.

Changes in prices in the finance sector: Within the scope of our operations, we are also exposed to interest-rate, currency, credit and share-price fluctuation risks. Due to the Group's international presence, currency risk management is very important. The British pound and the US dollar are our major foreign currencies, because RWE conducts sizeable operations in these currency regions and fuel prices are quoted in these currencies. Group companies in foreign currency zones 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. Interest rate management is also ascribed significant importance. We limit interest rate fluctuations from the Group's accounts receivable and payable. Negative changes in value caused by unexpected interest-rate movements are hedged with non-derivative and derivative financial transactions.

We mitigate **credit risks** by performing transactions within set limits only with banks and business partners of good credit standing and through appropriate cash collateral. In addition, credit insurance policies and bank guarantees are concluded to further limit credit risk.

We have included additional information on risk management in our 2004 annual report.

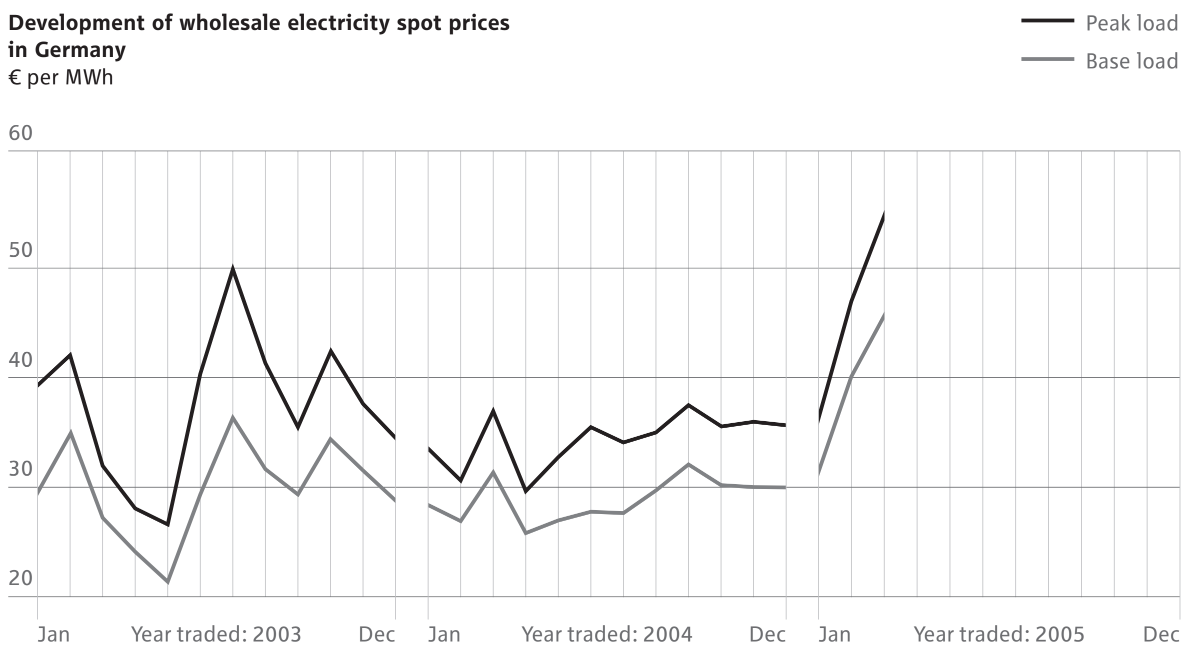
Forward-looking statements

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 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.

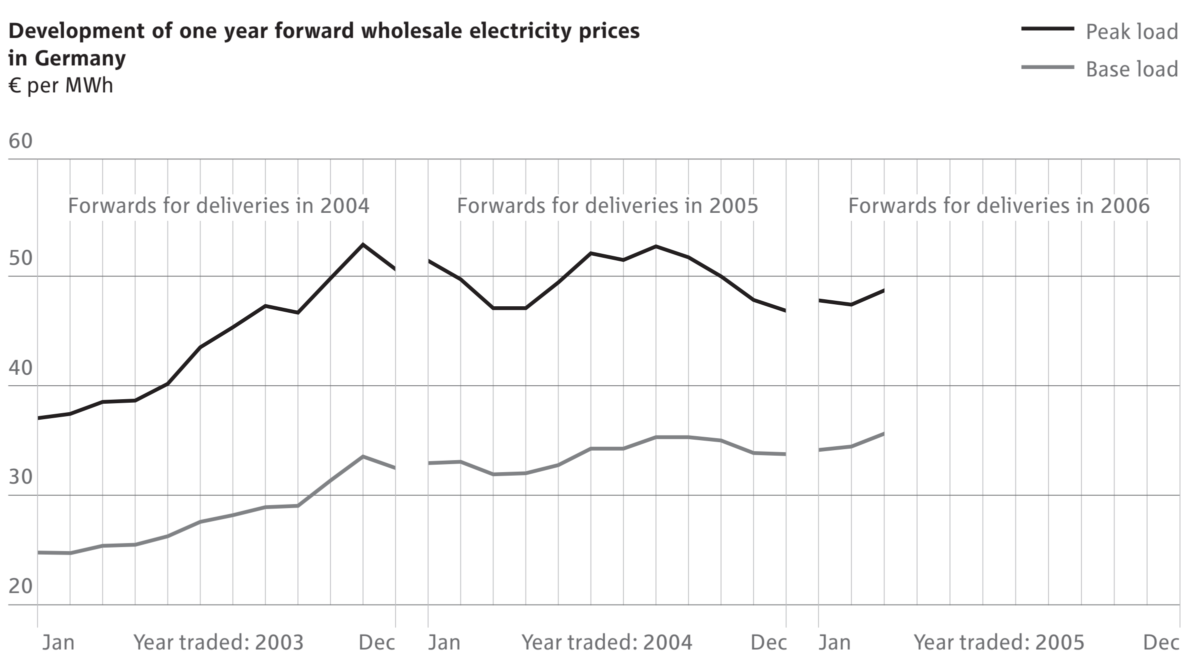
RWE Power

- Operating result 13 % up year-on-year and up 15 % net of one-off effects
- Rising electricity wholesale prices continue to be a key factor

Development of wholesale electricity spot prices in Germany
€ per MWh



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



The development of **electricity prices on the German wholesale market** was characterized by high primary energy prices. In addition, the price of CO_2 emissions certificates has increased considerably as of late. A metric ton of CO_2 traded at an average of €8.39 on the German Energy Exchange (EEX) at the beginning of 2005. By the end of the quarter, the price had risen to €14.17. One of the reasons for this was the EU's restraint in approving the UK, Polish and Czech allocation plans. Therefore, market participants expected emissions allowances to become even more scarce.

Electricity prices posted a steep rise in short-term spot trading on the EEX during the course of the quarter. They were also clearly up year-on-year on average. The price of base-load power and peak-load power rose by 35 % and 36 %, respectively. Contributing factors included the influence of CO_2 emissions trading on prices as well as weather-related effects and power plant downtime in France caused by strikes.

The price of forward contracts has a significant impact on RWE Power's performance. We sell the electricity we produce largely via RWE Trading one or several years in advance. Following a temporary lull in autumn 2004, forward prices on the EEX energy exchange started picking up considerably in March 2005. In the first quarter of 2005, 2006 base-load forward contracts were traded at an average of €34.33/MWh. This represents an increase of 6 % over comparable contracts in the same period last year. At €47.05/MWh, peak-load power was 3 % cheaper. This is because peak-load power plants feel relatively little impact from the cost of CO_2 certificates due to their comparatively low emissions.

The most recent trend on the futures markets will not affect our electricity revenue until 2006. Forward contracts concluded in the last few years for 2005 are of decisive importance for our current revenue situation. Here, we benefited from a significant rise in market prices (see lower chart on page 21).

The most recent primary energy boom was largely driven by the development of **prices on the world crude oil market**. A barrel of Brent crude traded at temporary highs in excess of US$ 55. The average price in the first quarter of 2005 was US$ 47.50. This is a 48 % increase over the corresponding period in 2004 and 90 % more than the last ten-year average. It was above all the expectation of a significant rise in demand especially from Asia that drove the price trend. In addition, there was mounting uncertainty regarding the OPEC countries' production policy after they had renounced their target of realizing a price corridor of US$ 28 – 32 per barrel.

German **natural gas prices** also posted a steep rise. They track oil prices with an average lag of six months via clauses included in supply agreements that are typical of this sector. Therefore, they were still affected by the oil prices recorded in the second half of 2004. RWE Dea was able to sell the gas it produced at prices that were 24 % higher on average.

RWE Power[1]		Jan – Mar 2005	Jan – Mar 2004	+/– in %	Jan – Dec 2004
Electricity production[2]	billion kWh	50.2	52.7	–4.7	202.6
External electricity sales volume	billion kWh	26.5	19.0	39.5	99.4
RWE Trading	billion kWh	22.5	15.1	49.0	79.8
External revenue	€ million	1,419	1,505	–5.7	6,741
RWE Trading	€ million	757	779	–2.8	3,822
EBITDA	€ million	833	824	1.1	2,571
Operating result	€ million	707	623	13.5	1,846
Capital expenditure	€ million	176	156	12.8	681
Property, plant and equipment	€ million	176	153	15.0	666
Financial assets	€ million	–	3	–	15
		03/31/05	12/31/04	+/– in %	
Workforce	FTE[3]	18,905	18,792	0.6	

1 Including RWE Trading.

2 Including electricity from power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements.

3 Full time equivalent (1 FTE = 1 full-time position).

RWE Power's **electricity production** totaled 50.2 billion kWh. Generation was down 5 % on 2004. This is due to the deconsolidation of the Portuguese power plant company Turbogas as well as the fact that we produced less energy from hard coal compared with last year owing to higher CO_2 costs. As explained earlier on, figures reported for RWE Power have included RWE Trading figures since January 1, 2005. These two units combined for 26.5 billion kWh in **external electricity sales**. RWE Trading accounted for 22.5 billion kWh of this and sold a substantial portion of our electricity production on the wholesale market.

RWE Dea decreased its **gas production** by 20 % to 610 million m^3. This was largely due to the expected drop in demand owing to the expiry of supply agreements as well as to production downtime in the UK and Norway. We anticipate that we will be able to market the resulting volume gap in the summer. **Oil production** amounted to 1.1 million m^3. This corresponds to a 29 % decline compared with the first quarter of 2004. This was primarily because production in Norway only gradually picked up following unscheduled stoppage in 2004. Furthermore, we had to ramp down production on the German Mittelplate offshore platform since unfavourable weather conditions hampered oil transport to the mainland.

RWE Power and RWE Trading combined for € 1,419 million in **external revenue**, 6 % down year-on-year. This was principally due to the deconsolidation of Turbogas in the Power Generation Business Unit. RWE Trading was slightly down on the same period last year despite the increase in wholesale electricity prices. RWE Dea only partially offset the decline in gas and oil production through price effects.

EBITDA was up 1 % to € 833 million. The **operating result** posted stronger growth. It was up 13 % to € 707 million. This difference in growth was a result of lower depreciation and improved income from investments. Neither of these items is included in EBITDA. Rising wholesale electricity prices were the key factor. Net of the deconsolidation of Turbogas, RWE Power's operating result advanced 15 %.

RWE Power Business Units January – March € million	**Total revenue**		**External revenue**		**EBITDA**		**Operating result**	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Power Generation*	3,098	2,895	1,099	1,173	694	655	577	515
RWE Dea	307	337	320	332	139	169	130	108
RWE Power	**3,405**	**3,232**	**1,419**	**1,505**	**833**	**824**	**707**	**623**

* Including RWE Trading and Harpen.

The following is a breakdown of the operating result by business unit:

- **Power Generation (including RWE Trading and Harpen):** The operating result recorded by this reporting unit improved by 12 % over the figure for the same period last year. Here, we benefited above all from the rise in wholesale electricity prices. However, we also had to cope with the adverse effect of increased fuel prices (–€ 100 million). The deconsolidation of Turbogas caused the operating result to decline by € 7 million.

- **RWE Dea** closed the quarter with a 20 % gain in its operating result, while EBITDA dropped by 18 %. This was due to the decline in depreciation and, most importantly, a clear improvement in income from investments, which largely came from our oil production activities in Kazakhstan, whose equity result we only appropriated in the second quarter in 2004. RWE Dea's earnings situation was positively affected above all by the rise in oil and gas prices. However, we were unable to fully benefit from the bullish commodities markets due to our oil price hedging transactions. Furthermore, the decrease in production had a negative impact on earnings.

RWE Energy

- Operating result up 7 %
- Cost reductions and tariff adjustments in the Continental European sales business

RWE Energy		Jan – Mar 2005	Jan – Mar 2004	+/– in %	Jan – Dec 2004
External electricity sales volume	billion kWh	39.5	45.8	–13.8	156.4
External gas sales volume	billion kWh	109.1	111.4	–2.1	291.8
External revenue	€ million	7,049	6,406	10.0	22,450
Electricity[1]	€ million	3,678	3,367	9.2	12,975
Gas	€ million	2,700	2,311	16.8	6,210
EBITDA	€ million	1,019	957	6.5	2,927
Operating result	€ million	852	796	7.0	2,192
Capital expenditure	€ million	158	152	3.9	1,024
Property, plant and equipment	€ million	103	115	–10.4	947
Financial assets	€ million	55	37	48.6	77
		03/31/05	12/31/04	+/– in %	
Workforce	FTE[2]	38,912	39,861	–2.4	

1 Including € 259 million in direct electricity taxes (Q1 2004: € 266 million; fiscal 2004: € 947 million). Also includes grid fees.

2 Full time equivalent (1 FTE = 1 full-time position).

Power consumption in Germany in the first quarter of 2005 was 1 % higher than in the corresponding period last year. Consumption of electricity for heating rose marginally due to low temperatures in February. Industrial operations consumed only slightly more electricity as the economy slowed. Weather-related effects also contributed to the growth in consumption on our Central Eastern European markets, while the positive economic stimuli weakened throughout the region and slackened considerably in some countries. Power consumption was up 2 % in Poland, while in Slovakia and Hungary, it decreased slightly.

Demand for natural gas in Germany was up nearly 1 %. Following the mild weather in January, a positive effect on consumption was felt especially from the cool weather in February. Industrial enterprises only recorded a marginal rise in natural gas consumption due to the economic situation. Consumption in the Czech Repubic, which is RWE Energy’s largest gas market alongside Germany, stagnated. This was caused by slightly weaker industrial growth.

The **electricity price** trend in the German end customer and distributor segments reflected the rise in wholesale prices. Utilities lifted tariffs across customer segments owing to the significant rise in power procurement costs. Homes and small commercial customers saw electricity prices increase by an average of 3.5 % over the first quarter of 2004. Industrial enterprises were charged 2 % more. Prices in the distributor segment rose by 3 %. Electricity prices advanced on our Central Eastern European markets as well. In Hungary, electricity tariffs are decided upon by a state authority. Small end customers saw prices advance by up to 10 %, while prices paid by large industrial operations and distributors increased by up to 25 %. End consumers in Slovakia had to pay 5 % more for electricity, whereas in Poland they only saw a slight 0.6 % rise.

Cross-border prices for natural gas track oil prices. On average, they were some 30 % up year-on-year. This also had an impact on the German end customer business. Deliveries to household and industrial customers rose by an average of about 8 %. An independent regulator is in charge of determining gas prices on a quarterly basis in the Czech Republic. The regulatory authority largely looks to prices quoted on the world's oil markets and major exchange rates when setting prices. Prices were up 5 % compared with the first quarter of 2004.

RWE Energy's **electricity sales** to outside customers totaled 39.5 billion kWh. This was some 14 % less than a year ago. This is based on the change in disclosure of electricity fed into RWE Energy's power grid in accordance with the German Combined Heat and Power Act and the German Renewable Energy Act, among other things. This had a net impact of –2.2 billion kWh, or –5 %, on the volume of sales. Furthermore, fierce competition on the German electricity market led to a decrease in sales to industrial enterprises and—above all—distributors. However, we posted net growth in customer figures in the household and small commercial segments. Electricity volumes at our sales companies outside Germany showed a generally stable development.

RWE Energy's **gas sales volume** amounted to 109.1 billion kWh. This is 2 % less than in last year's first quarter. In Germany, we lost industrial customers to the competition. In contrast, we recorded a slight increase in gas sales in the deregulated Dutch market, where we acquired customers. Our Czech regional companies also posted a slight gain year-on-year. This was due to the general rise in consumption, the connection of new customers to the grid, and the marginally cooler weather.

RWE Energy improved its **external revenue** by 10 % to €7,049 million. This was mainly due to the rise in gas revenue. Following regulatory price adjustments, our Czech companies improved their revenue trend. The pleasing increase in sales volume had a positive impact in the Netherlands. The marked rise in gas purchasing costs caused by the link to oil prices led to an increase in prices at our German regional companies. We recorded growth in sales volumes in our electricity business as well. Our German regional companies passed the additional cost of power procurement and grid usage to customers via tariff adjustments. Electricity revenue in Hungary and Poland also advanced owing to prices. Revenue generated by RWE Solutions was down considerably due to the sale of the transformer and power conditioning units.

RWE Energy Business Units January – March € million	External revenue		EBITDA		Operating result	
	2005	2004*	2005	2004*	2005	2004*
German Regions	4,374	4,068	664	618	577	530
Northern	1,246	1,151	172	150	157	134
Central	1,587	1,469	216	184	203	169
Eastern	837	805	138	143	98	106
Western	119	114	27	26	28	26
Southwestern	382	350	78	77	66	66
Southern	203	179	33	38	25	29
International Regions	1,327	1,097	193	165	161	144
RWE Solutions	566	591	5	–1	–3	–15
Electricity and Gas Transmission	736	514	228	208	191	174
Other/consolidation	46	136	–71	–33	–74	–37
RWE Energy	**7,049**	**6,406**	**1,019**	**957**	**852**	**796**

* Figures adjusted, largely due to the retroactive reassignment of gas activities within RWE Energy.

EBITDA was up 6 % to € 1,019 million, and the **operating result** advanced 7 % to € 852 million. This was mainly due to tariff adjustments and cost reductions in the electricity and gas businesses. The following is a breakdown of the operating result by business unit:

German Regions: Our German regional companies increased their operating result by 9 %. Contributing factors were measures to cut costs and enhance efficiency, the rise in margins in line with our value-oriented sales policy as well as the passing-on of the increased cost of power procurement and grid usage. Customer reacquisitions also had a positive effect.

International Regions: Our Continental European sales activities outside Germany gained 12 %. Here, we benefited above all from the price-induced improvement in margins in the electricity business in Hungary, as well as in our Czech gas operations. In Hungary we also benefited from a reduction in power procurement costs.

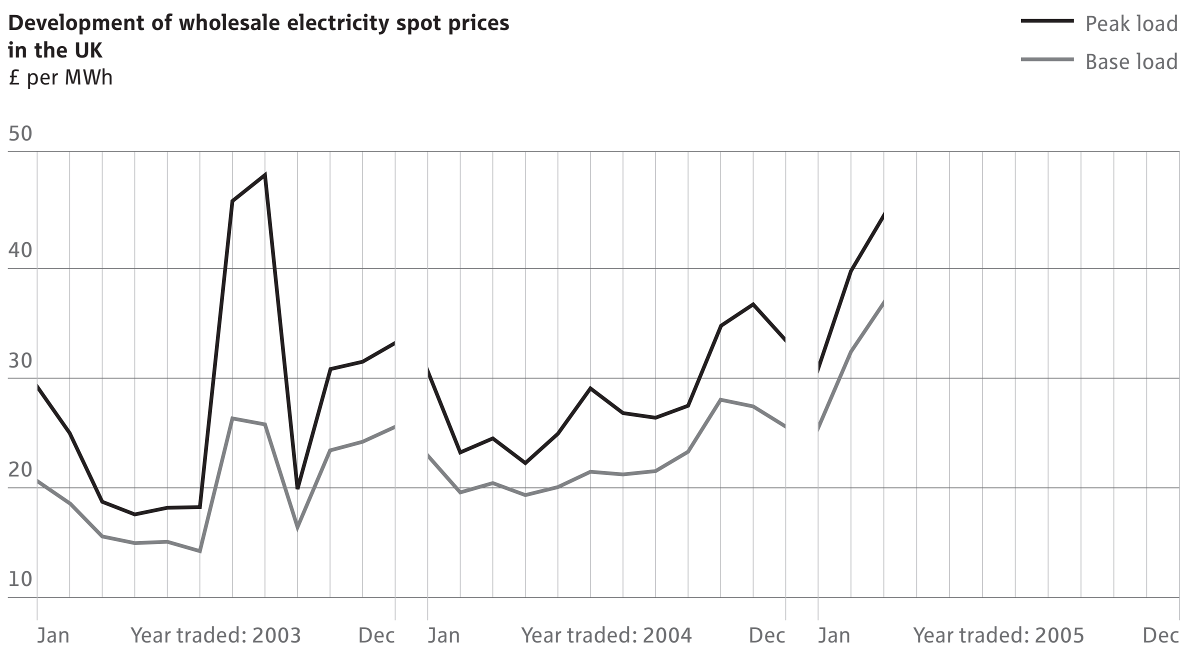
RWE Solutions: The first quarter of a year is typically the lowest-earning period for RWE Solutions due to weather conditions. Against this backdrop, the company thus recorded an operating loss of –€ 3 million in the period being reviewed. However, the earnings situation improved over last year's first quarter (–€ 15 million). This was partially due to the deconsolidation of the power conditioning unit, which had generated a loss in the first quarter of 2004.

Electricity and Gas Transmission: This business unit oversees our entire German extra high-voltage power grid business, our German gas transmission grid, and Czech-based Transgas' gas transmission and trading operations. The unit lifted its operating result by 10 % year-on-year. Cost reductions were a major driver.

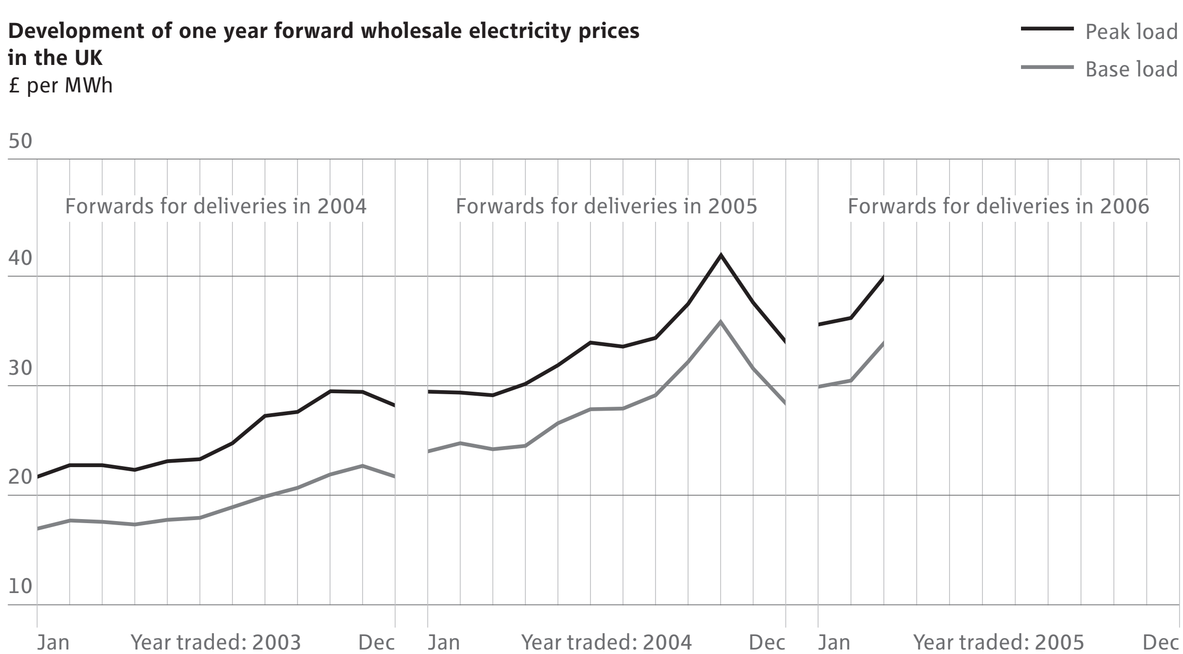
RWE npower

- Operating result down 7 % year-on-year due to drop in earnings from power generation activities
- Margin growth in end customer business

Development of wholesale electricity spot prices in the UK
£ per MWh



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



UK electricity consumption did not change significantly in the first quarter of 2005. The economy did not stimulate significant demand. Since the weather in the UK was slightly milder than in the same period last year, less electricity was used for heating. **Gas consumption** stagnated as well. As was the case in the electricity sector, in the gas industry, positive cyclical effects were contrasted by adverse weather-related effects.

Prices on the UK energy market advanced considerably. Wholesale electricity prices increased even more than in Germany. Spot prices for base-load power and peak-load power averaged for the quarter were 50 % and 47 % up on the level for the same period last year. One-year forwards for base-load electricity rose by 29 % in price to an average of £ 31.53 per MWh (€ 45.70/MWh). For peak-load electricity, they were up by 27 % to an average of £ 37.37 per MWh (€ 54.16/MWh). Besides the rise in the price of CO_2 certificates, this was predominantly due to above-average gas prices. In the UK, gas prices have a strong impact on electricity prices. Besides directly affecting fuel procurement costs, they also contribute to making CO_2 emissions allowances more expensive. When gas prices rise, they cause electricity production to shift to hard coal power plants, which require more certificates. Furthermore, increasingly scarce generation capacity is reflected in the electricity price trend.

Average prices quoted on the UK spot market for natural gas were 20 % higher year-on-year. This was due to the general rise in demand. Moreover, UK gas prices are increasingly influenced by the common international practice of linking gas prices to oil prices because of the country’s mounting dependence on imports.

The price trend on the UK wholesale market was also reflected in the end consumer business. All the major energy supply companies lifted their tariffs over the course of last year. Prices charged for electricity to households and small commercial operations climbed by more than 10 % over last year’s first quarter. Gas prices rose by 15 %. Price adjustments made for corporate customers were in similar orders of magnitude.

In the first quarter of 2005, RWE npower’s **electricity production** amounted to 8.3 billion kWh. We thus eclipsed last year’s figure by 5 %. The **electricity sales volume** dropped by 6 % to 14.4 billion kWh, with the **gas sales volume** decreasing by 3 % to 18.2 billion kWh. This was due to the fact that we focus on supply agreements with attractive margins in line with our return-oriented sales strategy. By consequence, we lost volume primarily in the industrial customer business. At present, RWE npower accounts for 15 % of the electricity and 9 % of the gas supplied to the UK private customer segment. RWE npower has shares of 18 % and 4 % of the electricity and gas markets in the corporate customer segment.

RWE npower		Jan – Mar 2005	Jan – Mar 2004	+/– in %	Jan – Dec 2004
Electricity production	billion kWh	8.3	7.9	5.1	32.5
External electricity sales volume	billion kWh	14.4	15.4	–6.5	59.5
External gas sales volume	billion kWh	18.2	18.7	–2.7	48.6
External revenue	€ million	1,688	1,633	3.4	5,605
Electricity	€ million	1,168	1,120	4.3	4,154
Gas	€ million	435	404	7.7	1,096
EBITDA	€ million	172	186	–7.5	698
Operating result	€ million	150	162	–7.4	604
Capital expenditure	€ million	41	28	46.4	166
Property, plant and equipment	€ million	41	28	46.4	150
Financial assets	€ million	–	–	–	16
		03/31/05	**12/31/04**	**+/–** in %	
Workforce	FTE*	9,894	9,555	3.5	

* Full time equivalent (1 FTE = 1 full-time position).

RWE npower improved its **external revenue** by 3 % to €1,688 million. This was a result of price increases in the electricity and gas sales business through which we passed increased procurement costs on to our end customers. Drops in sales volume in the industrial customer business had a counteracting effect. In addition, a negative currency effect was felt from the weaker pound. Net of currency effects, RWE npower grew revenue by 6 %.

EBITDA generated by RWE npower amounted to €172 million. This was 8 % less than in the first quarter last year. The **operating result** declined by 7 % to €150 million. As expected, the electricity generation business experienced a deterioration in earnings. This unit was faced with the burden of increased fuel prices and the fact that CO_2 emissions allowances did not suffice to cover actual emissions. The rise in wholesale electricity prices was unable to offset this, since we had already sold forward part of this year's electricity production in previous years at market prices, which were still much lower at the time. All of these contracts will have expired by the end of 2006. RWE npower made gains in the end customer business owing to tariff increases implemented in autumn 2004. Furthermore, this division benefited from cost-cutting and synergies with RWE Thames Water. The weaker pound caused the operating result in euros to decrease by €4 million.

RWE Thames Water

- Operating result net of one-off effects down 3 % due to increased maintenance spending
- American Water: operating result in dollars improved by 8 % net of special items

RWE Thames Water		Jan – Mar 2005	Jan – Mar 2004	+/– in %	Jan – Dec 2004
External revenue	€ million	837	964	–13.2	4,065
EBITDA	€ million	405	449	–9.8	1,979
Operating result	€ million	247	295	–16.3	1,389
Capital expenditure	€ million	314	347	–9.5	1,531
Property, plant and equipment	€ million	306	325	–5.8	1,465
Financial assets	€ million	8	22	–63.6	66
		03/31/05	12/31/04	+/– in %	
Workforce	FTE*	15,980	16,051	–0.4	

* Full time equivalent (1 FTE = 1 full-time position).

The **regulated water and wastewater services market** continued to show stable development. It is hardly affected by cyclical factors in RWE's core regions, i.e. Europe and North America. The driver of growth 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. This includes a capital investment programme of £ 3.1 billion, or € 4.4 billion, (based on 2002/2003 prices) to improve the quality, security and environmental friendliness of the water supply system.

RWE Thames Water generated € 837 million in **external revenue**. In euro terms, this division was thus 13 % down year-on-year. Contributing factors included the change in accounting for major parts of our water business outside RWE's core regions to "Assets/liabilities held for sale" at the beginning of fiscal 2005. These activities are no longer included in the figures reported for revenue, EBITDA or the operating result (see page 5 of this report). The decline in revenue experienced by RWE Thames Water is also due to the weaker dollar and pound (–€ 52 million). Moreover, we deconsolidated peripheral activities in Asia, Australia and the US in 2004 and early 2005. As a result, we shed a total of € 19 million in revenue. Net of the aforementioned special items, RWE Thames Water's revenue was essentially unchanged.

EBITDA was down 10 % to € 405 million. The **operating result** declined by 16 % to € 247 million. The most influential factor was the change in the way activities outside our core regions are accounted for. Currency effects amounted to –€ 16 million. Without non-recurrent effects, the operating result decreased by 3 %. As mentioned in the outlook, we expect to improve the operating result net of one-off effects significantly for the year as a whole. The marginal deterioration in the first quarter is due to the increase in costs associated with maintenance work in the UK, which we carried out to comply with the remaining requirements for the third regulatory period which ended in March. We intend to offset this effect in subsequent quarters during the new regulatory period. In contrast, we benefited from successful negotiations to increase tariffs in several US states. Net of special items, the operating result recorded by American Water thus rose by 8 % in dollar terms.

RWE Thames Water Business Units January – March	**External revenue**		**EBITDA**		**Operating result**	
€ million	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Regulated UK business	401	415	235	231	126	136
North America	358	398	138	149	81	89
Other markets	78	151	32	69	40	70
RWE Thames Water	**837**	**964**	**405**	**449**	**247**	**295**

RWE Thames Water typically earns just about a fifth of its operating result for the year in the first quarter. This reflects the above average consumption of water during the summer. The UK business is not exposed to substantial seasonal fluctuation since the majority of its customers pay a fixed charge based on property value. However, seasonal effects have a larger impact on American Water. In the US, around a sixth of the operating result for the year is generated in the first quarter.

Supervisory Board

Dr. Thomas R. Fischer
Chairman

Frank Bsirske
Deputy Chairman

Dr. Paul Achleitner

Carl-Ludwig von Boehm-Bezing

Wilfried Donisch

Simone Haupt
– as of April 11, 2005 –

Ralf Hiltenkamp
– until April 10, 2005 –

Heinz-Eberhard Holl

Berthold Huber

Dr. Dietmar Kuhnt

Dr. Gerhard Langemeyer

Dagmar Mühlenfeld
– as of January 4, 2005 –

Dr. Wolfgang Reiniger

Günter Reppien

Bernhard von Rothkirch

Dr. Manfred Schneider

Klaus-Dieter Südhofer

Uwe Tigges

Prof. Karel Van Miert

Jürgen Wefers

Erwin Winkel

Executive Board

Harry Roels
CEO

Berthold A. Bonekamp

Dr. Gert Maichel
– until February 22, 2005 –

Dr. Klaus Sturany

Jan Zilius

Consolidated Income Statement of the RWE Group

€ million	Jan – Mar 2005	Jan – Mar 2004
Revenue	11,020	12,172
Natural gas tax/electricity tax	–404	–321
Revenue (without natural gas tax/electricity tax)	**10,616**	**11,851**
Changes in finished goods and work in progress/other own work capitalized	123	–6
Cost of materials	–6,426	–6,390
Staff costs	–1,245	–1,698
Depreciation, amortization, and impairment losses	–685	–803
Other operating result	–622	–1,028
Income from operating activities	**1,761**	**1,926**
Income from investments accounted for using the equity method	108	62
Other income from investments	158	260
Financial result	–489	–636
Income before tax	**1,538**	**1,612**
Taxes on income	–441	–552
Income after tax	**1,097**	**1,060**
Thereof:		
Income attributable to minority interest	122	135
Net income/income attributable to RWE AG shareholders	**975**	**925**
Undiluted and diluted earnings per common and preferred share (€)	**1.73**	**1.64**

Consolidated Balance Sheet of the RWE Group

Assets € million	**03/31/05**	**12/31/04**
Non-current assets		
Intangible assets	17,665	17,718
Property, plant and equipment	33,717	34,518
Investment property	448	507
Investments accounted for using the equity method	2,341	2,665
Other financial assets	1,856	1,939
Other receivables and other assets	6,300	4,816
Deferred taxes	3,069	3,243
	65,396	**65,406**
Current assets		
Inventories	1,739	2,043
Trade accounts receivable	7,902	7,419
Other receivables and other assets	6,864	5,963
Marketable securities	10,698	11,013
Cash and cash equivalents	3,211	1,526
Assets held for sale	1,811	–
	32,225	**27,964**
	97,621	**93,370**

Consolidated Balance Sheet of the RWE Group

Equity and Liabilities € million	03/31/05	12/31/04
Equity		
Group interest	10,814	9,656
Minority interest	1,604	1,537
	12,418	**11,193**
Non-current liabilities		
Provisions	28,240	28,131
Financial liabilities	22,437	22,488
Other liabilities	6,946	5,568
Deferred taxes	3,985	4,134
	61,608	**60,321**
Current liabilities		
Provisions	5,838	6,623
Trade accounts payable	5,596	5,251
Financial liabilities	5,607	4,895
Liabilities held for sale	1,202	–
Other liabilities	5,352	5,087
	23,595	**21,856**
	97,621	**93,370**

Consolidated Cash Flow Statement of the RWE Group

€ million	Jan – Mar 2005	Jan – Mar 2004
Income after tax	**1,097**	**1,060**
Depreciation, amortization, impairment losses, write-backs	707	802
Changes in provisions	–168	–167
Deferred taxes/non-cash income and expenses/proceeds from disposal of non-current assets and marketable securities	–496	–17
Changes in working capital/other balance sheet items	409	–402
Cash flows from operating activities	**1,549**	**1,276**
Capital expenditure on non-current assets	–695	–832
Proceeds from disposal of non-current assets	32	1,158
Changes in marketable securities and cash investments	257	–327
Cash flows from investing activities	**–406**	**–1**
Cash flows from financing activities	**531**	**–609**
Net changes in cash and cash equivalents	1,674	666
Effect of changes in currency exchange rates and other changes in value on cash and cash equivalents	11	11
Total net changes in cash and cash equivalents	**1,685**	**677**
Cash and cash equivalents at beginning of reporting period	1,526	2,181
Cash and cash equivalents at end of reporting period	**3,211**	**2,858**
Financial assets at beginning of reporting period	14,998	13,952
Financial assets at end of reporting period	**16,714**	**15,120**
Gross financial liabilities at beginning of reporting period	27,383	31,790
Gross financial liabilities at end of reporting period	**28,289**	**32,103**
Net financial debt at beginning of reporting period	12,385	17,838
Net financial debt at end of reporting period	**11,575**	**16,983**

Consolidated Statement of Changes in Equity of the RWE Group

€ million	Group interest	Minority interest	Total equity
At 12/31/03	**7,013**	**2,052**	**9,065**
Dividends paid	–	–40	–40
Other comprehensive income/other	228	40	268
Income after tax	925	135	1,060
At 03/31/04	**8,166**	**2,187**	**10,353**
At 12/31/04	**9,656**	**1,537**	**11,193**
Dividends paid	–	–35	–35
Other comprehensive income/other	183	–20	163
Income after tax	975	122	1,097
At 03/31/05	**10,814**	**1,604**	**12,418**

Notes

Accounting policies

The interim report for the period ended March 31, 2005 was prepared in accordance with the International Financial Reporting Standards (IFRSs) effective as of this date.

With the exception of the new rules described below, this interim report was prepared using the accounting policies applied in the consolidated financial statements for fiscal 2004. For further information, please see the consolidated financial statements for the period ended December 31, 2004, which provide the basis for this interim report.

The interest rate for pension provisions was 5.0 %, as for the period ending on December 31, 2004. As in the previous year, the interest rate for provisions for nuclear waste disposal and provisions for mining was 5.5 %.

Changes in accounting policies

The IASB approved a number of changes to the existing IFRSs and adopted several new IFRSs, which became mandatory as of January 1, 2005. The RWE Group applied the following IFRSs in its interim report for the period ending on March 31, 2005 for the first time:

IAS 1 (2003) "Presentation of Financial Statements"
IAS 2 (2003) "Inventories"
IAS 8 (2003) "Accounting Policies, Changes in Accounting Estimates and Errors"
IAS 10 (2003) "Events After the Balance Sheet Date"

IAS 16 (2003)	"Property, Plant and Equipment"
IAS 17 (2003)	"Leases"
IAS 21 (2003)	"The Effects of Changes in Foreign Exchange Rates"
IAS 24 (2003)	"Related Party Disclosures"
IAS 27 (2003)	"Consolidated and Separate Financial Statements"
IAS 28 (2003)	"Investments in Associates"
IAS 31 (2003)	"Interests in Joint Ventures"
IAS 32 (2003)	"Financial Instruments: Disclosure and Presentation"
IAS 33 (2003)	"Earnings Per Share"
IAS 39 (2004)	"Financial Instruments: Recognition and Measurement" (with the exception of provisions relating to the usage of the fair value option and several provisions relating to hedge accounting)
IAS 40 (2003)	"Investment Property"
IFRS 2	"Share-based Payment"
IFRS 4	"Insurance Contracts"
IFRS 5	"Non-current Assets Held for Sale and Discontinued Operations"
IFRIC 2	"Members' Shares in Co-operative Entities and Similar Instruments"
SIC-12	IFRIC amendment "Scope of SIC-12 Consolidation—Special Purpose Entities"

Application of the aforementioned IFRSs for the first time had the following major effects on the RWE Group's interim report for the period ended March 31, 2005:

According to **IAS 1 (2003)**, balance sheets must be classified by maturity. Therefore, assets and liabilities on the balance sheet of the RWE Group are classified as non-current or current. Assets and liabilities are classified as current if they are expected to be realized/settled within twelve months after the balance sheet date, or if they can be realized or settled within the normal operating cycle.

Investment property is now stated separately from property, plant and equipment under non-current assets. Investments accounted for using the equity method are stated separately. Other financial assets largely consist of the remaining other investments as well as non-current securities.

Loans are stated as current or non-current financial receivables, in line with their maturities. As a rule, trade accounts receivable and payable are stated as being current in nature.

Provisions for pensions and similar obligations are stated under non-current liabilities, in line with their nature.

On principle, deferred taxes are classified on the balance sheet as non-current. Prepaid expenses and deferred income are no longer stated separately on the balance sheet. Instead, they are stated under "Accounts receivable and other assets" and "Other liabilities", respectively.

In the income statement, income from investments accounted for using the equity method is stated separately from other income from investments.

IAS 39 (2004) introduces minor changes in hedge accounting. Hedges of unrecognized firm commitments are now generally recognized as fair value hedges instead of as cash flow hedges. If forecast transactions are hedged and such transactions lead to the recognition of a financial asset and/or financial liability in subsequent periods, the amounts recorded as part of the equity until this point in time must be recognized in the period in which the asset or liability affects the result for the period. If non-financial assets or liabilities result from the transaction, the amounts recognized in equity are offset against the initial carrying amount recognized for the asset or liability.

IAS 39 (2004) has established a firm scope of application for the purchase and sale of non-financial items. Consequently, contracts that were entered into and continue to be held for the purpose of the receipt or delivery of non-financial items in line with the entity's expected purchase, sale or usage requirements (own use contracts) are not under the scope of IAS 39 (2004). Written options to buy or sell a non-financial item, that can be settled in cash, are not own use contracts.

The first-time application of IAS 39 (2004) led to immaterial changes from the previous approach. Taking issues of materiality into account, there was no need to adjust amounts stated for the previous year.

IFRS 5, which supersedes IAS 35 “Discontinuing Operations”, sets out requirements for the classification, measurement and presentation for the sale of non-current assets, asset groups and associated liabilities that have been, or are intended to be sold (“disposal groups”), as well as operations that have been sold or are held for sale (“discontinued operations”). Assets, and if applicable liabilities, must be stated separately on the balance sheet as “held for sale,” if they can be sold in their present condition, and if their sale is highly probable. An asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. IFRSs stipulate that additional information on discontinued operations must be included in the notes. The prospective application of IFRS 5 in this interim report caused certain assets and disposal groups to be classified as “held for sale.” Related information is provided on page 41 et seq.

Accounting for CO_2 emissions allowances
RWE has been subject to the European emissions trading scheme since January 1, 2005. Companies affected by the scheme are allocated CO_2 emissions allowances, which must be returned to the authority in charge within four months from the end of the calendar year in line with the CO_2 actually emitted during the year. If actual CO_2 emissions exceed the allocation for the year, allowances needed to make up the difference must be bought.

The IASB passed IFRIC 3, which sets forth accounting principles applicable to emissions allowances and is mandatory for fiscal years that begin on March 1, 2005, or thereafter. The application of this interpretation would make earnings volatile to an economically unjustifiable extent, depending on the market price of CO_2 allowances. Against this backdrop, there are currently doubts about whether IFRIC 3 will be endorsed by the EU. Therefore, RWE voluntarily renounced applying IFRIC before the required date, opting instead for an accounting method based on currently valid IFRSs, which presents the subject matter in an economically reasonable manner. In accordance with this method, purchased CO_2 allowances are accounted for as intangible assets at cost, whereas CO_2 allowances received free of charge are accounted for at nominal value. A provision is recognized to cover the obligation to return emissions allowances and it is measured at its probable settlement amount.

New accounting policies

The IASB and IFRIC have adopted further standards and interpretations, which are not yet mandatory in the 2005 fiscal 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 examined.

IFRS 6 “Exploration for and Evaluation of Mineral Resources”: IFRS 6 includes rules for accounting for expenses related to the exploration and evaluation of mineral resources such as minerals, oil, natural gas and similar finite resources before their technological and economic production can be proven. 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. IFRS 6 becomes mandatory for the first time for fiscal years starting on January 1, 2006, or thereafter.

IAS 19 Amendment (2004) “Actuarial Gains and Losses, Group Plans and Disclosures”: By adopting the change to IAS 19 “Employee Benefits” in December 2004, the IASB introduced another option for treating actuarial gains and losses, also allowing for them to be accounted for without an effect on net income in the future. In addition, further information on pension commitments will become necessary in the future. IAS 19 (2004) becomes mandatory for the first time for fiscal years starting on January 1, 2006, or thereafter.

IFRIC 3 "Emission Rights": IFRIC 3 sets out the policy for accounting for emissions allowances allocated to affected companies by state authorities as part of a cap and trade scheme, or issued in exchange for compensation. Pursuant to IFRIC 3, emissions allowances are accounted for as intangible assets. Allowances granted are measured at cost, which equals the fair value at the grant date. They are contrasted by deferred income in the same amount. A provision measured at its settlement amount at the balance sheet date is accrued for emissions made in the given period. The application of IFRIC 3 becomes mandatory for the first time for financial years starting on March 1, 2005, or thereafter. For information on the recognition and measurement of emissions allowances, please turn to page 40.

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 application of IFRIC 4 becomes mandatory for the first time for fiscal years starting on January 1, 2006, or thereafter.

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. This Interpretation becomes mandatory for the first time for fiscal years starting on January 1, 2006, or thereafter.

Scope of consolidation

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

The scope of consolidation breaks down as follows:

	03/31/05	12/31/04
Fully consolidated companies	528	589
Investments accounted for using the equity method	190	219

The major change to the scope of consolidation in the quarter being reviewed was the deconsolidation of 56 fully consolidated companies and of 31 investments of RWE Umwelt accounted for using the equity method.

Assets and liabilities held for sale

The sale of major parts of the RWE Thames Water Division's international water operations has been initiated, making it mandatory to classify them as a disposal group and disclose them as assets and/or liabilities held for sale, as evident from the following table:

€ million	03/31/05
Assets	1,035
Liabilities	632

Taking the first step to divesting RWE Umwelt, RWE sold approximately 70 % of the business to the Rethmann Group per a contract signed on September 28, 2004. The German Federal Cartel Office approved the deal on February 24, 2005. The 30 % share of the environmental services business initially remaining under RWE ownership is also for sale and has thus been disclosed as a disposal group as part of the assets and liabilities held for sale on the balance sheet as of March 31, 2005. The following table shows the material impact that the divestment of the Environmental Division has on the interim financial statements for the period ended March 31, 2005 and on last year's corresponding period:

€ million	**03/31/05**	**12/31/04**
Assets	776	2,178
Liabilities	570	1,886
	Jan – Mar 2005	**Jan – Mar 2004**
Revenue	315	438
Income after tax	–17	–6

Revenue

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

Research and development costs

In the first quarter of 2005, research and development costs totaled € 10 million (first quarter of 2004: € 88 million). The decline is nearly exclusively due to the deconsolidation of Heidelberger Druckmaschinen last year.

Own shares

In the first quarter of 2005, RWE Group companies bought 5,355 common shares on the capital market at an average cost of € 44.32 per individual share certificate. They account for € 13,708.80 of the Corporation's share capital (0.01 ‰ of subscribed capital). Employees of RWE AG and its subsidiaries received a total of 80 common shares at an average price of € 30.50 per individual share certificate within the scope of capital formation and 5,275 common shares at an average price of € 23.84 on the occasion of service anniversaries. Aggregate proceeds amounted to € 128,195.66. Differences to the purchase price were recorded with an effect on income.

Stock option plans

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

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 used for already existing common shares instead of young 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.

The stock options listed in the table below have been issued under the executive stock option plan so far:

Stock options	Originally issued	12/31/04	Expired in 2005	03/31/05
2001 tranche	5,222,300	3,651,200	–118,100	3,533,100
2001A tranche	5,262,300	4,028,600	–148,100	3,880,500
	10,484,600	**7,679,800**	**–266,200**	**7,413,600**

Furthermore, our virtual stock option plans are offered to employees, Executive Board members and other executives of RWE AG and its affiliates in Germany and abroad, on which we reported separately in the financial statements for the period ended December 31, 2004.

Dividend distribution

On April 14, 2005, RWE AG's Annual General Meeting decided to pay a proposed dividend of €1.50 per common and preferred share for fiscal 2004.

Earnings per share

		Jan – Mar 2005	Jan – Mar 2004
Net income/income allocable to RWE AG shareholders	€ million	975	925
Number of shares outstanding (weighted average)	thousands	562,405	562,405
Undiluted and diluted earnings per common and preferred share	€	**1.73**	**1.64**

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

Contingent liabilities

Contingent liabilities principally relate to liabilities ensuing from guarantees and warranty agreements. They decreased by €344 million to €521 million since December 31, 2004. This decline is essentially attributable to liabilities arising from guarantees.

Reconciliation to the operating result

Reconciliation of income from operating activities to the operating result € million	**Jan – Mar 2005**	**Jan – Mar 2004**
Income from operating activities	1,761	1,926
+ Income from investments	266	322
– Non-operating result	–77	–278
Operating result	**1,950**	**1,970**

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 as part of the non-operating result.

Reconciliation from EBITDA to the operating result € million	**Jan – Mar 2005**	**Jan – Mar 2004**
EBITDA	2,427	2,615
– Operating depreciation and amortization	–604	–716
EBIT	1,823	1,899
+ Operating income from investments	127	71
Operating result	**1,950**	**1,970**

Financial calendar 2005/2006*

08/11/2005	Interim report for the first half of 2005 – Press conference – Analyst conference
11/16/2005	Interim report for the first three quarters of 2005 and analyst conference (conference call)
02/23/2006	Annual report for fiscal 2005 – Press conference – Analyst conference
04/13/2006	Annual General Meeting
04/18/2006	Ex-dividend date
05/16/2006	Interim report for the first quarter of 2006 and analyst conference (conference call)
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 and analyst conference (conference call)

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

* 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 Web site for at least three months.

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