RWE

January through March

Report on the first quarter of fiscal 2004

- Group operating result up 12% year-on-year
- Core businesses post 10% organic growth in operating result
- Net income adjusted for goodwill amortization up 36%
- Net debt reduced to €17 billion

At a glance

RWE Group		Jan – Mar 2004	Jan – Mar 2003	+/- in %	Jan – Dec 2003
External revenue	€ million	12,172	12,826	- 5.1	43,875
EBITDA	€ million	2,615	2,547	+ 2.7	8,476
Operating result	€ million	1,970	1,752	+ 12.4	5,551
Income before tax	€ million	1,612	1,033	+ 56.1	2,123
Net income[1]	€ million	925	437	+ 111.7	953
Earnings per share[2]	€	1.64	0.78	+ 110.3	1.69
Cash flows from operating activities	€ million	1,276	1,902	- 32.9	5,289
Capital expenditure	€ million	832	5,671	- 85.3	9,762
Free cash flow[3]	€ million	571	972	- 41.3	927

		03/31/04	12/31/03	+/- in %
Net debt	€ million	16,983	17,838	- 4.8
Workforce	FTE[4]	125,225	127,028	- 1.4

[1] The figure for 2004 no longer includes any goodwill amortization due to the change in IAS. This is still recorded in the figures for 2003, however. Net income excluding goodwill amortization amounted to €681 million in the first quarter of 2003 and to €1,938 million for the year 2003 as a whole.

[2] See footnote 1; earnings per share before goodwill amortization amounted to €1.21 in the first quarter of 2003 and €3.45 for the year 2003 as a whole.

[3] Cash flows from operating activities minus capital expenditure on property, plant and equipment and intangible assets.

[4] Full-time equivalent, according to the percentage of full-time employment (1 FTE = 1 full-time position).

»Development in the first quarter was positive. We are confirming our outlook for the year as a whole.«

Dear Shareholders,
The first quarter proves it: we are continuing to make good progress with our consolidation drive. Our operating result improved substantially—based on nothing but organic growth. Our net income showed an above-average increase. At the same time, we fulfilled our promise of further reducing debt and continued our cost-cutting program as planned. Seven months after launch, our new Group structure is now established. And with the disposal of our majority stake in HOCHTIEF and the sale of the last tranche of shares in our US subsidiary CONSOL, we have also reached key milestones in focusing on our core businesses. In the current quarter we have sold the majority of our stake in Heidelberger Druckmaschinen, the penultimate step on the path to becoming a fully-focused energy and water company.

The following is an overview of the key financial developments in the first quarter:

- The operating result rose by 12%. Core businesses grew organically by 10%, principally based on the successful energy business in Germany.

- The net income more than doubled. This is partly attributable to the higher capital gains than in the previous year and to the improvement in the financial result. Also, as a result of changes in IAS, goodwill was no longer amortized. On a comparable basis, the net income would have increased by 36%.

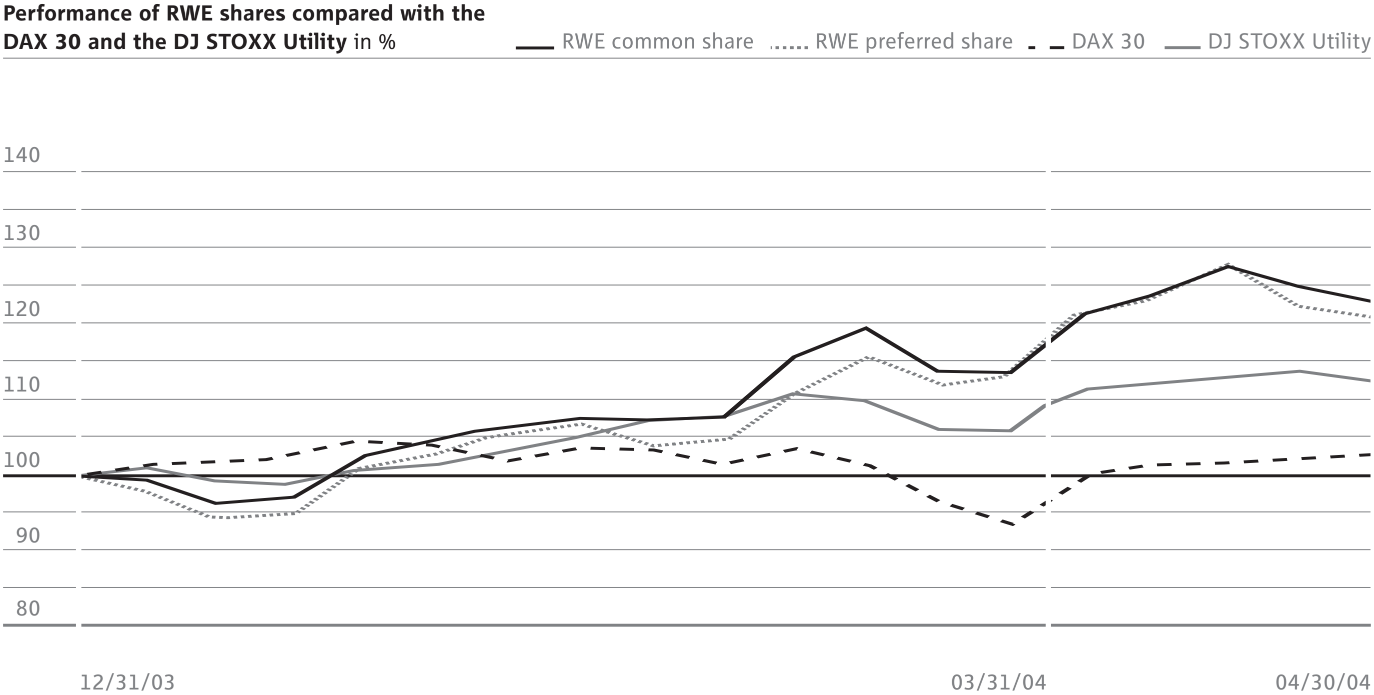
- We reduced our net debt from the end of 2003 by a further €0.8 billion to €17 billion, even though currency effects increased debt by €0.8 billion. We benefited in particular from the high level of proceeds generated from the sale of our stakes in HOCHTIEF and CONSOL.

We are still confident that business will develop positively in fiscal year 2004, even if the increase in earnings in the full year will probably be lower than in the first quarter.

Essen, May 2004

Harry Roels
CEO of RWE AG

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



Share price up substantially

Following the appreciable price gains in 2003, the upturn on the stock markets paused for breath in the first quarter of 2004. The DAX 30 closed the end of March at 3,857 points, down 2.7% on the 2003 closing level. Stock markets were particularly depressed by the terrorist attacks in Madrid on March 11 and a further worsening of the crisis in the Middle East, events which made investors increasingly nervous that the still muted upturn in the global economy could come to a halt. Even before this, disappointing growth rates in a number of European countries, extremely high oil prices, and the continued weak situation on the US labor market at the beginning of the year had dampened hopes that the economy would improve. This resulted in profit-taking and a shift into more defensive sectors. In April, the DAX 30 began to pick up slightly. Share prices rose following the announcement of unexpectedly strong employment growth in the US. The DAX spent most of April slightly above the 4,000 mark.

In the first quarter of 2004, RWE's shares continued climbing, in contrast to the market as a whole. Our common stock jumped 16% to €36.53, while our preferred stock advanced 17% to €32.70. We were thus the second-best performer on the DAX 30, substantially outperforming the European sector index, the Dow Jones STOXX Utility (+9%). The announcement of figures for fiscal 2003 that exceeded market expectations boosted the share price considerably. Our goal of raising our dividend by an average of 15% per year for 2004 through 2006 made RWE shares much more attractive to many investors. The disposal of our majority stake in HOCHTIEF at short notice also met with a positive response. After the close of the quarter, RWE's common shares were still trading well above €35. In mid-April they reached an annual high of €39.74, before falling slightly at the end of the month.

Group operating result up 12%

Economic upturn in RWE's core regions outside Germany continues

The upturn in the global economy that was ushered in by the second half of 2003 continued in the first quarter of 2004. RWE's core markets demonstrated widely differing growth rates, however. In the Eurozone countries, economic stimulus has so far had little effect. Slow growth in domestic demand continued to be offset by gloomy export prospects resulting from unfavorable exchange rates. In the wake of the terrorist attacks in Madrid, doubt concerning the stability of the global economy also manifested itself in more skeptical sentiment. Real gross domestic product (GDP) in the Eurozone therefore rose only by an estimated 2% in the first quarter. Germany in particular is having difficulty overcoming its stagnation of the past three years. The critical situation on the German labor market, above all, is dampening domestic demand. After stagnating up to the end of 2003, estimates have put GDP in the first quarter of 2004 only 1.3% higher than in the same period of the previous year.

The economic situation in our other core markets is somewhat more upbeat. In Western Europe, the United Kingdom experienced the most dynamic development, with GDP growth of 3.5%. Central Eastern Europe's most important economies had already grown very positively in 2003, bucking the global trend. Here, private consumption and increasing competitiveness of industry in the international arena ensured above-average growth rates in the first quarter as well.

It was the US, however, which set the course for developments in the global economy. Following a boom in the US economy in the second half of 2003, the delayed recovery of the US labor market and flagging fiscal improvements in the first quarter of 2004 put a damper on growth. According to preliminary estimates, real GDP in the US increased by 3.6% in the first quarter.

Notes concerning reporting

After launching the Group's reorganization on 1 October 2003, we had implemented all structural changes by the first quarter of 2004. RWE Thames Water's main water activities in continental Europe and the industrial customers business of RWE Trading were incorporated into RWE Energy as of 1 January 2004. Now the companies of the former RWE Gas have their permanent place in the structure of the new division. RWE Trading also took over the trading business of RWE Innogy.

In March 2004, the International Accounting Standards Board (IASB) published new accounting regulations. These stipulate that goodwill shall be subject to an annual impairment test and shall no longer be amortized. This also applies retrospectively. We voluntarily adopted this regulation as of 1 January 2004 and therefore no longer amortize goodwill.

We sold the majority of our 56.1% stake in the HOCHTIEF construction group and the majority of our 50.02% stake in Heidelberger Druckmaschinen at the end of February and the beginning of May, respectively. Up to now, the interest in HOCHTIEF was accounted for using the equity method. The remaining interests will now be reported in the financial statements as available-for-sale securities. We will deconsolidate Heidelberger Druckmaschinen in the second quarter of 2004. In accordance with the International Accounting Standards, we disclosed the Heidelberger activities separately in the 2004 reporting as "discontinuing operations".

Revenue down slightly due to consolidation

The RWE Group posted external revenue of €12.2 billion in the first quarter of 2004, a decrease of 5% year-on-year. This was primarily due to the deconsolidation of the US-based hard coal and gas producer CONSOL Energy, which left the Group as of September 30, 2003. This company had contributed €494 million to consolidated revenue in the prior-year period. Not including the CONSOL effect, our revenue in the Group fell only slightly.

The revenue generated from our core businesses fell by almost 6% due to the CONSOL effect. Net of this deconsolidation, revenue would have only decreased by approximately 1%. RWE Energy, in particular, saw a reduction in revenue due to declining gas prices in Germany. Additional revenue in the German electricity business only partly made up for this. At RWE Thames Water, negative currency effects reduced revenue in the US business. RWE Trading benefited from the transfer of the former trading business of our UK energy business RWE Innogy. While this company's operations also grew on the back of price increases for electricity and gas, its sales volume fell in net terms due to the above-mentioned transfer of the UK trading operations.

Our non-core business Heidelberger Druckmaschinen closed the first quarter of 2004 with revenues similar to the prior-year period.

Revenue development was also impacted by currency effects. While the pound sterling rates remained practically unchanged, negative currency effects were almost exclusively attributable to the development of the US dollar, which at US$ 1.23/€ in the first quarter was much weaker than in the prior-year period (US$ 1.08/€). Hardest hit was the US water utility American Water.

External revenue € million	**Jan – Mar** **2004**	**Jan – Mar** **2003**		**+/-** in %	**Jan – Dec** **2003**
RWE Power	726	1,256	-	42.2	4,077
RWE Energy	6,406	6,557	-	2.3	21,842
RWE Innogy	1,633	1,681	-	2.9	5,552
RWE Trading	779	570	+	36.7	2,444
RWE Thames Water	964	1,036	-	6.9	4,249
RWE Umwelt	438	486	-	9.9	1,944
Total core business	**10,946**	**11,586**	**-**	**5.5**	**40,108**
Heidelberger Druckmaschinen*	1,202	1,212	-	0.8	3,658
Other activities	24	28	-	14.3	109
Total	**12,172**	**12,826**	**-**	**5.1**	**43,875**
_Germany	6,661	6,352	+	4.9	22,444
_Outside Germany	5,511	6,474	-	14.9	21,431

* Discontinuing operations as defined by the International Accounting Standards.

EBITDA € million	Jan – Mar 2004	Jan – Mar 2003	+/- in %	Jan – Dec 2003
RWE Power	744	741	+ 0.4	2,631
RWE Energy	957	928	+ 3.1	2,750
RWE Innogy	186	276	- 32.6	850
RWE Trading	80	5	—	59
RWE Thames Water	449	475	- 5.5	2,018
RWE Umwelt	47	54	- 13.0	230
Total core business	**2,463**	**2,479**	**- 0.6**	**8,538**
Heidelberger Druckmaschinen*	149	107	+ 39.3	120
Other, Group Center, consolidation	3	- 39	+ 107.7	- 182
Total	**2,615**	**2,547**	**+ 2.7**	**8,476**

* Discontinuing operations as defined by the International Accounting Standards.

Organic growth in EBITDA and operating result

We increased the Group's earning power even more with the sustained upward trend in our German energy business and improved earnings at Heidelberger Druckmaschinen.

EBITDA rose by 3% to €2,615 million. While our core businesses closed the first quarter marginally under the prior-year period, the earnings contribution of the non-core business improved by 39%. Net of the one-off effect of CONSOL and currency exchange effects, the Group's EBITDA climbed 8%.

Operating result € million	Jan – Mar 2004	Jan – Mar 2003	+/- in %	Jan – Dec 2003
RWE Power	542	496	+ 9.3	1,682
RWE Energy	796	724	+ 9.9	2,046
RWE Innogy	162	237	- 31.6	714
RWE Trading	81	4	—	59
RWE Thames Water	295	300	- 1.7	1,374
RWE Umwelt	15	20	- 25.0	76
Total core business	**1,891**	**1,781**	**+ 6.2**	**5,951**
Heidelberger Druckmaschinen[1]	94	39	+ 141.0	- 118
HOCHTIEF (2003: equity method)[2]	—	- 10	—	9
Total non-core business	**94**	**29**	**+ 224.1**	**- 109**
Other, Group Center, consolidation	- 15	- 58	+ 74.1	- 291
Total	**1,970**	**1,752**	**+ 12.4**	**5,551**

[1] Discontinuing operations as defined by the International Accounting Standards.
[2] Termination of the consolidation using the equity method as of 31 December 2003.

We lifted the Group's operating result by 12% to €1,970 million. Adjusted to exclude CONSOL and currency effects, we boosted our operating result by 16%. Our core businesses posted a 6% improvement, or 10% net of CONSOL and currency effects. This performance was driven by the earning power of our German electricity and gas activities. At €94 million, the earnings of our non-core business more than tripled, thanks to the extensive cost-cutting and restructuring measures implemented at Heidelberger Druckmaschinen. After its sale, HOCHTIEF no longer made any contribution to earnings. Charges stemming from currency translation were primarily attributable to the weak US dollar, as already mentioned. This depressed the operating result at American Water by €10 million.

For a detailed commentary on the earnings trend by division, please turn to pages 17 to 30.

Net income more than twice as high as in the previous year

The reconciliation to net income is characterized in particular by positive one-off effects in the non-operating income. Together with the operating earnings increase plus an improved financial result, these boosted net income by more than 100%.

Non-operating result € million	**Jan–Mar** **2004**	**Jan–Mar** **2003**	**+/-** € million	**Jan–Dec** **2003**
Capital gains	256	62	+ 194	1,024
Goodwill amortization	0	- 244	+ 244	- 985
Restructuring / Other	22	217	- 195	- 589
Non-operating result	**278**	**35**	**+ 243**	**- 550**

The non-operating result advanced by €243 million to €278 million. Changes can be broken down as follows:

- At €256 million, capital gains were €194 million higher than in the previous year. This was mainly due to the fact that we posted book gains of €220 million from the sale of the remaining 18.5% of CONSOL.

- Goodwill amortization was no longer charged as from the beginning of fiscal 2004. This had amounted to €244 million in the same period of the previous year.

- In the "Restructuring / Other" item, income from the change in nuclear provisions fell by around 50% to €169 million (previous year: €326 million). Added to this is the increase from €38 million to €83 million in amortization on RWE Innogy's customer base. This results from a reduction of the amortization period from twenty to ten years. The absence of restructuring provisions at Heidelberger Druckmaschinen (previous year: €84 million) had a positive effect in comparison with the prior-year period.

Financial result € million	Jan–Mar 2004	Jan–Mar 2003	+/- in %	Jan–Dec 2003
Interest income	282	298	- 5.4	1,116
Interest cost	- 573	- 582	+ 1.5	- 2,247
Net interest	**- 291**	**- 284**	**- 2.5**	**- 1,131**
Interest accretion to long-term provisions	- 338	- 437	+ 22.7	- 1,558
Other financial results	- 7	- 33	+ 78.8	- 189
Financial result	**- 636**	**- 754**	**+ 15.6**	**- 2,878**

The financial result rose by €118 million to -€636 million—due to the drop in non-current provisions on account of the deconsolidation of CONSOL, among other things. This reduced accordingly the accrued interest to be carried for these provisions. Our income from investments also improved.

Income before tax climbed 56% to €1,612 million. Income after tax doubled to €1,060 million. This gives an effective tax rate of 34%, compared with 39% in the previous year (excluding goodwill amortization). The decrease is attributable to higher proceeds from tax-free disposals of investments, among other things. Minority interests increased by €39 million to €135 million, principally due to the improved results of operations at Heidelberger Druckmaschinen.

Net income jumped 112% to €925 million. The corresponding earnings per share amounted to €1.64, up from €0.78 in the previous year. Adjusting the net income for goodwill amortization, this still results in an increase of 36%.

Reconciliation to net income		Jan–Mar 2004	Jan–Mar 2003	+/- in %	Jan–Dec 2003
Operating result	€ million	1,970	**1,752**	**+ 12.4**	**5,551**
Non-operating result	€ million	278	35	+ 694.3	- 550
_thereof: goodwill amortization	€ million	0	- 244	—	- 985
Financial result	€ million	- 636	- 754	+ 15.6	- 2,878
Income before tax	€ million	**1,612**	**1,033**	**+ 56.1**	**2,123**
Taxes on income	€ million	- 552	- 500	- 10.4	- 1,187
Income after tax	€ million	**1,060**	**533**	**+ 98.9**	**936**
Minority interest	€ million	- 135	- 96	- 40.6	17
Net income[1]	€ million	**925**[2]	**437**	**+ 111.7**	**953**
Earnings per share[3]	€	**1.64**	**0.78**	**+ 110.3**	**1.69**
Effective tax rate[4]	%	**34**	**48**	**- 29.2**	**56**

1 The figure for 2004 no longer includes any goodwill amortization on account of the change in IAS. This is still recorded in the figures for 2003, however. Net income excluding goodwill amortization amounted to €681 million in the first quarter and to €1,938 million for the year 2003 as a whole.

2 Of which €16 million relates to discontinuing operations as defined by the International Accounting Standards.

3 See footnote 1; earnings per share before goodwill amortization amounted to €1.21 in the first quarter of 2003 and to €3.45 for the year 2003 as a whole.

4 See footnote 1; the effective tax rate before goodwill amortization was 39% in the first quarter of 2003 and 38% for the year 2003 as a whole.

Cost-cutting programs: further savings of €60 million

We have successfully continued the cost-cutting program we launched in February 2000 that focuses on the German electricity business. Our goal is to generate total savings of €2,555 million by the end of 2004. After reducing costs by €350 million in 2003, savings of €250 million have still to be made in 2004.

A second program aims to make extensive savings through the reorganization of the Group. Our target is to cut our annual costs by an additional €500 million by 2006. We have set ourselves the goal of reducing material costs and personnel expenses in the German energy business, making savings in the IT area and improving the efficiency of the entire water business.

Our third program is designed to leverage synergies from the large-scale acquisitions of recent years. By combining cross-sectional functions at UK companies RWE Innogy and RWE Thames Water we aim to make annual savings of €100 million by the end of 2006. We are striving to cut costs by €80 million at our Czech gas companies during this period. By 31 December 2003, we had already reduced our cost base by €60 million with these synergy measures.

All in all, we achieved savings of €60 million in the first quarter of 2004 on the basis of the three above-mentioned programs.

Capital expenditure € million	**Jan – Mar 2004**	**Jan – Mar 2003**	**+/- in %**	**Jan – Dec 2003**
RWE Power	155	283	- 45.2	1,115
RWE Energy	152	273	- 44.3	1,652
RWE Innogy	28	46	- 39.1	215
RWE Trading	1	1	—	4
RWE Thames Water	347	4.921	- 92.9	6,129
RWE Umwelt	68	21	+ 223.8	152
Total core business	**751**	**5,545**	**- 86.5**	**9,267**
Heidelberger Druckmaschinen*	70	112	- 37.5	262
Other, Group Center	11	14	- 21.4	233
Total	**832**	**5,671**	**- 85.3**	**9,762**
_Capital expenditure on property, plant and equipment	705	930	- 24.2	4,362
_Capital expenditure on financial assets	127	4,741	- 97.3	5,400

* Discontinuing operations as defined by the International Accounting Standards.

Capital expenditure down 85% on previous year, which was high due to acquisitions

In the first quarter of 2004, capital spending totaled €832 million. This represents a decline of 85%, or €4,839 million, compared with the previous year. Capital expenditure on property, plant and equipment amounted to €705 million, a decrease of €225 million or 24%. The drop in capital spent at RWE Power is primarily due to the deconsolidation of the US company CONSOL. We also reduced our capital expenditure in the UK water business. Heidelberg slashed its investments by over one-third in response to the sluggish recovery of economic activity in the printing machinery industry.

Capital expenditure on financial assets fell at a higher-than-average rate to €127 million. The figure for the prior-year period (€4,741 million) was affected in particular by the acquisition of the US water utility American Water, which accounted for €4.5 billion. In contrast, only minor acquisitions were made in the first quarter of 2004.

Cash flow statement

In the first quarter of 2004, we generated cash flows of €1,276 million from operating activities, down from €1,902 million in the same period in 2003. Net of non-cash items, profit remained at approximately the prior-year level. Excluding the effect of the deconsolidation of CONSOL and restructuring expenses, this would have increased. In contrast, the working capital was depressed. The first quarter of 2004 was impacted in particular by payments for taxes on income and sales taxes resulting from audits for prior-year assessment periods, among other things. On top of this, we had a significantly lower level of trade accounts payable at the balance sheet date.

Cash flows from investing activities remained balanced: capital expenditure and income from disposals —particularly HOCHTIEF and CONSOL—offset each other. The previous year had resulted in a cash outflow of €4.5 billion, which was mainly attributable to the acquisition of American Water. Our goal of improving our financial structure and further reducing debt is reflected in the cash flows from financing activities, where our repayments were higher than new borrowings. This resulted in cash flows from financing activities of -€609 million. In the previous year, we posted net cash flows of €2,576 million, which we principally used to finance the acquisition of American Water. Cash and cash equivalents rose by €677 million in the first quarter of 2004.

At €571 million, the free cash flow—that means cash flows from operating activities minus capital expenditure on property, plant and equipment and intangible assets—was lower than the figure for the same period in the previous year, €972 million. While we reduced our investments in property, plant and equipment, this only partly made up for the decline in cash flows from operating activities.

Cash flow statement* € million	**Jan–Mar 2004**	**Jan–Mar 2003**	**+/- in %**	**Jan–Dec 2003**
Cash flows from operating activities	1,276	1,902	- 32.9	5,289
Cash flows from investing activities	- 1	- 4,488	+ 100.0	- 6,816
Cash flows from financing activities	- 609	2,576	- 123.6	1,639
Currency translation and other changes in cash and cash equivalents	11	34	- 67.6	- 74
Net change in cash and cash equivalents	**677**	**24**		**38**
Cash flows from operating activities	1,276	1,902	- 32.9	5,289
- Capital expenditure on property, plant and equipment and intangible assets	- 705	- 930	+ 24.2	- 4,362
Free cash flow	**571**	**972**	**- 41.3**	**927**

* Please turn to page 34 for the complete cash flow statement.

Net debt reduced to €17 billion despite negative currency effects

As of 31 March 2004, our net debt amounted to €17.0 billion. It was therefore reduced by €855 million in the first quarter. In addition to cash flows from operating activities, this was attributable to the proceeds from the sale of the shares in HOCHTIEF (€750 million) and the third tranche of CONSOL shares (€228 million), among other things. This also enabled us to cushion negative currency effects of €0.8 billion resulting from the euro, which was much weaker than at the end of 2003. The exchange rates as of 31 March were US$ 1.22/€ and £ 0.67/€, compared with US$ 1.26/€ and £ 0.70/€ at 31 December, 2003. Capital expenditure on property, plant and equipment and financial assets increased debt by €0.8 billion. Financial derivatives, which we use to hedge liabilities against currency exchange and interest rate risks, had a present value of €0.8 billion at the end of the quarter. However, derivatives are not taken into account in net debt.

Net financial debt € million	**Balance at 03/31/04**	**Balance at 12/31/03**		**+/- in %**
Cash and cash equivalents	2,858	2,181	+	31.0
Current marketable securities	10,143	9,615	+	5.5
Non-current marketable securities and other loans	1,170	1,037	+	12.8
Other non-current financial assets	949	1,119	-	15.2
Non-current financial assets	**15,120**	**13,952**	**+**	**8.4**
Bonds, notes payable and bank debt	29,499	29,638	-	0.5
Other financial debt	2,604	2,152	+	21.0
Financial debt	**32,103**	**31,790**	**+**	**1.0**
Net financial debt	**16,983**	**17,838**	**-**	**4.8**

The key indicator in controlling our debt is the ratio of EBITDA to net interest. In the first quarter of 2004, EBITDA was nine times higher than net interest. We expect it to be well over 7 for the full year.

Workforce FTE[1]	**Balance at 03/31/04**	**Balance at 12/31/03**		**+/- in %**
RWE Power	19,043	19,280	-	1.2
RWE Energy	42,376	42,655	-	0.7
RWE Innogy	9,091	9.357	-	2.8
RWE Trading	639	397	+	61.0
RWE Thames Water	17,047	17,521	-	2.7
RWE Umwelt	12,169	12,578	-	3.3
Total core business	**100,365**	**101,788**	**-**	**1.4**
Heidelberger Druckmaschinen[2]	21,607	22,036	-	1.9
Other / Group Center	3,253	3,204	+	1.5
Total	**125,225**	**127,028**	**-**	**1.4**
_Germany	71,345	72,191	-	1.2
_Outside Germany	53,880	54,837	-	1.7

[1] Full-time equivalent (FTE), according to the percentage of full time employment (1 FTE = 1 full-time position).
[2] Discontinuing operations as defined by the International Accounting Standards.

Workforce reduced further

As of 31 March 2004, the RWE Group employed 125,225 people (full-time equivalents), 53,880 or 43% of whom worked outside Germany. Our workforce was thus reduced by 1,803 employees, or 1.4%, compared with 31 December 2003. Acquisitions and disposals resulted in a net decrease of 700 employees. Adjusted to exclude these consolidation effects, our employee headcount fell by 1,103 or around 1%; in Germany it declined by 589 or 0.8%.

Exit from major non-core businesses HOCHTIEF and Heidelberg

The sale of our majority interest in the HOCHTIEF construction group and Heidelberger Druckmaschinen enabled us to take two crucial steps in focusing on our core businesses of energy and water.

On 25 February, in a combined offer of HOCHTIEF shares and an exchangeable bond for HOCHTIEF shares, we placed all 39.3 million shares with institutional investors in Europe and the US within a few hours. In the direct share placement, we sold 32.6 million shares on the stock exchange at a price of €23 each. The placement price topped the average price of the shares during the previous six months by about 10%, which allowed us to generate income from the sale of around €750 million. RWE’s stake fell from 56.1% to 9.6% or around 6.7 million shares, which are reserved for servicing the exchangeable bond. A volume of €200 million was established for the three-year exchangeable bond for HOCHTIEF shares, which was also in high demand. The coupon has a value of 0.875%. Bondholders may acquire HOCHTIEF shares at a price of €29.90 per share during the term of the bond. This corresponds to a premium of 30%, based on the price of €23 generated from the share placement.

We have also successfully concluded the sale of our majority holding in Heidelberger Druckmaschinen. In a similar way to HOCHTIEF, we directly placed Heidelberg shares with institutional investors in a combined transaction on May 5 and 6 and issued an exchangeable bond for securities of the company. This netted us almost €1.3 billion. We sold 30 million of our original approx. 43 million shares (50.02%) in the direct placement. The free float of Heidelberg shares more than doubled to 56.9% as a result of the transaction. The three-year zero-coupon exchangeable bond for Heidelberg shares has a volume of €460 million. The exchange price contains a premium of 35% relating to the price fixed during the share placement and therefore amounts to €35.775 per share. The 12.9 million shares remaining at RWE after the placement are reserved for the servicing of the exchangeable bond.

Sale of remaining stake in CONSOL and disposal of our Swiss investments

In February 2004, we made another major disposal with the sale of our remaining 18.5% stake in the US-based hard coal and gas company CONSOL Energy. We generated US$296 million through a private placement of the 16.6 million CONSOL shares. The sale of our original 58 million CONSOL shares generated income totaling US$1,034 million (€873 million). The background to the transaction was our decision to focus our activities in the energy business on Europe.

We will also pull out of the Swiss energy market by surrendering our investments in the Swiss companies Motor-Columbus (20%) and Atel (1.23%). Motor-Columbus is a holding company with investments in the energy sector, including in particular a 56.7% stake in the electricity utility Atel (Aare-Tessin AG für Elektrizität). We believe that the prospects for an expansion of our position over the next few years are insufficient. The sale of the stake for around €270 million has yet to be approved by the anti-trust authorities.

Acquisition of outstanding shares of RWE Dea
The Annual General Meeting of RWE Dea AG on April 7, 2004 resolved to transfer the securities held by the outstanding shareholders to RWE AG. Our share in RWE Dea will increase from 99.465% to 100% when this squeeze-out takes effect. Minority shareholders will receive a cash settlement of €296 for each share. Based on just under 72,000 outstanding shares, the settlement sum thus amounts to approximately €21 million.

German government presents draft bill on national allocation plan for German emissions trading
On March 31, the Federal Cabinet resolved a national allocation plan (NAP) that specifies the principal regulations governing trading of CO_2 emission rights in Germany. The NAP provides that the energy industry and manufacturing industry must reduce their emissions by an annual two million tons of CO_2 to 503 million tons in the first trading period of 2005 to 2007, compared with the base period from 2000 to 2002. The upper limit in the second trading period from 2008 to 2012 is 495 million tons of CO_2. Certificates will be issued free of charge in both trading periods. The criteria for their allocation to individual plants offer incentives for investing in environmentally friendly technologies: if companies replace old equipment with new, more efficient equipment, they will receive an allowance for four years depending on the original number of certificates issued, as well as 100% of the emission rights needed for the new equipment in the following 14 years. New equipment that does not replace existing equipment also receives an allocation of 100% if the equipment is operated using the latest technology for the fuel in question. The highest possible allowance for the receipt of certificates was set at 750 grams of CO_2 per kWh of electricity (the standard for modern hard coal power plants). The NAP also includes special provisions that guarantee a full allocation of the number of certificates required, provided that companies had already taken ‘early actions’ in the past or the emissions are unavoidable for the process in question. Plant operators who are not subject to any special provisions must reduce their emissions by an average of 2.45% in the first trading period or cover these by buying certificates. For old power plants with efficiency levels of less than 31% (lignite) or 36% (hard coal), the NAP provides for an additional 15% reduction in the allowance starting in 2008.

The federal government of Germany submitted the national allocation plan to the European Commission for inspection on March 31 and passed the bill for a corresponding law on the national allocation plan (NAPG) at the end of April. RWE considers the plan an appropriate solution that provides a framework for capital expenditure on state-of-the-art power plants and, hence, for the further development of its existing energy mix. However, we cannot make any concrete investment decisions until the NAP has been adopted as legislation and approved by the EU Commission. This will not be the case until at least July 2004.

Approval for a second state-of-the-art lignite power plant has been applied for
At the beginning of May, RWE Power applied to the regional government in Düsseldorf for approval to construct a new lignite power plant with optimized plant technology (BoA). The Group plans to

build a monoblock or a double block facility in Neurath with net output of 1,050 megawatts per block and an efficiency of over 43%. The facility will not become operational until at least 2010. The investment volume amounts to some €1.2 billion for a single block facility and to around €2 billion for a double block facility. The new facility (BoA 2) will replace old blocks. As explained before, we can only decide to build this power plant when a definitive regulatory environment for CO_2 emissions trading exists.

New statutory regulations for the promotion of renewable energies

On April 2, 2004, the German parliament passed a new amendment to the Erneuerbare-Energien-Gesetz (German Renewable Energies Act–EEG). This aims to increase the proportion of the total electricity supply accounted for by renewable energies from 8% at present to at least 12.5% by the year 2010 and to at least 20% by 2020. The amendment provides for higher compensation for electricity generated using biomass and for small hydroelectric power plants. Offshore wind energy plants will also receive higher subsidies. The rates of compensation for onshore wind plants will be reduced slightly. The supply compensation to be paid annually will therefore be increased in Germany from €2.5 billion at present to an expected €5 billion (approx.) in 2008. This will place further strain on Germany as a business location and the German energy industry.

2004 Outlook

We believe we are still on track to meet the forecast published in our 2003 annual report.

Group revenue is expected to drop below the previous year's figure of €43.9 billion. This is based above all on the deconsolidation of CONSOL in the previous year and the removal from the accounts of Heidelberger Druckmaschinen in the second quarter of 2004. In addition, we expect the US dollar to be weaker than in 2003 on the whole. Our forecast is based on an exchange rate of US$1.20/€ (previous year: US$ 1.14/€) and £0.70/€ (previous year: £0.69/€). After adjusting for the foreign exchange impact and the deconsolidations mentioned, we expect organic growth in the single-digit percentage range.

We will again increase the **Group operating result** compared to the high level in fiscal year 2003. Despite the deconsolidation of Heidelberg, we expect an increase in the single-digit percentage range. This forecast is based on the aforementioned exchange rates. As things stand today, we will close the year at least at last year's levels if the figures for Heidelberg and CONSOL for 2003 and 2004 are excluded. We are confident that we will be able to compensate for the expected unfavorable conditions compared to 2003 with regard to hard coal costs, crude oil prices, currency exchange rates, and weather conditions.

From today's perspective the **RWE Power** operating result—net of CONSOL—will be at least at the previous year's level. The division's earnings are determined by opposing trends. In power generation we expect a gain at least in the single digits, determined by the increase in the wholesale price of electricity in the previous year. We have already almost completely committed our German production. Negative effects result from the extremely high level of the price of hard coal at present. The spot market price for a ton of hard coal units in the period from January to April averaged €63 which is clearly above the average level for the entire 2003 year (€44). Admittedly, since that time the increase in the price of hard coal observed at the end of 2003 has given way to a sideways movement. We expect increased maintenance expenses in lignite electricity generation to dampen results as well. However, the impact of higher electricity prices will more than compensate for these two effects. The positive development in the power generation business will presumably be somewhat offset by a declining profit share from RWE Dea's upstream business. Oil prices have been at extremely high levels to date. Due to an expected significantly weaker dollar exchange rate, however, they will remain lower than last year after conversion to euros, despite early hedging. Overall RWE Dea will remain below last year's high figure.

At **RWE Energy** we expect at least to match the previous year's level. End customer business provides positive impetus. In addition, we expect to see improved income from investments. We continue to reduce costs in all companies in RWE Energy. In the gas business, we expect pressure from reduced margins due to lower prices.

The operating result for **RWE Innogy** will be reduced due to the transfer of the trading business to RWE Trading. Adjusted for this effect, the high level of the previous year is likely to be maintained.

We expect increasing profits from the synergy project with RWE Thames Water. In contrast to this, we expect lower proceeds from supplying balancing power.
The operating result of **RWE Trading** is expected to show significant double-digit improvement due to the take over of the RWE Innogy trading business. We expect to attain the high level of the previous year even without this special effect.

The operating result of **RWE Thames Water** is expected to increase again in the current fiscal year. We expect an increase in the single-digit percentage range. The impact of exchange rates will continue to weigh on the US business in particular. The increase in result is based exclusively on organic growth. We will improve the profit of our European business primarily through the cost ramifications of reorganization and synergies with RWE Innogy. A comprehensive tariff adjustment in the regulated UK business will not take effect until next year. Net of foreign exchange impacts, American Water will be able to improve primarily due to requested rate increases, but also through improved efficiency. Recently implemented water tariff increases in Berlin will likewise contribute to a positive result.

The operating result of **RWE Umwelt** will not be able to reach the previous year's figure in 2004, despite further cost reductions. This repeated decline can be traced primarily to continuing strains on the market and pressure on earnings in the DSD business, Germany's dual waste management system.

The **net income** will post a double-digit increase. The main factor for this is the non-operating result. Here we expect a substantial improvement. Not only will the goodwill amortization cease compared to the previous year, but also the high one-time expenditures for Group reorganization and restructuring. Moving in the opposite direction, however, are declining disposal proceeds—the previous year was marked by the sale of the first two CONSOL tranches. In addition, we will register substantially lower income from the release of nuclear power provisions. We can expect the financial result to improve significantly. Reduced interest expenditure for long-term provisions will be critical, in particular due to the deconsolidation of CONSOL and Heidelberg. In addition, we expect an improved interest result. From today's perspective the tax ratio should be slightly below the previous year (38%). The minority interest will increase due to Heidelberg's good earnings contribution for the first quarter.

We will greatly reduce **capital expenditure** in the current year. Financial investments are the principal reason. We assume a substantially lower volume in this area (previous year: €5.4 billion). After financing in 2003 the purchase of American Water, we do not plan any larger acquisitions this year. We will cut back the capital expenditure on property, plant and equipment to a volume of the order of less than €4 billion (previous year: €4.4 billion).

We want to continue to reduce **net financial debt**. For 2005 we have set a goal of less than € 17 billion. This figure is based on an exchange rate of US$ 1.20 / € and £ 0.70 / €. This does not take into account proceeds from the sale of non-core businesses. With the rates of exchange mentioned above and considering the proceeds from the sale of HOCHTIEF and Heidelberg, our net indebtedness is expected to fall below € 17 billion even by the end of 2004.

Development of the risk situation

The companies of the RWE Group are exposed to market price and sales risks posed by a market environment shaped by liberalization and intense competition. We address these risks through sophisticated pricing strategies and marketing policies as well as intensive cost control measures.

Financial risks essentially consist of interest, currency and price adjustment risks. We hedge against these risks and others by means of original and derivative financial transactions. In the energy market our primary goal is to limit risks to results stemming from price fluctuations on energy markets by hedging future prices for sources of energy. To a limited extent, there are risks of loss here due to unexpected, extreme market price fluctuations. Beyond that, credit risks can result from our trading activities, in the event that trading partners do not meet their contractual obligations. We use systematic risk management to address these risks.

Furthermore, there are risks for the RWE Group posed by the statutory framework for the energy sector. In view of the large share of lignite and hard coal power plants in our power generation portfolio, there is a substantial risk posed by the introduction of trading in greenhouse gas emissions decided by the European Union. As a result, profits of our electricity companies are at risk. To counteract this, we will continue to reduce specific CO_2 emissions and, in upcoming capital expenditure on generating plants, we will make certain that the entire portfolio is sufficiently flexible.

Based on risks associated with official approvals for our opencast mining and nuclear power plants, impairments to the delivery of raw materials and the generation of electricity could arise. This risk will be prevented as far as possible by careful preparation and monitoring of our approval applications. In the grid business, risks exist from increasing expenditure on balancing power as well as the introduction of a regulator for electricity and gas and thus increasing pressure on the grid fees in Germany. We address these risks by intensive dialogue and contributing our technical expertise.

Forward-looking statements
This report contains statements that refer to the future development of the RWE Group and its companies, as well as economic and political developments. These statements represent assessments that we have made on the basis of all the information available to us at the current time. Should the underlying assumptions not be met or additional risks arise, the actual results could deviate from the currently anticipated results. We therefore cannot guarantee these assessments.

RWE Power

- Operational result 9% higher than previous year despite CONSOL sale
- Lower euro prices for oil and gas bring down RWE Dea profit

RWE Power		Jan – Mar 2004	Jan – Mar 2003		+/- in %	Jan – Dec 2003
Electricity production	billion kWh	53.5	51.4	+	4.1	196,1
_Of that: In-house generation[1]	billion kWh	52.7	50.2	+	5.0	192,5
External revenue	€ million	726	1,256	-	42.2	4,077
EBITDA	€ million	744	741	+	0.4	2,631
Operating result	€ million	542	496	+	9.3	1,682
Capital expenditure	€ million	155	283	-	45.2	1,115
_Property, plant and equipment	€ million	152	268	-	43.3	1,065
_Financial assets	€ million	3	15	-	80.0	50

		03/31/04	12/31/03		+/- in %
Workforce	FTE[2]	19,043	19,280	-	1.2

[1] Including electricity purchased from power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements.
[2] Calculated in full-time equivalents (1 FTE = 1 full-time position).

The **price of electricity on the German wholesale market** has retreated somewhat compared to the high level at the end of 2003. In addition to increased power plant capacity, the absence of extreme weather conditions in the first quarter of 2004 contributed to this. The development on forward markets was also significantly shaped by the development of hard coal prices. After the clear increase in the previous year, these maintained their high level. The planned introduction of CO_2 emissions trading on 1 January 2005 seems to have had only a small influence on electricity pricing for the time being.

Despite the slight decrease throughout the quarter, forward prices were significantly above comparable previous year's figures after the price jump in the summer of 2003. In the first quarter, a one-year forward traded at an average €32.29 in the base load range and €48.49 in the peak load range. This represents in an increase in both load ranges of about 30% compared to the first quarter of 2003. The increased forward quotations will be reflected in 2005 electricity revenues. On the other hand, revenue from electricity during the current fiscal year is still shaped by developments in the forward markets in 2003. In the first quarter of last year we saw price increases of around 8% in base load electricity and 14% in peak load electricity.

Prices in the international oil market continued at an extremely high level. A barrel of crude oil cost a quarterly average of US$32, 32% more than on average for the last ten years. Compared to the first quarter of 2003, there was a slight increase of around 1.4%. While the price level in the same period last year was shaped strongly by supply fears in the run up to the Iraq war, in 2004 the decisive factors were OPEC's policy of output reduction, low inventory in the main consumer countries, and strong demand from China. Terrorist attacks in Madrid and in the Near East as well as political instability in Venezuela provided additional price stimuli. The slight increase in price compared to the previous year was more than offset, however, by the effects of exchange rates moving in opposite directions—on a euro basis, the Brent price decreased 11%. Because of the coupling of oil and gas prices, the price of **natural gas** also remained at a high level in Germany. It was also lower as a result of currency exchange rates.

RWE Power achieved **electricity production** of 53.5 billion kWh. We covered it almost completely from power plants that are owned by RWE or to whose capacity we have complete access based on long-term agreements. Compared to the previous year, electricity production increased by 4%. Generation of nuclear power increased in particular, since Block B at Biblis had been idle at times last year due to maintenance work. We were also able to increase lignite generation of electricity. Principal reason was an improved availability of the new 1,000 MW plant in Niederaußem.

RWE Dea **gas production** was 767 million cubic meters, slightly surpassing the previous year. We met additional demand by expanding our production in existing gas fields. We increased our **oil production** by 10% to 1.6 million cubic meters, based on new production wells in the Danish North Sea.

In the year under review, RWE Power posted **external revenue** of €726 million. Compared to the previous year, this is a decrease of around 42%, which can be traced primarily to the deconsolidation of CONSOL as of 30 September 2003. Operational—that is, net of CONSOL—revenues were reduced by scarcely 5%, due to reduced euro prices for oil and gas at RWE Dea. The increased cost of electricity that was already clear in the forward markets in 2003 did not have any significant influence on external revenue since RWE Power sells its production almost exclusively within the group. The price increase is reflected, however, in the total revenue—in the first quarter 2004, net of CONSOL, it was about 6% higher than in the previous year.

RWE Power posted **EBITDA** of €744 million, almost unchanged from the previous year. The **operating result** increased about 9%, to €542 million. Declining amortization and depreciation were the main reasons that it developed better than the EBITDA. We achieved operational improvements primarily in the German electricity business. These could clearly more than compensate for the discontinuation of the profit share from CONSOL. Net of consolidation effects, RWE Power's operating result improved around 20%.

RWE Power Business Units January – March	Total revenue		External revenue		EBITDA		Operating Result	
€ million	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Power Generation	1,809	1,676	320	330	545	421	415	292
RWE Dea	337	353	332	359	169	188	108	137
Harpen	77	77	74	73	30	30	19	21
CONSOL Energy*	–	496	–	494	–	102	–	46
RWE Power	**2,223**	**2,602**	**726**	**1,256**	**744**	**741**	**542**	**496**

* Deconsolidated as of 30 September 2003.

Development of results in the individual business units:

- **Power Generation**: The operating result of this business unit, in which we combined the activities of the former companies RWE Power and RWE Rheinbraun (without CONSOL), gained around 42%. This was based on price-related margin improvements accompanied by higher production quantities together with continued savings as part of our cost reduction program. Increased fuel costs and decreasing income from supplying balancing power had an opposite impact.

- Despite the expansion of the gas and oil production, **RWE Dea** closed with a decline in operating result of around 21%. This was principally due to lower euro prices for oil and gas based on exchange rates. We could only partially absorb currency influences by early hedging.

- **Harpen**: The specialist for regenerative and decentralized electricity generation posted an operating result of €19 million. Thus the company was slightly behind the previous year's figure, which was enhanced by special profits from real estate sales. The profit situation in the energy business remained stable.

RWE Energy

- Operating result increased 10%
- Margin improvements in the German and international regional business

RWE Energy		Jan–Mar 2004	Jan–Mar 2003	+/- in %	Jan–Dec 2003
Electricity sales volume	billion kWh	45.8	45.7	+ 0.2	167.1
Gas sales volume	billion kWh	111.4	117.6	- 5.3	286.4
External revenue	€ million	6,406	6,557	- 2.3	21,842
_Of that: Electricity[1]	€ million	3,367	3,303	+ 1.9	12,243
_Of that: Gas[2]	€ million	2,311	2,541	- 9.1	6,365
EBITDA	€ million	957	928	+ 3.1	2,750
Operating result	€ million	796	724	+ 9.9	2,046
Capital expenditure	€ million	152	273	- 44.3	1,652
_Property, plant and equipment	€ million	115	117	- 1.7	1,000
_Financial assets	€ million	37	156	- 76.3	652

		03/31/04	12/31/03	+/- in %
Workforce	FTE[3]	42,376	42,655	- 0.7

[1] Including electricity tax in the amount of € 266 million (Previous year €260 million) and grid fees.
[2] Including gas taxes in the amount of € 48 million (Previous year €38 million).
[3] Calculated as full-time equivalents (1 FTE = 1 full-time position).

Demand for electricity in Germany, our largest market, increased slightly in comparison to the first quarter of 2003. Along with slight economic growth, the calendar effect of the leap year was also a contributing factor. However, the mild weather minimized the need for electricity for heating. In our Central Eastern European electricity markets, average temperatures were close to the previous year's level. Despite the continuing robust economic situation, structural changes in the economy put a damper on increased demand here. In Slovakia, electricity consumption stagnated; in Hungary, it increased slightly, and only in Poland was there a clear increase of 2.5%. The milder weather in Germany was reflected particularly in the **demand for natural gas**. It was down about 3% from the previous year. The largest gas markets for RWE Energy after Germany, Czech Republic and Hungary, posted slight increases in consumption.

The strong increase in 2003 of **electricity prices** on the wholesale market could be passed on to a large extent to the end customers. Price increases were the greatest for corporate customers because the share of the wholesale price in the purchase price is the largest here. For industrial companies and distributors that purchase electricity at high voltage levels, the producer's price index of the Federal Statistical Office shows a 7.5% increase in the price for the first quarter. Household and commercial customers had to pay on average only 4% more.

The **cross-border prices for natural gas** in Central Europe, which are usually six months behind developments in fuel oil pricing, were—in euros—approximately 10% below the level of the first quarter of 2003. According to the producer's price index, German household customers paid 1.6% more and industrial customers 2.5% less than in the previous year. In the Czech Republic, an independent regulatory authority specifies gas prices quarterly. It sets prices with regard to international oil prices and relevant exchange rates. In the first quarter, prices for end customers in the Czech Republic increased by 5.2%.

RWE Energy posted **electricity sales** outside of the Group of 45.8 billion kWh. We are thus on the same level as the previous year. While we generally saw growth in our German regional business, our sales in Hungary and Poland are slightly down. At RWE Solutions, some contracts with industrial customers expired in 2003. The resulting fall in quantity was compensated only partially by the takeover of the RWE Trading's industrial customers. **Gas sales** by RWE Energy were down 5% due to weather conditions, to 111.4 billion kWh.

External revenue, at €6.4 billion, was about 2% below the previous year's level. As already explained, prices in German gas market were down. In addition, negative effects arising from currency conversions curbed our sales in the Czech Republic. This effect was balanced by additional revenue from the German electricity business, which saw an increase in our tariffs for private and commercial customers as of January 1, 2004 due to increased procurement costs. Additional sales volume resulted from the transfer of the majority of the continental European water activities from RWE Thames Water to RWE Energy and the assumption of RWE Trading's industrial customers.

The **EBITDA** of RWE Energy improved 3% to €957 million, and the **operating result** was up about 10% to €796 million. Here again, this can be credited to margin improvements, particularly in our German and international regional business.

RWE Energy Business Units January – March 2004* € million	External revenue	EBITDA	Operating result
German regions	4,146	658	566
_Northern	1,540	180	159
_Central	1,158	194	178
_Eastern	805	143	106
_Western	114	26	26
_Southwestern	350	77	66
_Southern	179	38	31
International regions	1,097	165	144
RWE Solutions	591	- 1	- 15
Electricity and gas transmission	514	208	174
Other / consolidation	58	- 73	- 73
RWE Energy	**6,406**	**957**	**796**

* Previous year's figures are not available since these are, with the exception of RWE Solutions, new business units.

German regions: At our German regional companies, which are grouped in six marketing regions, the new organizational structure took its full effect for the first time during the first quarter of 2004. Thus we brought our German water business into the companies on 1 January 2004. Only our interest in Berlinwasser remained with RWE Thames Water. In addition, the German activities of the old RWE Gas were also integrated completely into the organizational structure of RWE Energy. The German regional companies increased their operating result in the first quarter of 2004 to €566 million. Decisive factors were continued decreases in expenses and value-oriented marketing policies.

International regions: Our continental European marketing activities outside of Germany are administered by regional companies in the Czech Republic, Hungary, Slovakia, Poland, Austria and the Netherlands. Here we obtained an operating result of €144 million. We benefited among other things from increased margins in the regulated Hungarian electricity business and efficiency improvements at the Polish STOEN.

RWE Solutions made an operating loss of €15 million. The company had closed the previous year with a slightly positive result. Apart from seasonal factors, the decline was based, above all, on the fact that the prior year period benefited from one-time effects driven by contracts with industrial customers. The transfer of RWE Trading's industrial customers on 1 January 2004 could not offset this effect.

Electricity and gas transmission: This includes our entire German network activities in the highest voltage range, as well as the gas transport business and marketing business of the Czech Transgas and, since 1 January 2004, the German gas transport network as well. In all, an operating result of €174 million was achieved.

RWE Innogy

- Operating result was 32 % below previous year's due to transfer of trading business
- Increased earnings in end customer business

RWE Innogy		Jan – Mar 2004	Jan – Mar 2003	+/- in %	Jan – Dec 2003
Electricity production	billion kWh	7.9	10.5	- 24.8	37.7
Electricity revenue	billion kWh	15.4	16.3	- 5.5	59.3
Gas sales	billion kWh	18.7	20.3	- 7.9	48.6
External revenue	€ million	1,633	1,681	- 2.9	5,552
_Thereof: electricity	€ million	1,120	1,177	- 4.8	4,180
_Thereof: gas	€ million	404	421	- 4.0	975
EBITDA	€ million	186	276	- 32.6	850
Operating result	€ million	162	237	- 31.6	714
Capital expenditure	€ million	28	46	- 39.1	215
_Property, plant and equipment	€ million	28	46	- 39.1	215
_Financial assets	€ million	—	—	—	—
		03/31/04	**12/31/03**	**+/-** in %	
Workforce	FTE*	9,091	9,357	- 2.8	

* Calculated in full-time equivalents (1 FTE = 1 full-time position).

Energy consumption in the UK was marked by two contradictory influences during the first quarter: The positive impact of a strong economic climate was weakened by milder weather in comparison with the previous year. Electricity consumption increased by 2 % nonetheless, while gas demand, which is heavily dependent on weather, stagnated.

Prices on the UK energy market recently increased significantly. In the wholesale market, forward contracts for electricity deliveries in 2005 averaged £ 24.39 per MWh (€ 36.21) for base-load power and £ 29.33 per MWh (€ 43.55) in the peak-load segment. They were thus 41 % and 30 %, respectively, above comparable previous year figures. This ongoing rise in prices reflects expectations of additional costs due to the introduction of trading in CO_2 emissions in the United Kingdom, along with increased fuel costs. Expectations of further strains on production capacities are also having their effect on the market. Prices in the UK spot market for natural gas in the first quarter averaged 33 % higher than the same period last year. This price development reflects the change of the UK's position from a net exporter, to a net importer of gas.

The significant increase in prices for electricity and gas in wholesale markets were reflected in end consumer prices as well. During the first quarter of 2004, all major suppliers increased electricity and natural gas prices for household and commercial customers. Average prices during the quarter for these consumer groups were 3.5% higher for electricity and 5% for natural gas compared to previous year figures. Increases were even more significant for corporate customers.

RWE Innogy's **electricity production** was 7.9 billion kWh. Due to a scheduled power plant outage, we were thus 25% below last year's figures. Electricity sales were down by 5.5% to 15.4 billion kWh, while gas sales were down by 8% to 18.7 billion kWh. This can be explained by the fact that, as part of our profit-oriented sales strategy, we have concentrated on supply contracts with attractive margins. Currently, RWE Innogy accounts for 15% of electricity and 9% of gas supplies in the UK private customer segment, while its market share for business customers is 11%.

RWE Innogy achieved **external revenue** of €1,633 million. That is 3% less than the previous year, primarily due to the transfer of RWE Innogy's trading business to RWE Trading. Excluding this, sales were slightly higher. Revenue trends in the end customer business were marked by the contrary impacts of sales declines and price increases.

The transfer of the trading activities also left its mark on income. RWE Innogy ended the quarter with **EBITDA** of €186 million, down by 33%. Its **operating result** fell by 32% to €162 million. Here it should be noted that RWE Innogy's trading result in the first quarter of 2003 was extraordinarily high. If it is excluded from the previous year's figure, the UK energy provider's income picture remained almost unchanged. Lower profits due to reduced production were compensated by improved margins in sales.

RWE Trading

- Jump in income through the inclusion of trading activities of RWE Innogy
- Operating income benefited from improved margins in electricity trading

RWE Trading		**Jan – Mar 2004**	**Jan – Mar 2003**	**+/- in %**	**Jan – Dec 2003**
Electricity sales[1]	billion kWh	15.1	14.1	+ 7.1	56.5
Total revenue	€ million	2,368	1,408	+ 68.2	5,751
External revenue	€ million	779	570	+ 36.7	2,444
EBITDA	€ million	80	5	–	59
Operating result	€ million	81	4	–	59
Capital expenditure	€ million	1	1	0.0	4
_Property, plant and equipment	€ million	1	1	0.0	3
_Financial assets	€ million	–	–	–	1

		03/31/04	**12/31/03**	**+/- in %**
Workforce	FTE[2]	639	397	+ 61.0

[1] Net, excluding trade with electricity obtained from third parties.
[2] Calculated in full-time equivalents (1 FTE = 1 full-time position).

During the first quarter, **liquidity** in the German electricity market continued to improve overall. Volumes traded on the Leipzig energy market, EEX, were significantly higher in spot trading and slightly lower in forward contracts compared to levels in the previous quarter. Sales in over-the-counter electricity rose sharply, while developments in the UK ran in the opposite direction. Here liquidity decreased after several US energy traders left the market. Uncertainty in the market about UK allocation plans for CO_2 emissions trading also worked to reduce sales. Liquidity in gas trading moved in contrary directions as well: while it increased in continental Europe, it stagnated in the UK.

RWE Trading **sales** to external electricity customers rose by 7%, to 15.1 billion kWh, compared to the same period in the previous year. Our sales on the wholesale market have risen sharply. By comparison, supplies to wholesale customers dropped by 44% to 1.9 billion kWh. The reason—in the course of reorganizing the RWE Group, business with industrial companies was transferred to RWE Solutions.

Our **trading volumes** with non-Group third parties fell slightly compared to the same period last year to 320 billion kWh of electricity. The decline can be attributed primarily to options trading. In gas, a volume of 241 billion kWh was reached, and in oil 520 million barrel. In coal trading, volume more than doubled to 25 million metric tons through greatly increased derivatives trading.

RWE Trading achieved **external revenue** of €779 million. That is 37% more than in the previous year. Operationally, we were able to achieve increases especially in electricity trading. Another reason for the increase in sales was the inclusion of RWE Innogy's trading activities, which was also reflected in a significant jump in income. The **EBITDA** thus increased from €5 million to €80 million. **Operating result** grew from €4 million to €81 million. Even without RWE Innogy's trading business, RWE Trading still would have closed above last year. The primary reason was improved margins in electricity and oil trading.

RWE Thames Water

- Operating result increased organically by 4%
- American Water: Result up 5% on a dollar basis

RWE Thames Water		**Jan–Mar 2004**	**Jan–Mar 2003**	**+/- in %**	**Jan–Dec 2003**
External revenue	€ million	964	1,036	- 6.9	4,249
EBITDA	€ million	449	475	- 5.5	2,018
Operating result	€ million	295	300	- 1.7	1,374
Capital expenditure	€ million	347	4,921	- 92.9	6,129
_Property, plant and equipment	€ million	325	372	- 12.6	1,549
_Financial assets	€ million	22	4,549	- 99.5	4,580

		03/31/04	**12/31/03**	**+/-** in %
Workforce	FTE*	17,047	17,521	- 2.7

* Calculated in full-time equivalents (1 FTE = 1 full-time position).

The **regulated business of providing water and sewage services** is a relatively stable business. Especially in the mature markets of RWE's core business in Europe and North America, cyclical factors have rather limited influence. Long-term growth is driven instead by capital expenditure to improve network infrastructure, for instance, which are funded by approval of higher rates by regulatory authorities. In the UK, the framework conditions for the next regulatory period, which will extend from April 2005 to March 2010, are currently being determined. Here it is clear that capital expenditure for the UK water business will be significantly higher than in the present five-year period. The pace of privatization in continental European water markets—RWE's core region—remains low, but outsourcing agreements governing operation and maintenance of water and sewage infrastructure nonetheless offer market opportunities.

RWE Thames Water posted **external revenue** of €964 million, which is 7% less than in the previous year, mainly as a result of the negative impact of exchange rates in converting US income to euros. In addition, RWE Thames Water transferred sales volume of €26 million to RWE Energy as a result of reorganization. Net of these effects, external revenue would have been slightly higher than in the previous year. The biggest impact in increasing revenue was the fact that American Water was able to negotiate price increases with a number of regulators in various states. This took into account delays in rate adjustments that we had to accept as part of the acquisition approval process. In the regulated business in Great Britain, we were able to achieve increased income based on inflation and demand. This contrasts with a slight fall in revenue due to deconsolidation of part of in the non-regulated UK business.

RWE Thames Water Regions Jan – March	External revenue		EBITDA		Operating result	
€ million	2004	2003	2004	2003	2004	2003
Europe and other markets	535	575	280	304	190	194
_thereof: regulated UK business	415	401	231	236	136	140
Americas	429	461	169	171	105	106
RWE Thames Water	**964**	**1,036**	**449**	**475**	**295**	**300**

EBITDA was down by 5% to €449 million. The **operating result** retreated by 2% to €295 million. The impact of exchange rates, consolidation and reorganization were all drags on the operating result by a total of - €16 million. Net these effects, this division's result would have increased by about 4%. The planned increase of water rates in Berlin as of 1 January 2004 was a positive factor. The regulated UK business remained slightly below last year due to increased infrastructure expenditure. American Water was not quite able to reach the level of the same quarter last year due to a negative exchange rate impact in the amount of €10 million. The US water supplier's dollar result improved by about 5%. The reasons were rate increases which were offset, however, by higher expenditure for pensions, health insurance, and security.

RWE Thames Water typically earns only about one fifth of its annual result in the first quarter, reflecting higher than proportional water usage in summer months. While the UK business is only slightly marked by seasonality due to billing being relatively independent of volume, it is much more pronounced in the case of American Water. In the business in the US, only about one sixth of annual result is typically posted in the first quarter.

RWE Umwelt

- Volume decreases in DSD sector (German dual waste management system) cloud income picture
- Despite reduction in costs, operating result lower than last year

RWE Umwelt		Jan – Mar 2004	Jan – Mar 2003	+/- in %	Jan – Dec 2003
External revenue	€ million	438	486	- 9.9	1,944
EBITDA	€ million	47	54	- 13.0	230
Operating result	€ million	15	20	- 25.0	76
Capital expenditure	€ million	68	21	+ 223.8	152
_Property, plant and equipment	€ million	21	18	+ 16.7	94
_Financial assets	€ million	47	3	-	58

		03/31/04	12/31/03	+/- in %
Workforce	FTE*	12,169	12,578	- 3.3

* Calculated in full-time equivalents (1 FTE = 1 full-time position).

The **German waste management industry** continues to face **difficult circumstances**. The weak domestic economy offered little in the way of reinvigoration. Pressure on earnings continued to be high in the municipal and commercial waste industry, but the latest forecasts of economic upturn and the impending implementation of "TASi", new German technical directives for residential waste management, have raised expectations in the industry for modest recovery. TASi will take effect starting in June 2005. It prohibits disposal of untreated waste. Once it comes into effect, the price situation for incineration plants will improve. Operators of waste sites that do not meet TASi standards have recently been observed offering their capacity at marginal costs. Reductions in volumes and fees in the DSD sector have also contributed to the difficulties facing the waste management industry. Developments in the secondary raw materials market were more favorable. Here prices were up slightly, in particular in the case of waste paper.

RWE Umwelt's **external revenue** during the first quarter were €438 million, down about 10%. That can be traced primarily to the disposal of non-core activities. Net of consolidation, sales were down by only 2%. About 90% of our revenues now come from German waste and recycling business. Most especially the regionally based companies suffered significant losses in this sector. The causes included worsened conditions in the municipal and commercial customer business. Reduced volumes in the DSD sector were felt after a deposit on cans was introduced and there were losses of contracts. These losses were compensated to a large extent by RWE Umwelt specialist companies active in multiple regions. The marketing of secondary raw materials was the positive factor.

In comparison to the previous year, RWE Umwelt earned **EBITDA** of €47 million, about 13% lower. The **operating result** sank by 25% to €15 million. The income situation in the DSD sector in particular deteriorated. Savings resulting from RWE Umwelt's on-going cost reduction program could only compensate in part for these pressures on earnings.

Heidelberger Druckmaschinen

- At €94 million, operating result significantly recovered
- Comprehensive cost reductions with only slowly strengthening demand

Heidelberger Druckmaschinen		**Jan–Mar 2004**	**Jan–Mar 2003**	**+/- in %**	**Jan–Dec 2003**
External revenue	€ million	1,202	1,212	- 0.8	3,658
EBITDA	€ million	149	107	+ 39.3	120
Operating result	€ million	94	39	+ 141.0	- 118
Capital expenditure	€ million	70	112	- 37.5	262
_Property, plant and equipment	€ million	53	94	- 43.6	205
_Financial assets	€ million	17	18	- 5.6	57

		03/31/04	**12/31/03**	**+/-** in %
Workforce	FTE*	21,607	22,036	- 1.9

* Calculated in full-time equivalents (1 FTE = 1 full-time position).

After a cautious outlook for the industry at the start of the year, **orders received** by the Heidelberg Group have improved somewhat again. At around €1 billion, they were about 9% above the low level of the previous year. On the other hand, the orders on hand has declined and stood at €949 million as of March 31, 2004. That is 11% less than at the comparable time last year.

Heidelberg achieved **external revenue** of €1,202 million during the first quarter. That represents about the same level as in the previous year. Here it should be kept in mind that sales in dollars came in lower after conversion to euros. Net of this exchange rate effect, sales would have been 5% higher. While Heidelberg was able to achieve growth in the Asia Pacific region in particular, the world's market leader faced revenue declines in Europe and the US.

The company's earnings situation was substantially improved. Thanks to comprehensive restructuring measures, Heidelberg was able to increase **EBITDA** by 39% to €149 million. The **operating result** was significantly higher at €94 million. This improvement was largely due to the sheetfed core business. Heidelberg had closed the previous three quarters with a negative operating result.

Supervisory Board

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Chairman

Frank Bsirske*
Deputy Chairman

Dr. Paul Achleitner

Carl-Ludwig von Boehm-Bezing

Burkhard Drescher

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Uwe Tigges*

Prof. Karel Van Miert

Jürgen Wefers*

Erwin Winkel*

* Employee representative on the Supervisory Board

Executive Board

Harry Roels
CEO

Berthold A. Bonekamp
- as of 1 April 2004 -

Dr. Gert Maichel

Dr. Klaus Sturany

Jan Zilius

Consolidated Income Statement

€ million		Jan–Mar 2004	Jan–Mar 2003
Revenue		12,172	12,826
Natural gas and electricity tax		- 321	- 333
Revenue (not including natural gas and electricity tax)		**11,851**	**12,493**
Changes in finished goods and work in progress/own capitalized work		- 6	- 53
Cost of materials		- 6,390	- 7,097
Staff costs		- 1,698	- 1,916
Amortization, depreciation, and impairment losses		- 803	- 1,072
Other operating result		- 1,028	- 572
Income from operating activities		**1,926**	**1,783**
Income from investments		322	4
Financial result		- 636	- 754
Income before tax		**1,612**	**1,033**
Taxes on income		- 552	- 500
Income after tax		**1,060**	**533**
Minority interest		- 135	- 96
Net income		**925**	**437**
Earnings per share: Diluted and undiluted per share of common and preferred stock	€	**1.64**	**0.78***

* Earnings per share in previous year include goodwill amortization.

Consolidated Balance Sheet

Assets € million	**At 03/31/04**	**At 12/31/03**
Non-current assets		
Intangible assets	19,963	19,418
Property, plant and equipment	36,885	36,210
Financial assets	5,859	6,778
	62,707	62,406
Current assets		
Inventories	2,908	3,285
Accounts receivable and other assets	16,897	16,947
Marketable securities	10,143	9,615
Cash and cash equivalents	2,858	2,181
	32,806	**32,028**
Deferred taxes	**4,189**	**4,325**
Prepaid expenses	**570**	**383**
	100,272	**99,142**

Equity and liabilities € million	**At 03/31/04**	**At 12/31/03**
Equity / minority interest		
Group interest	8,166	7,013
Minority interest	2,187	2,052
	10,353	**9,065**
Provisions	**36,769**	**37,671**
Liabilities	**44,219**	**44,061**
Deferred taxes	**4,915**	**4,526**
Deferred income	**4,016**	**3,819**
	100,272	**99,142**

Consolidated Cash Flow Statement

€ million	Jan – Mar 2004	Jan – Mar 2003
Income after tax	1,060	533
Depreciation, amortization, impairment losses, write-backs	802	1,074
Increase / decrease in provisions	- 167	- 111
Deferred taxes / non-cash items / income from disposal of non-current assets and securities from current assets	- 17	142
Changes in working capital / Other balance sheet items	- 402	264
Cash flows from operating activities	**1,276**	**1,902**
Capital expenditure in non-current assets	- 832	- 5,671
Proceeds from sale of non-current assets	1,158	621
Changes in securities and cash investments	- 327	562
Cash flows from investing activities	**- 1**	**- 4,488**
Cash flows from financing activities	**- 609**	**2,576**
Net change in cash and cash equivalents	666	- 10
Influence on cash and cash equivalents of exchange rate changes and other changes in values	11	34
Changes in cash and cash equivalents	**677**	**24**
Cash and cash equivalents at start of reporting period	2,181	2,143
Cash and cash equivalents at end of reporting period	**2,858**	**2,167**
Financial assets at start of reporting period	13,952	14,387
Financial assets at end of reporting period	**15,120**	**11,944**
Gross debt at start of reporting period	31,790	29,881
Gross debt at end of reporting period	**32,103**	**34,461**
Net debt at start of reporting period	17,838	15,494
Net debt at end of reporting period	**16,983**	**22,517**

Changes in Equity and Minority Interest

€ million	Group interest	Minority interest	Total
At 12/31/2002	**6,429**	**2,495**	**8,924**
Dividends paid	—	- 33	- 33
Other comprehensive income / other	- 350	- 53	- 403
Income after tax	437	96	533
At 03/31/2003	**6,516**	**2,505**	**9,021**
At 12/31/2003	**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 03/31/2004	**8,166**	**2,187**	**10,353**

Notes

Accounting policies

The interim report for the period ended 31 March 2004 was prepared in accordance with the International Financial Reporting Standards (IFRS) effective as of the balance sheet date. The IFRS comprise the IFRS newly issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) and the interpretation of the Financial Reporting Interpretations Committee (IFRIC) and of the Standing Interpretations Committee (SIC). In addition, for the first time, RWE is also applying voluntarily IFRS 3, 'Business Combinations', which was passed by the IASB in March 2004, IAS 36 'Impairment of Assets' (revised 2004), as well as IAS 38 'Intangible assets' (revised 2004).

With the exception of new guidance on the accounting for business combinations, the same accounting policies were used in this interim report as were used in the consolidated financial statements for fiscal year 2003. For additional information, please see the consolidated financial statements as of 31 December 2003, which represent the basis for this interim report. According to IFRS 3, which was applied for the first time in preparing this report, all business combinations must be reported according to the acquisition method. The purchase price must be allocated to all reportable assets, debts and conditional debt. Regardless of the amount of the minority interest, balance sheet items shall be valued with the full fair value. Intangible assets shall be reported separately from goodwill if they are separable from the company or if they stem from a contractual or other right. Reorganization provisions may no longer be recognized again within the scope of purchase price allocation.

According to IAS 36 (revised in 2004), which was applied for the first time, capitalized goodwill is no longer amortized, beginning 1 January 2004. Rather, the carrying amount of goodwill will be subject to an annual impairment test or when there are indications of a reduction of value. If in doing so the carrying amount of a cash-generating unit that was allocated goodwill to exceeds the realizable amount, the allocated goodwill will be written down by the difference. According to IAS 36 (revised in 2004) intangible assets with an indefinite useful life are also no longer amortized, but instead are subject to an annual impairment test.

As of 1 January 2004, negative goodwill was set off against retained earnings with neutral effect on profits.

The new regulations described above also apply accordingly to investments included at equity.

The interest rate for pension provisions, provisions for nuclear waste disposal, and mining-related provisions was 5.5%, as in the previous year.

Scope of consolidation

In addition to RWE AG, the consolidated financial statements include all substantial foreign and domestic subsidiaries that RWE AG controls directly or indirectly. Significant associated companies are accounted for using the equity method.

The following reflects the scope of consolidation:

	At 03/31/04	At 12/31/03
Number of fully consolidated companies	692	697
Number of investments accounted for at equity	239	235

In this interim report as of 31 March 2004, HOCHTIEF was no longer accounted for at equity but rather as a non-current marketable securities after the interest held had been reduced to 9.6%. CONSOL Group activities were also included in the same period last year. In the reporting quarter, the 18.5% share in CONSOL Energy remaining after the sale of shares in 2003 have been sold.

Discontinuing Operations

In a combined transaction on May 5 and 6, 2004, RWE directly placed 30 million shares of Heidelberger Druckmaschinen AG with institutional investors and issued an exchangeable bond for the company's shares. Proceeds from these transactions totaled €1.3 billion. The following table shows the primary impact on the quarterly report as of 31 March 2004 of discontinuing the non-core activities of Heidelberger Druckmaschinen.

€ million		At 03/31/04	At 12/31/03
Assets		4,447	4,906
Provisions, liabilities etc.		3,023	3,536

€ million		Jan – Mar 2004	Jan – Mar 2003
Revenue		1,202	1,212
Income before taxes		83	- 39
Taxes on income		- 48	- 12
Income after taxes		35	- 51
Net income		16	- 31
Diluted and undiluted earnings per share of common and preferred stock	€	0.03	0.06
Cash flows from operating activities		364	345
Cash flows from investing activities		- 71	6
Cash flows from financing activities		- 284	- 345

Revenue

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

Research and development costs

In the first quarter of 2004 research and development costs totaled €88 million (same period, previous year: €130 million).

Own shares

In the first quarter of 2004, companies of RWE AG purchased 5,482 shares of common stock on capital markets at an average purchase price of €32.84 per share. They represent €14,033.92 of the share capital (0.01‰ of subscribed capital). Employees of RWE AG and its subsidiaries received a total of 512 shares of common stock at an average price of €36.14 per share as part of employee asset-building plans, as well as an additional 4,970 shares of common stock at an average price of €12.00 for employee anniversaries. The total revenue was €59,664.48. The respective variations from the purchase price were recognized in net income.

Stock option plans

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

The Executive Board of RWE AG was authorized to issue non-transferable subscription rights up to 20,000,000 common shares to the aforementioned persons up to the end of the day on 8 March 2004. There is a three-year waiting period for the stock options, which have a term of five years after their respective issue date. These subscription rights may be exercised only if the quoted market price for the common shares—calculated using the total return method—has increased by an average of at least 6% annually by the exercise date (absolute performance) and has not trailed the Dow Jones STOXX stock index by more than 10 percentage points (relative performance) in the same period. The four-week exercise periods start on the 21st trading day following publication of provisional revenue and earnings figures for the completed fiscal year and after publication of the semi-annual results.

These stock options can be exercised only upon payment of the exercise price. The exercise price equals the quoted market price of the common share on the first trading day after expiration of the relevant exercise period, minus a markdown 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 rather than new shares from contingent capital, or that the markdown can be paid in cash rather than in common stock. If persons holding stock options are not employed by RWE AG, expenses associated with exercise of a stock option are borne by the respective Group company.

The following stock options have been issued to date:

Stock options	**Originally issued**	**Balance at 12/31/03**	**Expired in 2004**	**Balance at 03/31/04**
1999 tranche	1,935,800	1,244,100	- 1,244,100	—
2000 tranche	4,336,500	2,740,900	- 79,800	2,661,100
2001 tranche	5,222,300	4,143,000	- 130,200	4,012,800
2001A tranche	5,262,300	4,530,900	- 114,200	4,416,700
Total	**16,756,900**	**12,658,900**	**- 1,568,300**	**11,090,600**

Furthermore, other virtual stock option plans are offered to employees, executive board members and other executives of RWE AG and its affiliated companies in Germany and abroad, on which we reported separately in the financial statements for the period ended 31 December 2003.

Dividend payout

The RWE AG annual general meeting resolved on 15 April 2004 to pay the suggested dividend of €1.25 per share for fiscal year 2003.

Earnings per share

Earnings per share are calculated as follows:

		Jan–Mar 2004	Jan–Mar 2003
Net income	€ million	925	437
Number of shares outstanding (weighted average)	thousands	562,405	562,404
Earnings per share	€	**1.64**	**0.78***

* Earnings per share in previous year include goodwill amortization.

Diluted and undiluted earnings per share are equivalent. The same earnings per share are attributed to both common and preferred shares. Options in the RWE stock option plan and the LTIP program do not dilute earnings as of 31 March 2004 either because exercise conditions were not met as of the balance sheet date or because they are appreciation rights that have already been recognized in net income and which cannot result in potential shares.

Contingent liabilities

Contingent liabilities relate primarily to liabilities ensuing from guarantees and guarantee agreements; they have declined by €294 million since 31 December 2003, down to €1,981 million. The decline is attributable essentially to liabilities arising from guarantee agreements.

Reconciliation to the operating result

Reconciliation of income from operating activities to the operating result € million	Jan – Mar 2004	Jan – Mar 2003
Income from operating activities	1,926	1,783
+ Income from investments	322	4
- Non-operating result	- 278	- 35
Operating result	**1,970**	**1,752**

Reconciliation addresses the following points:

- Income from investments includes all expenditures and income that have arisen in connection with operating investments. Income from investments thus constitutes an integral part of the Group's operating activity. Based on the discontinuation of goodwill amortization on investments accounted for using the equity method, operating result rose by €15 million during the first quarter of 2004.

- Income and expenditures that result from unusual or exceptional events from a business perspective can prejudice an assessment of operating activities. They are reclassified as part of the non-operating result. The amortization of goodwill has been abolished as part of new guidance on the accounting for business combinations. Accordingly, the non-operating result no longer needs to be adjusted by the amount of the amortization of goodwill. Discontinuing amortization of goodwill results in an increase in non-operating result of €244 million. No write-downs of goodwill were necessary during the reporting period.

Reconciliation of EBITDA to the operating result € million	Jan – Mar 2004	Jan – Mar 2003
EBITDA	2,615	2,547
- Operating depreciation and amortization	- 716	- 769
EBIT	1,899	1,778
+ Operating result of investments	71	- 26
Operating result	**1,970**	**1,752**

Financial Calendar 2004/2005

05/11/2004	Interim report on the first quarter of 2004 including analysts conference call
08/10/2004	Interim report for the first half of 2004 including _Press conference _Analysts conference
11/09/2004	Interim report for the first three quarters of 2004 including analysts conference call
02/24/2005	Annual report on fiscal year 2004 including _Press conference _Analysts conference
04/14/2005	Annual General Meeting
04/15/2005	Ex-dividend date
05/12/2005	Interim report on the first quarter of 2005 including analysts conference call
08/11/2005	Interim report for the first half of 2005 including _Press conference _Analysts conference
11/16/2005	Interim report for the first three quarters of 2005 including analysts conference call

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

RWE Aktiengesellschaft

Opernplatz 1
45128 Essen
Germany

T +49 (0) 201/12-00
F +49 (0) 201/12-15199
I www.rwe.com

Investor Relations

T +49 (0) 201/12-15025
F +49 (0) 201/12-15265
E invest@rwe.com

Private investors are welcome to call our
Investor Relations hotline:
T +49 (0) 1801/451280