COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

COMPLIANCE OF KENTUCKY-AMERICAN WATER COMPANY, AMERICAN WATER WORKS COMPANY, RWE AKTIENGESELLSCHAFT AND THAMES WATER AQUA HOLDINGS GmbH WITH THE PROVISIONS OF THE ORDERS APPROVING THE TRANSFER OF CONTROL OF KENTUCKY-AMERICAN WATER COMPANY TO RWE AKTIENGESELLSCHAFT AND THAMES WATER AQUA HOLDINGS GMBH	)	**CASE NO. 2002-00277**

NOTICE OF FINANCIAL REPORTS

Come Thames Water Aqua Holdings GmbH; RWE Aktiengesellschaft; American Water Works Company, Inc.; Thames Water Aqua U.S. Holdings, Inc., and Kentucky-American Water Company and pursuant to Condition 34 of the Order of December 20, 2002, in Case No. 2002-00317, herewith give notice of the financial reports for January through September, 2003, of RWE AG which are available at www.rwe.com. The Bloomberg currency conversion calculator shows that on September 30, 2003, $1.00 was worth .85789 Euros.

Respectfully submitted,

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CERTIFICATION

In conformity with paragraph 7 of the Commission's Order dated January 30, 2002, in Case No. 2002-00018, this is to certify that the electronic version of this pleading is a true and accurate copy of the pleading filed in paper medium; that the Petitioners have notified the Commission and the parties in Case No. 2002-00018 by electronic mail on November 14, 2003, that the electronic version of this pleading has been transmitted to the Commission, and that a copy has been served by mail upon:

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and that the original and three copies have been filed with the Public Service Commission in paper medium on the 14th day of November, 2003.

BY: Lindsey Ingram, Jr.

Counsel for Kentucky-American Water Company, Thames Water Aqua Holding GmbH, Thames Water Aqua US Holdings, Inc., RWE AG and American Water Works Company, Inc.

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January through September

Report on the first three quarters of fiscal 2003

- Group operating result 25% up year-on-year
- Core businesses post 33% growth in operating results
- Net income down 19% due to acquisitions
- Net debt reduced to €18.8 billion
- New Group structure in place since October 1

At a glance

RWE Group		Jan – Sep 2003	Jan – Sep 2002	+/– in %	Jan – Dec 2002
External revenue	€ million	31,935	35,353	– 9.7	46,633
EBITDA	€ million	6,191	5,115	+ 21.0	7,241
Operating result	€ million	3,965	3,183	+ 24.6	4,504
Income before tax	€ million	1,858	1,275	+ 45.7	2,722
Net income					
Excl. goodwill amortization	€ million	1,459	1,445	+ 1.0	1,830
Incl. goodwill amortization	€ million	732	906	– 19.2	1,050
Earnings per share					
Excl. goodwill amortization	€	2.59	2.57	+ 0.8	3.25
Incl. goodwill amortization	€	1.30	1.61	– 19.3	1.87
Cash flows from operating activities	€ million	3,976	4,044	– 1.7	5,933
Capital expenditure	€ million	8,132	14,884	– 45.4	16,985
Free cash flow[1]	€ million	1,011	1,364	– 25.9	1,838

		09/30/03	12/31/02	+/– in %
Net debt	€ million	18,837	15,494	+ 21.6
Workforce	FTE[2]	136,858	131,765	+ 3.9

[1] Cash flows from operating activities minus capital expenditure on property, plant and equipment and intangible assets.
[2] Full time equivalent (FTE), according to the percentage of full-time employment (1 FTE = 1 full-time position).

»In addition to taking us closer to our customers, the new Group structure brings us a step closer to our goal of capitalizing on all synergies between electricity, gas and water.«

Dear Shareholders,

Although it is not yet reflected in our share price, we actively developed our businesses during the first three quarters of this year. This is demonstrated by improvements in our key figures. Our stable core business in the fields of electricity, gas and water more than offset the difficult earnings situation experienced by Heidelberger Druckmaschinen and the environmental services business caused by the macroeconomic situation. Further evidence comes courtesy of our new Group structure. We reduced the number of operating companies in the RWE organization from 13 to seven and tightly intermeshed our German electricity, gas and water operations under our new regional companies right on schedule on October 1. This will enable us to achieve further cost reductions. More importantly, it allows us to increase the proximity to our customers as well as our local flexibility. And this is an extremely valuable asset in the German utility business. Moreover, our British and North American companies will work more closely with each other. We will inform you about the details in this quarterly report. It will also furnish you with information on two political issues that will have a major influence on the European utility sector in the next few years: emissions trading and the regulation of German electricity and gas grids.

The following is an overview of the key financial developments in the first three quarters of this financial year:

- The Group's operating result rose by 25%. Core businesses recorded an even stronger 33% increase in their operating result due to the consolidation of acquisitions and the substantial increase in results generated by our electricity and gas operations—despite negative currency effects. Conversely, our non-core businesses were burdened by the operating loss recorded by Heidelberger Druckmaschinen.

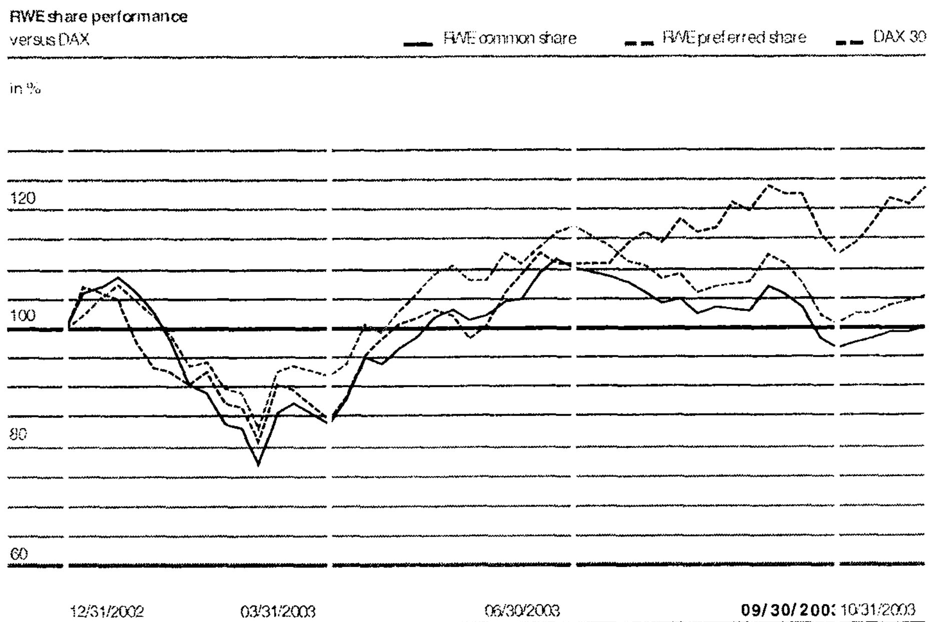
- Net income includes goodwill amortization as well as all the financing interest associated with our acquisitions. It increased by 1% before goodwill amortization. After goodwill amortization, it dropped by 19%.

- Our financial discipline is paying off: net debt totaled €18.8 billion as of September 30. We thus clearly exceeded the goal we had set our sights on for the end of 2003 (€24 billion).

We expect the aforementioned trends to remain stable in the fourth quarter. If so, 2003 will be another good year for our shareholders.

Essen, November 2003

Harry Roels
CEO



Disappointing share performance

The upward trend on the stock markets ushered in by the spring of 2003 continued in the third quarter of the fiscal year. The **DAX 30** achieved a year-high 3,669 points at the beginning of September, declining considerably thereafter. It closed the third quarter at 3,257 points, roughly equaling the level it had at the beginning of the quarter. This corresponds to a 12.6% increase over the level at the end of 2002. Signs indicating that the downward trend on stock markets witnessed since the beginning of 2000 has finally come to an end are multiplying. Political stability following the end of the Iraq war and extremely low prime rates made a substantial contribution to this cause. Unexpectedly high first-half performances delivered by major companies also supported the uptick. Mounting optimism regarding the business cycle boosted share prices, with tech issues benefiting the most. The DAX continued to rise after the end of the reporting period. At 3,656 points, the DAX closed the month of October 66% above the year-low recorded on March 12 (2,203 points).

RWE's share price was unable to keep up with the DAX. Our common stock closed the month of September at €22.84—7.5% down on the level at the end of 2002. Including the dividend, this corresponds to a performance of -3.9%. RWE's preferred stock lost 3.7%, dropping to €19.98. It posted a moderately positive performance of 0.5%. RWE's disappointing share performance was principally a result of the portfolio adjustments made to include larger proportions of more volatile issues. This is a typical reaction in a rising market. Uncertainty surrounding the future regulatory framework for Germany's electricity and gas markets, as well as the implementation of the carbon dioxide emissions trading system adopted by the EU, both had an adverse effect. RWE shares were back on the rise after the period being reviewed.

Core businesses boost operating result by 33%

Cyclical upswing in key foreign markets
The economic situation on RWE's core markets has improved slightly since the spring of 2003. However, cyclical developments varied greatly from one region to the next. Most euro markets are still finding it difficult to overcome their stagnation. An additional burden arises from the gain of the euro over the currencies of major trading partners. Whereas home demand has stabilized, providing relatively positive stimuli in the third quarter, capital expenditure and cross-border trade continued their weak trend. Germany is the laggard in the eurozone. The recessionary trend observed in this country in the last two years has persisted. Positive signs are only appearing gradually, manifesting themselves as improved mood indicators and more stable investments.

Some of the economic indicators in the core markets we serve outside the eurozone are more favorable. Great Britain is benefiting from the upturn that began in the spring and has since widened its sphere of influence. Robust consumer demand and expansionary production had a dynamic effect on the most important economies in central Eastern Europe. Hungary is an exception, with structural problems and declining exports hampering growth. Low interest rates in the US and strong corporate profits led to a clear resurgence in consumption and investment. Posting 7% growth in the summer months, the US economy advanced faster than it has in almost 20 years, albeit starting from a low level.

Core businesses boost revenue by 20%
RWE's consolidated external revenue was 9.7% down on the previous year's level to €31.9 billion. This decrease was principally caused by non-core businesses. By contrast, our core businesses posted a 20.1% gain. This was primarily due to the following consolidation effects:

- In the Electricity Business Area, growth was largely a result of the acquisition of the UK-based energy utility Innogy, which was consolidated as of June 1, 2002. Therefore, it was only included on a four-month basis in the previous year's corresponding period. Under its new name—RWE Innogy—the company generated €3,903 million in revenue in the period under review (previous year: €1,844 million). STOEN, the Polish electric utility that was included in the Group's accounts as of January 1, 2003, contributed €261 million in revenue.
- In the Gas Business Area, the first-time consolidation of our Czech gas activities as of May 1, 2002 had an especially significant effect. Accordingly, figures produced by this business were only considered on a five-month basis in the year-earlier period. In 2003, our Czech gas operations generated €1,289 million in revenue (previous year: €450 million). Additional revenue growth stemmed from the first-time consolidation of Dutch-based Obragas as of July 1, 2002, which contributed €199 million in the reporting period (previous year: €40 million).
- In the Water Business Area, American Water, the US water utility that was consolidated effective January 1, 2003, contributed €1,171 million to the segment's revenue.

External revenue earned by our non-core businesses dropped to €2,715 million. This corresponds to just under a quarter of the year-earlier level. This decrease was principally due to our exit from the service-station and refinery business as of July 1, 2002. In the previous year's corresponding period, these activities contributed €7,682 million to the Group's revenue.

External revenue € million	Jan – Sep 2003	Jan – Sep 2002	+/– in %	Jan – Dec 2002
Electricity[1]	19,132	16,637	+ 15.0	23,797
Gas	5,367	3,935	+ 36.4	5,666
Water	3,165	2,081	+ 52.1	2,850
Environmental Services	1,466	1,598	– 8.3	2,136
Total core business	29,130	24,251	+ 20.1	34,449
Heidelberger Druckmaschinen	2,715	3,322	– 18.3	4,315
Total non-core business	2,715	11,004[2]	– 75.3	11,997[2]
Other activities	90	98	– 8.2	187
Total	**31,935**	**35,353**	**– 9.7**	**46,633**
Germany	16,149	23,016	– 29.8	28,003
Foreign	15,786	12,337	+ 28.0	18,630

[1] Net, i.e. only including the margins from the trading of electricity procured from third parties; the previous year's figures have been adjusted.
[2] Including RWE Dea's downstream operations, which were divested as of July 1, 2002, and accounted for €7,682 million in 2002.

Net of all consolidation effects, Group revenue decreased by 2.5%. This decline reflected the persistently weak cyclical trend in the printing machine industry. Heidelberger Druckmaschinen saw revenue drop by a total of 18.3%. Conversely, we recorded operating growth in the Electricity Business Area.

The decline in consolidated revenue is also due to currency exchange effects. As a result of the persistent weakness of the US dollar and British pound, revenue generated in these currencies was lower once translated into euros. As far as our core businesses are concerned, this effect was most pronounced at our UK-based companies RWE Thames Water and RWE Innogy as well as at our US hard coal and gas producer CONSOL Energy. Revenue in these businesses after currency translation was reduced by more than €700 million. The negative impact of this effect was also reflected in revenue earned by American Water, our US water utility, which, however, had not yet been included in the figures for the first three quarters of 2002.

As a result of our large-scale acquisitions, we now generate half of our consolidated revenue outside Germany (49.4%). In the year-earlier period, this quota was 34.9%.

EBITDA and operating result post double-digit growth year-on-year

We increased our EBITDA and operating result even more, despite the operating loss incurred at Heidelberger Druckmaschinen. This was due to the strong double-digit improvement in earnings in our core businesses in the fields of electricity, gas and water.

EBITDA € million	Jan – Sep 2003	Jan – Sep 2002	+/– in %	Jan – Dec 2002
Electricity	3,387	2,772	+ 22.2	4,146
Gas	1,165	844	+ 38.0	1,239
Water	1,468	1,078	+ 36.2	1,457
Environmental Services	163	207	– 21.3	281
Total core business	6,183	4,901	+ 26.2	7,123
Heidelberger Druckmaschinen	82	356	– 77.0	414
Total non-core business	82	408[1]	– 79.9	466[1]
Other/holding/consolidation	– 74	– 194	+ 61.9	– 348
Total	**6,191**	**5,115**	**+ 21.0**	**7,241**

[1] Including RWE Dea's downstream operations, which were divested as of July 1, 2002, and accounted for €52 million in 2002.

Operating result € million	Jan – Sep 2003	Jan – Sep 2002	+/– in %	Jan – Dec 2002
Electricity	2,382	1,797	+ 32.6	2,760
Gas	871	650	+ 34.0	885
Water	967	701	+ 37.9	963
Environmental Services	63	78	– 19.2	98
Total core business	4,283	3,226	+ 32.8	4,706
Heidelberger Druckmaschinen	– 101	170	– 159.4	158
HOCHTIEF (at equity)	6	46	– 87.0	28
Total non-core business	– 95	210*	– 145.2	180*
Other/holding/consolidation	– 223	– 253	+ 11.9	– 382
Total	**3,965**	**3,183**	**+ 24.6**	**4,504**

* *Including RWE Dea's downstream operations, which were divested as of July 1, 2002, and accounted for –€6 million in 2002.*

EBITDA climbed 21.0% to €6,191 million. We posted 26.2% growth in our core businesses, whereas EBITDA contributed by our non-core businesses dropped to a fifth of the figure recorded a year earlier. Net of the consolidation effects of our three major acquisitions, the Group's EBITDA matched the year-earlier level. Charges stemming from currency conversion diluted EBITDA by at least €190 million.

We lifted the Group's operating result by 24.6% to €3,965 million. This increase was primarily driven by the earning power of our core businesses, which showed a 32.8% improvement. The aforementioned consolidation effects were one of the main reasons for this. RWE Innogy contributed €524 million to our consolidated operating result (previous year: €185 million), with our Czech gas activities adding €268 million (previous year: €117 million) and American Water contributing €305 million. Our core businesses posted a 9.0% improvement even net of consolidation effects. This performance was driven by the earning power of our electricity and gas activities. By contrast, our Environmental Services Business Area saw its operating result decline. This decrease was caused by the cyclical downturn in Germany and the much more severe competitive pressure in the residential and commercial waste sectors.

Conversely, our non-core businesses closed the reporting period with an operating loss of €95 million. The dire economic situation in the printing machine industry left the most significant mark. Operating results generated by the Heidelberg Group fell by €271 million to –€101 million. HOCHTIEF, the construction investment accounted for under the equity method which is included in our consolidated financial statements based on its prorated net income, earned a positive €6 million in operating results, but fell short of the year-earlier figure. This decline is partially due to one-off effects stemming from the devaluation of securities held in specialty funds. Furthermore in 2003, HOCHTIEF stopped capitalizing deferred taxes on loss carryforwards since the likelihood of the loss carryforwards being used is too low. Nevertheless, the construction group's operating activities displayed encouraging development. We anticipate HOCHTIEF's income before tax from its German construction business to be back in the black for the first time since 2000.

For a detailed commentary on the earnings trend by business area, please turn to pages 17 to 24.

Our consolidated operating result was essentially unchanged due to consolidation effects. Net of the aforementioned currency exchange effects, we would have closed the period up on the previous year's level. Currency exchange ratios, which were less favorable than in 2002, resulted in a charge of at least €140 million against the operating result.

Reconciliation to net income		Jan–Sep 2003	Jan–Sep 2002	+/– in %	Jan–Dec 2002
Operating result	€ million	3,965	3,183	+ 24,6	4.504
+Non-operating result	€ million	– 15	– 86	+ 82.6	850
Goodwill amortization	€ million	– 727	– 539	– 34.9	– 780
+Financial result	€ million	– 2,092	– 1,822	– 14.8	– 2,632
Income before tax	€ million	1,858	1,275	+ 45.7	2,722
–Taxes on income	€ million	– 946	– 118	– 701.7	– 1,367
Income after tax	€ million	912	1,157	– 21.2	1,355
–Minority interest	€ million	– 180	– 251	+ 28.3	– 305
Net income					
Incl. goodwill amortization	€ million	732	906	– 19.2	1,050
Excl. goodwill amortization	€ million	1,459	1,445	+ 1.0	1,830
Earnings per share					
Incl. goodwill amortization	€	1.30	1.61	– 19.3	1.87
Excl. goodwill amortization	€	2.59	2.57	+ 0.8	3.25
Effective tax rate					
Incl. goodwill amortization	%	51	9	+ 466.7	50
Excl. goodwill amortization	%	37	7	+ 428.6	39

Spending on acquisitions and Heidelberg's weak business depress net income
The reconciliation to net income reflects the planned expenditure on our strong external growth.

The non-operating result advanced by €71 million to -€15 million. Changes break down as follows: Gains on disposals decreased by €605 million to €426 million. In 2002, proceeds generated from the divestment of our stakes in the Shell & DEA Oil joint venture and STEAG were exceptionally high. In the period under review, this was contrasted by the sales of the first CONSOL tranche (see p. 11) and of our 40% shareholding in Stadtwerke Leipzig. The planned €188 million increase in goodwill amortization to €727 million also had an earnings-reducing effect.

The release of nuclear provisions in the "other" line item had a positive effect to the tune of €933 million. €250 million in one-off costs incurred to reorganize the Group had a counteractive effect.

Financial results were down 14.8% to -€2,092 million. The increased interest cost resulting from our major acquisitions was the key reason for this. It is reflected in the fact that the net interest charge rose by €340 million to -€775 million. Income before tax was clearly up on the previous year's level at €1,858 million. After taxes, income slipped 21.2% to €912 million. This reflects the effective tax rate, which rose from 9% to 51% and was caused by three factors: the year-earlier figure was exceptionally low as a result of high tax-free capital gains; we no longer

Non-operating result € million	Jan–Sep 2003	Jan–Sep 2002	+/– in € million	Jan–Dec 2002
Capital gains	426	1,031	– 605	1,264
–Goodwill amortization	– 727	– 539	– 188	– 780
+Other	286	– 578	+ 864	366
Non-operating result	**– 15**	**– 86**	**+ 71**	**850**

capitalize deferred taxes on loss carryforwards in RWE's scope of consolidation (see our commentary on this issue in the 2002 annual report); and the rise in goodwill amortization also contributed to the increase in the effective tax rate, since it causes pretax income to decrease, but does not reduce taxes. Excluding goodwill amortization, we have an effective tax rate of 37%.

Financial result € million	**Jan–Sep 2003**	**Jan–Sep 2002**	**+/– in %**	**Jan–Dec 2002**
Interest income	914	976	– 6.4	1,305
– Interest expense	– 1,689	– 1,411	+ 19.7	– 1,949
Net interest	– 775	– 435	– 78.2	– 644
– Interest share in long-term provisions	– 1,209	– 1,133	– 6.7	– 1,602
+Other financial results	– 108	– 254	+ 57.5	– 386
Financial result	**– 2,092**	**– 1,822**	**– 14.8**	**– 2,632**

Minority interest declined by 28.3%. This is primarily due to the collapse in earnings at Heidelberger Druckmaschinen.

At €1,459 million, net income before goodwill amortization was slightly up on the previous year. Corresponding earnings per share totaled €2.59. Including goodwill amortization, net income declined by 19.2% to €732 million, or €1.30 per share.

Cost-cutting program: €2.2 billion already saved

We aim to achieve €300 million in cost reductions for fiscal 2003 as a whole. We realized some €230 million of this goal in the first three quarters alone. Initiated in 2000, our program envisions lowering annual costs by €2,555 million by the end of 2004. This does not yet include envisioned savings and synergies from the Group reorganization that became effective in October (€300 million). As of September 30, we had already implemented over 85% (about €2.2 billion) of the cost-cutting program.

Capital expenditure € million	**Jan–Sep 2003**	**Jan–Sep 2002**	**+/– in %**	**Jan–Dec 2002**
Electricity	1,540	1,959	– 21.4	3,142
Gas	548	5,086	– 89.2	5,365
Water	5,606	1,698	+ 230.2	2,181
Environmental Services	123	647	– 81.0	695
Total core business	7,817	9,390	– 16.8	11,383
Heidelberger Druckmaschinen	216	277	– 22.0	365
Total non-core business	216	309*	– 30.1	397*
Other/holding	99	5,185	– 98.1	5,205
Total	**8,132**	**14,884**	**– 45.4**	**16,985**
Property, plant and equipment	2,965	2,680	+ 10.6	4,095
Non-current financial assets	5,167	12,204	– 57.7	12,890

* Including RWE Dea's downstream operations, which were divested as of July 1, 2002, and accounted for €32 million in 2002.

Capital expenditure some 45% down on previous year, which was high due to acquisitions

In the first three quarters of 2003, capital spending totaled €8,132 million. This corresponds to a decline of 45.4%, or €6,752 million, compared with the previous year. Capital expenditure on non-current financial assets amounted to €5,167 million. In the year-earlier period, this figure totaled €12.2 billion and included the acquisition of the Czech gas business and of the UK energy utility Innogy. In the reporting period, capital expenditure on non-current financial assets was nearly exclusively earmarked for the acquisition of American Water (+€4,535 million). We spent €2,965 million on property, plant and equipment, some 10.6% more than in the previous year. This increase was mainly caused by consolidation effects. The inclusion of American Water's property, plant and equipment in our accounts resulted in a charge of €261 million. The rise in capital expenditure relating to Innogy (from €114 million to €204 million) and our Czech gas companies (from €13 million to €89 million) is principally due to consolidation effects since the previous year's corresponding periods were shorter. We stepped up capital spending in the Electricity Business Area's Power Generation Division. Investment magnets were a thermal power station in Duisburg-Hamborn and retrofitting measures implemented in Block A at Biblis. Conversely, capital expenditure in the Lignite-Fired Power Generation and Mining Division decreased considerably. This is partly due to the fact that we made far-reaching investments in the new lignite-fired power station in Niederaussem in 2002.

Cash flow statement* € million	**Jan – Sep 2003**	**Jan – Sep 2002**	**+/– in %**	**Jan – Dec 2002**
Cash flows from operating activities	3,976	4,044	– 1.7	5,933
Cash flows from investing activities	– 5,659	– 12,873	+ 56.0	– 14,523
Cash flows from financing activities	2,527	7,793	– 67.6	7,062
Currency translation, changes in the scope of consolidation and other	– 17	– 93	+ 81.7	– 171
Net change in cash and cash equivalents	**827**	**– 1,129**	**+ 173.3**	**– 1,699**
Cash flows from operating activities	3,976	4,044	– 1.7	5,933
– Capital expenditure on property, plant and equipment and intangible assets	2,965	– 2,680	– 10.6	– 4,095
Free cash flow	**1,011**	**1,364**	**– 25.9**	**1,838**

* Please turn to page 28 for a complete cash flow statement.

Cash flow statement: free cash flow totals €1,011 million

Cash flows from operating activities were slightly below the previous year's level at €3,976 million. Net of non-cash items, the operating result posted an improvement. However, we had significantly more working capital than in the previous year's corresponding period, which benefited from a positive one-off effect of €487 million from the deconsolidation of the service-station and refinery business. Capital expenditure resulted in a cash outflow of €5,659 million, more than 50% less than in the corresponding year-earlier period. Cash flows from financing activities amounted to €2,527 million. In the first three quarters of 2002, this figure was roughly three times higher since we took on a substantial amount of financial debt to finance our acquisitions.

Free cash flow generated in the first three quarters of 2003 totaled €1,011 million. It is defined as cash flows from operating activities minus capital expenditure on property, plant and equipment and intangible assets. It was 25.9% down on the high level recorded in the previous year. This was due to the fact that capital expenditure on property, plant and equipment was higher as a result of consolidation effects.

Net financial debt € million	Balance at 09/30/03	Balance at 12/31/02	+/– in %
Cash and cash equivalents	2,970	2,143	+ 38.6
Current marketable securities	9,055	8,459	+ 7.0
Non-current marketable securities and other loans	1,116	2,832	– 60.6
Other non-current financial assets	1,234	953	+ 29.5
Non-current financial assets	14,375	14,387	– 0.1
Bonds, notes payable and bank debt	28,719	25,372	+ 13.2
Other financial debt	4,493	4,509	– 0.4
Financial debt	33,212	29,881	+ 11.1
Net financial debt	**18,837**	**15,494**	**+ 21.6**

Net debt already considerably lower than €24 billion target

As of September 30, 2003, our net financial debt amounted to €18.8 billion. It was some €3.5 billion lower in the third quarter. Therefore, we have already clearly overachieved our goal of reducing net financial liabilities to less than €24 billion by the end of 2003.

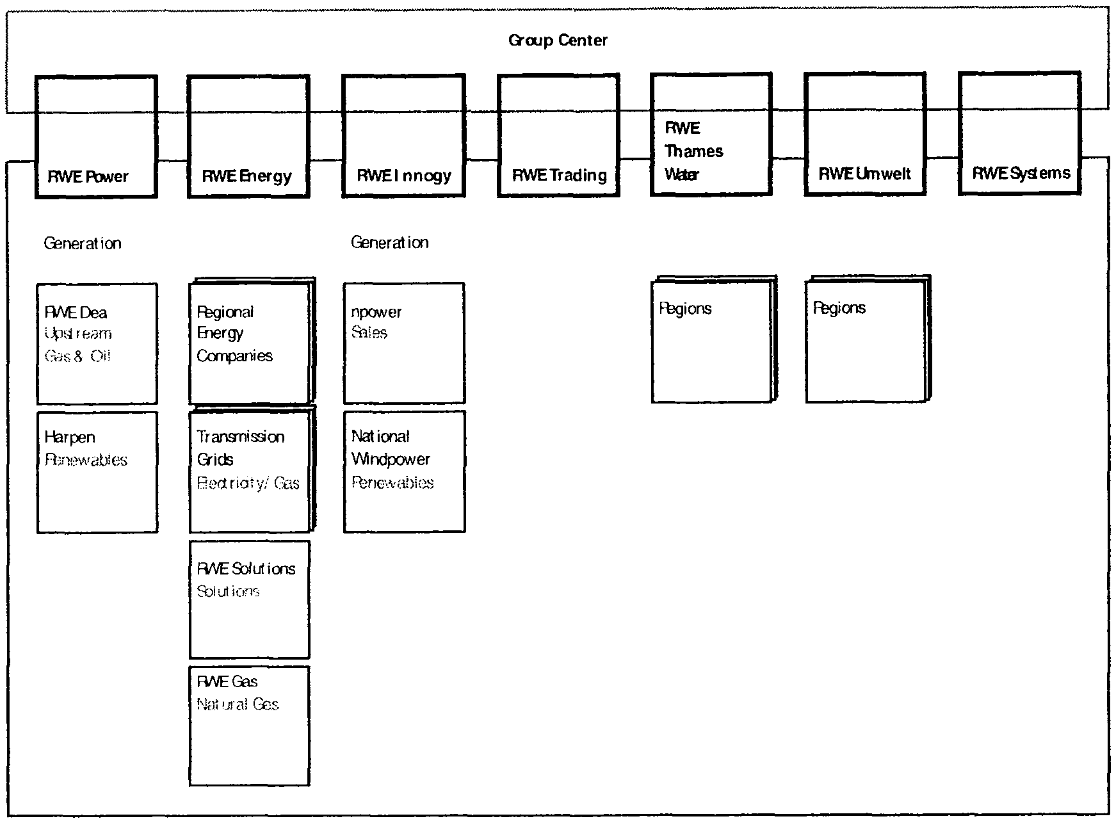
Net debt is up €3.3 billion compared with the end of 2002. This was primarily a result of the financing of the acquisition of American Water and the inclusion of the US water utility's debt in our consolidated balance sheet (€8.7 billion in total). We spent an additional €3.6 billion, €0.6 billion of which was earmarked for relatively small capital expenditures on financial assets, with €3.0 billion going to property, plant and equipment. €0.8 billion was allocated to profit distributions. High cash flows from operating activities and our proceeds from the divestment of the refinery and service-station business had the strongest counteractive effect, with the latter totaling €1.5 billion. Net financial liabilities dropped by another €0.7 billion, owing to cash flows from the first CONSOL tranche and the deconsolidation of our US subsidiary. The weak dollar and pound caused debt to decline by €1.5 billion. Financial derivatives, which we use to hedge liabilities against currency exchange and interest rate risks, have a present value of €1.1 billion. However, derivatives are not taken into account in net debt.

The ratio of EBITDA to net interest, which is a key indicator in controlling our debt, was 8.0. We expect it to exceed 7 for the full year and are thus clearly above the lower limit of 5 that we set.

Workforce FTE*	Balance at 09/30/03	Balance at 12/31/02	+/– in %
Electricity	71,076	69,441	+ 2.4
Gas	8,859	9,176	– 3.5
Water	17,699	11,907	+ 48.6
Environmental Services	13,548	14,406	– 6.0
Total core business	111,182	104,930	+ 6.0
Non-core business (Heidelberger Druckmaschinen)	22,412	23,460	– 4.5
Other/holding	3,264	3,375	– 3.3
Total	**136,858**	**131,765**	**+ 3.9**
Germany	74,102	76,202	– 2.8
Foreign	62,756	55,563	+ 12.9

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

New RWE Group Structure



Workforce grows 4% due to acquisitions
As of September 30, 2003, the RWE Group employed 136,858 people (full time equivalent), 74,102, or some 54% of which worked in Germany. Our workforce thus expanded by 5,093 employees, or 3.9%, vis-à-vis December 31, 2002. First-time consolidations and deconsolidations added a net 7,430 staff members. This development was primarily driven by the inclusion of American Water and the Polish electric utility STOEN, which contributed 6,365 and 1,653 employees, respectively. Adjusted to exclude consolidation effects, our employee headcount decreased by a net 2,337, or 1.8%. Germany took center stage in this development. Our operating labor force declined by 2,280 staff members in this country. Above all, Heidelberger Druckmaschinen implemented substantial job cuts.

New Group structure effective October 1, 2003
As planned, we implemented our new Group structure effective October 1, 2003. The restructuring's main focus is the regional integration of our German utility businesses. To this end, we grouped the sales and network operations of our Continental European electricity, gas and water businesses and placed them under the newly established "RWE Energy" (over €18 billion in revenue and some 42,000 employees). Furthermore, we combined our Continental European power plant portfolio and lignite production activities and placed them under the new company "RWE Power" (about €10 billion in revenue and approximately 26,000 employees). All in all, this has reduced the number of management companies in the RWE organization from 13 to seven. Now that the reorganization is in place, we will be able to tap into

an additional cost savings potential of €300 million per year, which is to be fully realized by 2006. For an overview of the new Group structure, please turn to page 10. Moreover, we provided a commentary on the key points of the reorganization in the interim report for the first half of 2003.

Agreement with RWE Gas municipal shareholders

On November 12, we reached an agreement with RWE Gas AGs municipal shareholders to fully integrate RWE Gas into the Group's new structure. RWE Gas will, as originally envisioned, be merged into the newly established RWE Energy. Thus, entrepreneurial responsibility for the Group's Continental European gas sales and network activities lies solely with RWE Energy. The municipal shareholders will receive a one-off payment of €100 million, and, for the fiscal years 2004 through 2008, an annual guaranteed dividend of €48 million. They will have a 20.03% stake in the newly established RWE Westfalen-Weser-Ems AG. With the transfer of the RWE Gas assets, RWE Energy assumes full entrepreneurial control. In 2009, the RWE Gas municipal shareholders will sell their full stake to RWE Energy AG for €800 million. This agreement is subject to the approval of the appropriate supervisory bodies on the parts of both negotiation partners.

The agreement with the RWE Gas municipal shareholders enables RWE to realize the annual €300 million in synergies associated with the Group's new structure. The transaction has a cash value of €900 million. The RWE Gas municipal shareholders' stake had been valued in accordance with the April 24, 2002 stakeholders' contract at €668 million. The agreed increase in value is acceptable to RWE because it enables RWE Energy to assume sole entrepreneurial control of the Continental European gas sales and network activities. This will also serve as the basis for increasing efficiencies and for further market development together with our municipal shareholders.

Majority stake in US subsidiary CONSOL Energy sold

In May of this year, we announced that we would fully or partially divest our 73.6% stake in the US-based hard coal and gas producer CONSOL Energy. We made this decision since we intend to focus our energy business on Europe. Since then, we have gradually lowered our stake in CONSOL to 18.5%. To this end, on September 18, 2003, we signed an agreement to divest an initial 14.1 million of the 58 million shares we originally held in that company within the scope of a private placement and awarded the authorized bank the right to sell additional shares. At the same time, CONSOL placed 11 million new shares privately. RWE's share in the company's capital stock decreased to less than 50% as a result. On October 2, we reduced our shareholding by an additional 27.3 million to 16.6 million shares (18.5%) through another private placement with investors, most of whom were institutional. Proceeds from the divestments totaled €623 million. CONSOL's deconsolidation as of September 30 caused the net financial liabilities we carry on our consolidated balance sheet to decline by approximately €0.5 billion (excluding capital gains). Provisions dropped by roughly €3.1 billion. Our remaining 18.5% stake in CONSOL has also been earmarked for sale.

RWE's increased stakes in the municipal utilities of Oberhausen and the greater Wuppertal area receive antitrust approval

Germany's Federal Cartel Office approved our acquisition of stakes in the municipal utilities of Wuppertal (20%), Velbert (20%) and Remscheid (25%) as well as our increased shareholding in Energieversorgung Oberhausen (by 40% to 90%). This clearance was issued on the condition that we shed our 20% interest in Stadtwerke Düsseldorf. Another requirement, which was already met in July, was the sale of our 40% shareholding in Stadtwerke Leipzig. According to the Federal Cartel Office, for antitrust reasons, purchases of shares in municipal utilities by market leaders such as RWE must be offset by divestments of stakes in other municipal utilities of at least equal value.

RWE Trading withdraws from
North American energy market

RWE Trading will terminate its operations on the North American energy market by the end of 2003. We announced this move in September. In the future, we will concentrate our trading activities on the European market, where RWE commands a strong competitive position and has a diversified power generation portfolio.

Economics ministry outlines future regulatory framework for Germany's electricity and gas markets

On August 29, 2003, the Federal Ministry for Economics and Labor (BMWA) published a so-called monitoring report containing proposals for a future regulatory framework for Germany's electricity and gas markets. In the report, BMWA speaks out in favor of lean regulation that promotes competition while ensuring an appropriate level of supply security. It also stipulates that pricing methods should follow regulations, while grid fees per se may not be regulated. BMWA envisions entrusting the German telecommunications and postal regulator (RegTP) with this responsibility. The ministry intends to submit a bill to amend the German Energy Industry Act by the end of the year so that it can be adopted in the spring of 2004. The EU envisions the regulatory authority becoming active on July 1, 2004.

EU gives go-ahead for trading with CO_2 emissions allowances

In July 2003, the European Parliament and the European Council agreed on the cornerstones for a system for trading greenhouse gas emissions and established January 1, 2005 as the first official day of trading. The trading scheme is to act as a vehicle with which the EU can meet the climate conservation commitments that it entered into by ratifying the Kyoto Protocol. Companies which reduce their greenhouse gas emissions by employing environmentally friendly technologies or by adapting their production processes will be allowed to sell excess emissions allowances. Conversely, companies that produce more emissions than their allotment of certificates will be obligated to purchase emissions allowances on the market to make up the difference. At the beginning, the European emissions trading system will only include CO_2 emissions from electricity and heat producers as well as from industrial operations. EU performance targets must now be detailed in separate national allocation plans for each member state. These plans will determine how many emissions allowances each company and production facility receives. In most EU member states, this issue is currently being negotiated between political and industry representatives. Germany's federal government approved the cost-free allocation of emissions allowances in Germany during the system's early stages before these talks commenced. The allocation plans must be submitted to the EU Commission for approval by the end of March 2004. Reliable estimates of the economic impact emissions trading will have on the RWE Group with special regard to budgeting and investment plans can only be made once a final decision has been made on the allocation plans and the distribution of emissions allowances.

Outlook for 2003

At present, we do not anticipate **cyclical trends** in the fourth quarter of 2003 injecting new noteworthy stimuli into our core markets. Germany's outlook remains tarnished. In the fall assessment published at the end of October, Germany's six leading economic research institutes forecast zero growth for 2003 as a whole. Great Britain's and central Eastern Europe's key economies are expected to continue their upward trends. The economic upswing in the US is also expected to persist. As a utility, RWE is rarely exposed to cyclical fluctuation since it has a small proportion of products that react sensitively to cyclical changes. Our non-core business, Heidelberger Druckmaschinen, is an exception.

We will grow our **operating result** again in the current financial year. We anticipate the Group achieving a gain of at least 15% and our core businesses posting an increase of roughly 20%. The first-time consolidation of American Water and the first-time, full-year inclusion of RWE Innogy and our Czech gas activities will be the major contributors. Without these one-off effects, the consolidated operating result would be virtually on par with the previous year's level. We expect our core businesses to record a slight increase in their operating results once they have been adjusted to exclude consolidation effects. This rise is due to the positive earnings situation in our electricity and gas businesses.

Our core businesses would close the fiscal year with a much better performance without negative currency effects. We anticipate currency charges to the tune of €170 million. Our calculations are based on the assumption that the average rate of the US dollar and British pound to the euro will be 1.12 and 0.70, respectively. This forecast does not take American Water into account since the US water utility had not yet been consolidated in 2002. The Czech gas companies and Innogy will only be included on a prorata temporis basis, since they were consolidated for the first time during the course of fiscal 2002. By contrast, if one were to fully include the major acquisitions, our operating result would be some €290 million lower than in the previous year. However, currency charges will be absorbed almost entirely by the non-operating result and the financial results.

We will comment on the earnings trend displayed by our business areas on the basis of the Group's old structure for the last time in this quarterly report. We will report using the new structure for the first time in our 2003 annual report.

We expect the **Electricity** Business Area to increase its operating result by approximately 15%. This is primarily due to the first-time full-year inclusion of Innogy. Our German electricity activities will make further operating progress. Measures supporting this development will be the savings realized as part of our cost-cutting program and price increases. However, the rise in our result will be hampered by the aforementioned currency effects at RWE Innogy and CONSOL Energy.

We anticipate the **Gas** Business Area improving its operating result by about 20%. The Midstream/Downstream Division will post strong growth, owing to the first-time, full-year inclusion of our successful gas business in the Czech Republic. Another factor benefiting us are the weather-induced increases in sales volumes generated by the German business. We expect our Upstream Division to close the fiscal year slightly down on the high level recorded in the previous one. Charges in this unit stem from negative currency exchange effects and higher production costs. Higher crude oil prices and volumes will have a positive effect.

Operating results generated by the **Water** Business Area will post significant double-digit growth over the previous year, primarily owing to the first-time consolidation of American Water. We expect to be able to record a gain of 35% to 40%. The water business will thus account for about one-fourth of our Group's operating result. Excluding American Water, this business area would close the fiscal year slightly down on the previous one. This is principally due to the aforementioned exchange rate effects. Furthermore, the regulated UK water business will draw higher capital expenditure on infrastructure, the bulk of which we are likely to be able to compensate for from the beginning of the next regulatory period in 2005 onwards. American Water currently has to contend with unfavorable background economic conditions as well as the increased cost of security and insurance services caused by the September 11 terrorist attacks. Moreover, we had to deal with a delay in the adjustment in rates as we waited to receive approval for this acquisition. However, we expect to receive regulatory approval for rate increases during 2003, helping to produce a considerable improvement in American Water's earnings in 2004.

The **Environmental Services** Business Area continues to be characterized by the extremely unfavorable conditions under which it has to operate. Last year, we launched a comprehensive cost-cutting program to stabilize the earnings situation. Although some of the measures are already taking effect in 2003, the waste management business will close the fiscal year markedly down on the previous one. We anticipate its operating result declining by roughly 20%. Due to these circumstances and the collapse in earnings resulting from the new call for bids for contracts awarded by Germany's dual system DSD, RWE Umwelt initiated additional measures to enhance efficiency.

Our **non-core businesses** will see their earnings contribution decline considerably. Heidelberger Druckmaschinen will post a significant operating loss in RWE's financial year, because the situation on the printing market is improving at a very slow pace. The loss would be even more severe if the cost-cutting program had not been launched in fiscal 2002. We are currently working on additional restructuring measures. We expect HOCHTIEF, the construction investment we consolidate based on its prorated net income, to make an earnings contribution that will be positive, but lower than in the previous year. This is primarily due to the fact that HOCHTIEF will adjust the valuation of the securities it holds in a special fund. Its operating result, however, will continue to display positive development.

Above all, the **reconciliation to net income** reflects the impact of our large-scale acquisitions on the interest cost and goodwill amortization.

Our non-operating result will fall significantly shy of the prior-year figure (€850 million). Capital gains will decline considerably despite the proceeds received from the reduction of our stake in CONSOL Energy. The previous year's figure was exceptionally high due to the divestment of our shares in Shell & DEA Oil and STEAG. Furthermore, goodwill amortization will rise as planned in 2003 to just under €1 billion. In addition, the reorganization of the RWE Group led to a one-off charge of €250 million. The increase in the amount of nuclear energy provisions released will have a positive effect on the result. The amount released is estimated at approximately €1.2 billion (previous year: €963 million).

Financial results will deteriorate marginally compared with the previous year. This decrease will stem from the cost of financing our major acquisitions and the interest payments on debt assumed from the acquired companies. Conversely, we expect to achieve a better result from our investment in securities under our asset management program.

Income before tax is expected to decrease substantially. We anticipate our effective tax rate coming in roughly on par with the previous year's. It was 50% including goodwill amortization and 39% excluding goodwill amortization. Minority interests will be markedly lower. This will be principally due to the deterioration of Heidelberg's earning situation and the deconsolidation of CONSOL Energy.

All in all, as a result, we can issue a more positive forecast for the Group's net income than originally expected. After goodwill amortization, net income is expected to decline by no more than 20% compared with the previous year (€1,050 million). We originally anticipated a decrease of between 25% and 30%. Without goodwill amortization, net income will be slightly up year-on-year (2002: €1,830 million).

Currency exchange effects will barely have an impact on net income. This is because the financial result will be positively affected by the financing of acquisition-induced debt in US dollars and British pounds. Furthermore, goodwill amortization will be lower in the non-operating result. This will absorb the negative effect of currency exchange rates on operating income almost entirely.

Our **net financial debt** will probably have fallen below €20 billion by the end of 2003. This prognosis is based on currency exchange rates of $1.15 and £0.70 to the euro, respectively. Net debt will thus be slightly above the level achieved on September 30. This is due to capital expenditure on property, plant and equipment as well as interest and tax payments that will be made in the fourth quarter. Therefore, we will clearly exceed our debt-reduction target for 2003 (€24 billion).

Risk trend

RWE Group companies are exposed to risks associated with market prices and sales volumes found in a market characterized by liberalization and fierce competition. We are countering these risks by pursuing price strategies that set us apart from others and adopting a corresponding sales policy as well as forceful measures to manage costs.

Financial risks principally consist of interest-rate, currency-exchange and price-fluctuation risks. We hedge these risks using non-derivative and derivative financial instruments, among other things. The primary goal behind our energy trading operations is to mitigate earnings risks stemming from price fluctuations by securing future prices of energy sources. There is a limited amount of risk of loss when extreme, unexpected market price fluctuations occur. Our trading transactions can also result in credit risks in cases where trading partners fail to meet their contractual obligations. We counteract such events with our systematic risk-management system.

Regulatory conditions governing the energy sector also give rise to risks for the RWE Group. Since we have a high share of lignite- and hard coal-fired power plants in our power generation portfolio, the EU's decision to introduce a greenhouse gas emissions trading system poses a major risk. To mitigate this risk, we will reduce our specific CO_2 emissions and make our power plant portfolio even more flexible when we make new investments in the future. Moreover, we are playing a proactive role in shaping the emissions trading system. Earnings risks can also arise in connection with operating stoppage and production downtime. Additional risks are associated with Block A at the Biblis nuclear power plant, relating to downtime caused by a delay in the granting of an approval to recommission the plant. Grid operations are exposed to risks in connection with the planned introduction of a regulator for the electricity and gas industry which, in turn, increases the pressure on grid fees in Germany. We are dealing with these risks by engaging in an intensive dialogue with the institutions in charge.

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.

Electricity Business Area

- Operating result 33% up year-on-year
- German and UK electricity prices still on the rise

Key figures		Jan–Sep 2003	Jan–Sep 2002	+/– in %	Jan–Dec 2002
Electricity sales volume[1]	kWh million	218,393	185,867	+ 17.5	267,502
External revenue[2]	€ million	19,132	16,637	+ 15.0	23,797
Electricity	€ million	13,435	11,034	+ 21.8	15,714
Electricity trading	€ million	907	442	+ 105.2	869
EBITDA	€ million	3,387	2,772	+ 22.2	4,146
Operating result	€ million	2,382	1,797	+ 32.6	2,760
Capital expenditure	€ million	1,540	1,959	– 21.4	3,142
Property, plant and equipment	€ million	1,234	1,253	– 1.5	1,915
Non-current financial assets	€ million	306	706	– 56.7	1,227

	09/30/03	12/31/02	+/– in %
Workforce[3]	71,076	69,441	+ 2.4

[1] Net, i.e. excluding the trading of electricity procured from third parties; the previous year's figures have been adjusted.
[2] Includes €733 million in direct electricity taxes (previous year: €547 million); only includes margins from the trading of electricity procured from third parties; the previous year's figures have been adjusted.
[3] Full time equivalent, according to the percentage of full-time employment.

European **power consumption** was stimulated by unusually low winter temperatures as well as exceptionally hot weather from May to August. In Germany and the UK, RWE's key markets, power consumption was up some 2% over the previous year's level. The increase was partially due to the slight resurgence in industrial production. Cyclical trends in the markets we serve in central Eastern Europe were far more dynamic. But only in Poland did this result in an increase in demand for electricity. Polish power consumption advanced by 5%. Demand was up a mere 1% in Hungary and the Slovak Republic. Structural changes and the modernization of the industries in these two countries dampened growth rates.

Electricity prices in Europe were dictated by the heat wave this summer to a considerable extent. This caused demand to rise as people stepped up the use of air conditioners. At the same time, numerous power plants were forced to ramp down output owing to low river water levels and a scarcity of cooling water. This situation was compounded by scheduled power plant outages. One of the consequences was a strong increase in prices paid for electricity traded on European wholesale spot markets. Moreover, the combination of these higher quotations and the steep increase in hard coal forward prices accelerated the upward price trend on futures markets.

In Germany, the price of forward contracts for power deliveries in 2004 has risen by 21% to €29.35 per MWh of base-load power and by 29% to €46.30 per MWh of peak-load power since the beginning of the year (figures valid as of September 30, 2003). Average prices in the reporting period were €26.65 per MWh and €41.29 per MWh, respectively. This corresponds to an increase of 14% and 22% year-on-year, respectively. The rise in the price of peak-load power also mirrors the scarcity of generation capacity. Two years ago, the German electricity market was still characterized by excess capacity. Now that several power plants have been shut down and volatility of supply and demand is increasing, reserve capacity is likely to be limited. The unusual price highs experienced in the summer months have made the general public aware of this issue.

Prices paid for power deliveries to households in the German end customer business were up an average of 5% compared with the previous year. This reflects both the development on the wholesale market and the electricity tax hike effective January 1, 2003. In the industrial customer segment, power supplies cost 10% more, owing to the significant influence of wholesale prices and the rise in the relief rate for electricity tax.

Quotations on the UK electricity wholesale market have also seen significant growth recently. The recessionary price trend that lasted until the middle of 2002 on the futures markets appears to have ended definitively. In the reporting period, the average one-year forward price was £18.26 (€26.37) per megawatt hour of base-load power—up 10% year-on-year. It decreased by 21% to £23.97 (€34.61) for peak-load power. Average prices on the end customer market are still being affected by low forward quotations from 2002. They were roughly 3% down on the previous year for industrial customers, but recorded a marginal rise for household customers.

The RWE Group boosted its **electricity sales volume** by 17.5% to 218.4 billion kWh. This was largely a result of the fact that RWE Innogy's figures were included on a full, nine-month basis. Consolidated as of June 1, 2002, the UK energy utility sold 43.6 billion kWh of electric power. The previous year's corresponding figure included a mere four months, amounting to 19.7 billion kWh. Due to the first-time consolidation of the Polish electric utility STOEN effective January 1, 2003, our electricity sales volume increased another 4.7 billion kWh.

External revenue generated by the Electricity Business Area rose 15.0% to €19.1 billion. RWE Innogy generated €3,903 million in revenue compared with the low level of €1,844 million achieved in the year-earlier period for consolidation-related reasons. €261 million in sales volume was added with the inclusion of STOEN in the Group's accounts. Net of consolidation effects, revenue would have only seen a moderate increase. Operating gains were recorded above all in the Net Division (+€528 million) and were predominantly due to the fact that we passed on legal burdens from the subsidization of renewable energies and combined heat and power generation. Moreover, we raised our grid fees in order to offset the higher expenditure on balancing power.

EBITDA generated by the Electricity Business Area was up 22.2% to €3,387 million, and **operating results** advanced 32.6% to €2,382 million. Operating results recorded a steeper climb due to the fact that depreciation and amortization rose to a lesser extent. This was primarily due to the acquisition of Innogy. In comparison to its earnings contribution, the UK energy utility's depreciation and amortization are low. Innogy's inclusion in our consolidated accounts was also the main driver behind the Electricity Business Area's largely improved earnings situation. However, we lifted the operating result by 15.3% even without this acquisition. Excluding the negative currency effects, the operating result would have grown even more. We made operating improvements primarily in the German electricity business. Once again, the key success factors were higher wholesale prices, our cost-cutting and our sales policy, which is sharply focussed on returns.

Electricity Business Area **Key figures by division** **Jan–Sep** € million	**Total revenue**[1]		**External revenue**		**EBITDA**		**Operating result**	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Power Generation	2,851	3,051	379	431	693	610	569	462
Lignite-Fired Power Generation and Mining	3,309	3,477	2,059	2,292	765	782	378	367
Trading	4,060	5,507	1,700	1,878	22	29	20	28
Net	3,496	2,953	1,506	978	587	555	438	415
Sales and Marketing	7,831	7,642	7,529	7,350	547	499	394	340
Industrial Services	2,089	1,912	1,881	1,710	64	49	24	11
UK Energy[2]	3,966	1,844	3,903	1,844	632	225	524	185
Other/ electricity consolidation	– 8,234	– 9,305	175	154	77	23	35	– 11
Harpen	185	164	175	154	77	56	47	33
Total	**19,368**	**17,081**	**19,132**	**16,637**	**3,387**	**2,772**	**2,382**	**1,797**

[1] Net, i.e. only including the margins from the trading of electricity procured from third parties; the previous year's figures have been adjusted.
[2] RWE Innogy was included in the corresponding period in 2002 on a four-month basis (consolidated for the first time effective June 1, 2002).

Gas Business Area

- Operating result jumps 34%
- Czech gas operations contribute nearly a third of the result earned by the gas business

Key figures		Jan–Sep 2003	Jan–Sep 2002	+/– in %	Jan–Dec 2002
Production (Upstream)					
Natural gas[1]	million m³	1,847	1,709	+ 8.1	2,382
Petroleum	thousand m³	4,368	3,947	+ 10.7	5,408
Natural gas sales (Midstream/Downstream)	kWh million	190,437	129,023	+ 47.6	220,258
External revenue	€ million	5,367	3,935	+ 36.4	5,666
EBITDA	€ million	1,165	844	+ 38.0	1,239
Operating result	€ million	871	650	+ 34.0	885
Capital expenditure	€ million	548	5,086	– 89.2	5,365
Property, plant and equipment	€ million	373	284	+ 31.3	564
Non-current financial assets	€ million	175	4,802	– 96.4	4,801
		09/30/03	12/31/02	+/– in %	
Workforce[2]		8,859	9,176	– 3.5	

[1] Including Norwegian production.
[2] Full time equivalent, according to the percentage of full-time employment.

The world oil market was characterized by extraordinarily high prices in the period under review. A barrel of Brent crude cost an average of $28.66, 17% up compared to last year, and a full 45% above the ten-year average. The first quarter experienced a price hike in the run-up to the Iraq war. Oil prices averaged just under $33 in February, occasionally falling below the $25 mark after the onset of the war and as fears of scarcity diminished in April. As a result of OPECs output reduction policy, the sluggish ramping up of Iraqi oil production and low inventories, oil prices were back up to an average of $28 in the third quarter.

In the first three quarters, **natural gas consumption** was up some 6% in Germany and up 5.5% in the Czech Republic. This was due to the cold weather at the beginning of the year. The steep climb in oil prices leading up to the Iraq war trickled down to **gas prices** in Germany with the typical tracking delay of about six months. The price for deliveries to municipal and regional utilities was 4.1% higher compared with the previous year. Industrial customers had to pay 15.7% more for gas, whereas the price increase for private and commercial customers was 20.6%. These developments were driven by shorter price-adjustment windows and the fact that the natural gas tax was lifted by 58% to 0.55 euro cents per kWh effective January 1, 2003. Gas prices in the Czech Republic were 10% down on the average recorded in the year-earlier period. This was due to the significant decline in prices as of October 1, 2002 that was only partially offset by increases in January and April of 2003.

Our Upstream Division stepped up its **gas production** by 8.1% to 1,847 million m³. We achieved gains especially in Germany and Egypt. **Natural gas sales volumes** generated by the Midstream/Downstream Division climbed 47.6% to 190.4 billion kWh. This was principally due to the consolidation effects stemming from the inclusion of our Czech gas companies in our consolidated accounts effective May 1, 2002. They sold 67.6 billion kWh in the period under review. The previous year's corresponding figure included a mere five months, amounting to 19.0 billion kWh. Obragas, which was consolidated for the first time as of July 1, 2002, contributed 5.3 billion kWh to the business area's gas sales volume (previous year: 1.3 billion kWh). But we also made operating gains (+8.8 billion kWh). This was largely due to the cold weather in the first quarter. RWE Dea increased its **petroleum production** by 10.7% to 4,368,000 m³. This was principally a result of the commissioning of two production drillings in the German North Sea.

Gas Business Area Key figures by division Jan–Sep € million	**Total revenue**		**External revenue**		**EBITDA**		**Operating result**	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Midstream/Downstream	4,562	3,077	4,437	2.997	684	405	550	332
Gas in the Czech Republic[1]	1,321	450	1,289	450	356	169	268	117
Upstream	918[2]	858[2]	930	938	481	439	321	318
Total	**5,480**	**3,935**	**5,367**	**3,935**	**1,165**	**844**	**871**	**650**

[1] Innogy was included in the corresponding period in 2002 on a five-month basis (consolidated for the first time effective May 1, 2002).
[2] Including the consolidation of revenue within the business area.

Our Gas Business Area earned €5,367 million in **external revenue**, or 36.4% more than in the previous year. The Midstream/Downstream Division posted a gain of 48.0%. This was primarily due to the first-time, full-year consolidation of our Czech gas activities, which generated €1,289 million in revenue (previous year: €450 million) and of Obragas, which contributed €199 million (previous year: €40 million). Net of consolidation effects, the Midstream/Downstream Division would have increased revenue by 17.6%, driven by the weather-induced rise in gas sales volumes and the effect of the natural gas tax hike on prices. External revenue produced by the Upstream Division was roughly on par with the previous year. Higher prices and production volumes in the oil and gas business were contrasted by negative currency exchange effects arising from the settlement of oil deliveries denominated in US dollars.

EBITDA recorded by the Gas Business Area was up 38.0% to €1,165 million, and **operating results** advanced 34.0% to €871 million. We made significant progress in the Midstream/Downstream Division, which increased its operating result by 65.7%. Our Czech gas activities contributed an operating result of €268 million (previous year: €117 million). However, the Midstream/Downstream Division improved its operating result considerably even net of consolidation effects. It advanced by 29.1%, principally due to the weather-induced increase in sales volumes in the first quarter. Operating results posted by the Upstream Division were slightly up on the previous year's high level. Earnings improvements brought about by higher oil and gas prices were contrasted above all by the increase in production costs.

Water Business Area

- Operating result 38% up year-on-year due to the inclusion of American Water
- Operating result achieves 6% organic growth net of currency effects

Key figures € million	**Jan – Sep 2003**	**Jan – Sep 2002**	**+/– in %**	**Jan – Dec 2002**
External revenue	3,165	2,081	+ 52.1	2,850
EBITDA	1,468	1,078	+ 36.2	1,457
Operating result	967	701	+ 37.9	963
Capital expenditure	5,606	1,698	+ 230.2	2,181
Property, plant and equipment	1,022	768	+ 33.1	1,123
Non-current financial assets	4,584	930	+ 392.9	1,058

	09/30/03	**12/31/02**	**+/– in %**
Workforce *	17,699	11,907	+ 48.6

* Full time equivalent, according to the percentage of full-time employment.

The regulated **water business** continued to show stable development in our core markets. Thanks to the substantial sums required to improve water quality and infrastructure, this sector has long-term growth potential. Unfavorable weather effects led to short-term fluctuations in the US business. Maintenance expenses incurred following a cold winter and earnings shortfalls caused by above-average precipitation depressed the earnings situation of water utilities in a large number of states. In the UK, framework conditions for the next regulation period (2005-2009) are currently being negotiated. It is likely that investment conditions for water utilities will become more favorable in light of the need for new investment in the water network. The pace of privatization on the German water market is still sluggish.

Water Business Area Key figures by region Jan–Sep € million	External revenue		EBITDA		Operating result	
	2003	2002	2003	2002	2003	2002
Great Britain and Ireland	1,346	1,466	761	815	491	527
Regulated business	1,203	1,279	698	762	424	474
Americas	1,437	304	571	106	371	75
Europe, Middle East, Africa	281	224	123	139	103	88
Asia-Pacific	101	87	13	18	2	11
Total	**3,165**	**2,081**	**1,468**	**1,078**	**967**	**701**

External revenue generated by the Water Business Area rose 52.1% to approximately €3.2 billion. This was mainly due to the first-time consolidation of American Water, which took effect on January 1, 2003 (+€1,171 million). Additional consolidation effects stem from the inclusion of the Spanish water companies Pridesa and Ondagua (+€67 million) as well as of RWW Rheinisch-Westfälische Wasserwerksgesellschaft (+€20 million). Conversely, the business area was impacted negatively by exchange rates. Net of currency and consolidation effects, revenue earned by our water business would have risen by approximately 5%. This was caused by rate adjustments made in the UK owing to inflation as well as the increase in the amount of water sold in the US, Asia and Chile.

EBITDA advanced 36.2% to €1,468 million. The **operating result** amounted to €967 million—up 37.9% on the previous year's level. Net of currency exchange effects (-€84 million), it would have risen by some 50%, primarily due to the first-time consolidation of American Water. The company posted an operating result of €305 million. Excluding the aforementioned consolidation and currency exchange effects, our water activities would have increased their operating result by about 6%. This growth is principally due to operating improvements made in the regulated and non-regulated UK businesses.

Environmental Services Business Area

- Operating result down 19%
- German market continues to be difficult

Key figures € million	Jan–Sep 2003	Jan–Sep 2002	+/– in %	Jan–Dec 2002
External revenue	1,466	1,598	– 8.3	2,136
EBITDA	163	207	– 21.3	281
Operating result	63	78	– 19.2	98
Capital expenditure	123	647	– 81.0	695
Property, plant and equipment	65	121	– 46.3	161
Financial assets	58	526	– 89.0	534

	09/30/03	12/31/02	+/– in %
Workforce *	13,548	14,406	– 6.0

* Full time equivalent, according to the percentage of full-time employment.

Germany's waste management industry was marked by cyclical weakness and intense competitive pressure in the residential and commercial waste sectors in the period under review. This situation was compounded by a reduction in business volume in the DSD (German dual waste management system) sector due to the mandatory deposit for non-returnable beverage containers ("green dot"). In addition, this branch of industry was unsettled by delays in the re-issuance of DSD service level agreements. Only about half of the contracts will probably be renewed as of January 1, 2004. Unawarded contracts will be up for tender next year.

In the first three quarters, the Environmental Services Business Area generated €1,466 million in **external revenue**. It recorded a 8.3% decline compared with the previous year, owing to the negative market trends as well as scheduled divestments.

EBITDA was down 21.3% to €163 million due to unfavorable market conditions. The **operating result** amounted to €63 million—a 19.2% decrease compared with the year-earlier figure. The earnings slide was softened by the first successes of the cost-cutting program initiated in 2002. RWE Umwelt intends to save €50 million in annual costs through the program, which is to take full effect from 2004 onwards. The program will be stepped up yet again in view of the poor earnings situation.

Heidelberger Druckmaschinen

- Negative operating result
- Sectoral trend of slow recovery

Key figures € million	Jan–Sep 2003	Jan–Sep 2002	+/– in %	Jan–Dec 2002
External revenue	2,715	3,322	– 18.3	4,315
EBITDA	82	356	– 77.0	414
Operating result	– 101	170	– 159.4	158
Capital expenditure	216	277	– 22.0	365
Property, plant and equipment	173	184	– 6.0	244
Financial assets	43	93	– 53.8	121
	09/30/03	12/31/02	+/– in %	
Workforce *	22,412	23,460	– 4.5	

* Full time equivalent, according to the percentage of full-time employment.

The **printing machine industry** continued to suffer from the sluggish economic trend and the substantial underutilization of printing plant capacity—especially in our key markets, i.e. the US and Germany.

Orders received by the Heidelberg Group dropped 10.7% to €2,698 million. Negative currency effects were felt here too. Net of currency exchange effects, the decline was 5.7%. The previous year's corresponding figure still contained large orders from the IPEX trade show in the UK. In the period under review, Heidelberg was successful in winning contracts in the Asia-Pac region at the IGAS trade fair in Japan. There have been signs of improvement in the last few months, despite the fact that order intake is still unsatisfactory. In the third quarter, order intake thus rose considerably over the extremely low level achieved in the second quarter. The world market leader in printing technology had **orders** worth €1,223 million on its books as of September 30, 2003. This was just slightly less than the year-earlier level.

External revenue totaled €2,715 million in the reporting period. Heidelberg thus recorded a decrease of 18.3%, or 13.3% when adjusted for currency exchange effects. At €82 million, **EBITDA** was less than a quarter the figure posted for the same period a year earlier. **Operating results** were clearly in the red at -€101 million (previous year: €170 million). The positive earnings contribution made by the Sheetfed Division (€66 million) and cost reductions obtained via the efficiency-enhancement program launched in the fall of 2002 were unable to offset the losses incurred in the other segments.

Supervisory Board

Dr. h.c. Friedel Neuber
Chairman

Frank Bsirske*
Deputy Chairman

Dr. Paul Achleitner

Carl-Ludwig von Boehm-Bezing

Burkhard Drescher

Wilfried Eickenberg*

Ralf Hiltenkamp*

Heinz-Eberhard Holl

Berthold Huber*

Berthold Krell*

Dr. Dietmar Kuhnt (as of May 15, 2003)

Dr. Gerhard Langemeyer

Josef Pitz*

Dr. Wolfgang Reiniger

Günter Reppien*

Bernhard von Rothkirch*

Dr. Manfred Schneider

Klaus-Dieter Südhofer*

Dr. Alfons Friedrich Titzrath (until May 15, 2003)

Prof. Karel Van Miert

Erwin Winkel*

* Employee representative

Executive Board

Harry Roels (as of February 1, 2003)
CEO

Dr. Dietmar Kuhnt (until February 28, 2003)
CEO

Dr. Richard R. Klein (until March 13, 2003)

Dr. Gert Maichel

Manfred Remmel (until March 13, 2003)

Dr. Klaus Sturany

Jan Zilius

Consolidated income statement

€ million		Jul–Sep 2003	Jul–Sep 2002	Jan–Sep 2003	Jan–Sep 2002
Revenue[1]		**9,501**	**10,192**	**31,935**	**35,353**
Discontinuing operations		–	–	–	7,682
Mineral oil tax/natural gas tax/electricity tax		– 242	– 190	– 819	– 2,918
Discontinuing operations		–	–	–	– 2,341
Revenue (without mineral oil tax/natural gas tax/electricity tax)		**9,259**	**10,002**	**31,116**	**32,435**
Changes in finished goods and work in progress/other own work capitalized		161	40	298	454
Cost of materials[1]		– 4,705	– 5,937	–16,414	–19,521
Staff costs		– 1,850	– 1,941	– 5,703	– 5,623
Depreciation, amortization and impairment losses		– 1,161	– 1,104	– 3,300	– 2,706
Other operating result		– 850	– 93	– 2,241	– 2,445
Income from operating activities		**854**	**967**	**3,756**	**2,594**
Income from investments		85	– 201	194	503
Financial result		– 621	– 667	– 2,092	– 1,822
Income before tax		**318**	**99**	**1,858**	**1,275**
Taxes on income		– 130	9	– 946	– 118
Income after tax		**188**	**108**	**912**	**1,157**
Minority interest		– 77	– 20	– 180	– 251
Net income		**111**	**88**	**732**	**906**
Discontinuing operations		–	836	–	769
Earnings per share[2]					
Excl. goodwill amortization	€	0.63	0.67	2.59	2.57
Discontinuing operations	€	–	1.50	–	1.38
Incl. goodwill amortization	€	0.20	0.16	1.30	1.61
Discontinuing operations	€	–	1.49	–	1.37

[1] The previous year's figures have been adjusted.
[2] Undiluted earnings per share are identical to diluted earnings per share.

Consolidated balance sheet

Assets € million	**Balance at 09/30/03**	**Balance at 12/31/02**
Non-current assets		
Intangible assets	19,988	18,518
Property, plant and equipment	36,780	33,779
Financial assets	6,407	9,280
	63,175	61,577
Current assets		
Inventories	3,492	3,505
Accounts receivable and other assets	16,440	16,371
Marketable securities	9,055	8,459
Cash and cash equivalents	2,970	2,143
	31,957	30,478
Deferred taxes	6,296	7,593
Prepaid expenses	618	625
	102,046	100,273

Equity and liabilities € million	**Balance at 09/30/03**	**Balance at 12/31/02**
Equity/minority interest		
Group interest	6,740	6,429
Minority interest	2,351	2,495
	9,091	8,924
Provisions	37,023	40,187
Liabilities	45,078	41,140
Deferred taxes	6,679	6,566
Deferred income	4,175	3,456
	102,046	100,273

Consolidated cash flow statement

€ million	Jan – Sep 2003	Jan – Sep 2002
Income after tax	912	1,157
Depreciation, amortization, impairment losses, write-backs	3,302	2,747
Changes in long-term provisions	– 222	1,088
Deferred taxes/ non-cash expenses and income/ proceeds from disposition of assets	258	– 1,019
Changes in working capital/ other	– 274	71
Cash flows from operating activities	3,976	4,044
Discontinuing operations	–	300
Capital expenditure on property, plant and equipment and financial assets	– 8,132	–14,884
Proceeds from disposition of property, plant and equipment and financial assets	2,890	1,769
Changes in marketable securities and cash investments	– 417	242
Cash flows from investing activities	– 5,659	–12,873
Discontinuing operations	–	– 318
Cash flows from financing activities	2,527	7,793
Discontinuing operations	–	– 42
Currency translation	– 58	– 83
Changes in scope of consolidation and other changes	41	– 10
Net change in cash and cash equivalents	827	– 1,129
Cash and cash equivalents at beginning of year	2,143	3,842
Cash and cash equivalents at end of reporting period	**2,970**	**2,713**
Financial assets at beginning of year	14,387	18,127
Financial assets at end of reporting period	**14,375**	**15,040**
Gross financial debt at beginning of year	29,881	19,253
Gross financial debt at end of reporting period	**33,212**	**30,481**
Net financial debt at beginning of year	15,494	1,126
Net financial debt at end of reporting period	**18,837**	**15,441**

Changes in equity and minority interest

€ million	Group interest	Minority interest	Total
Balance at 12/31/01	7,730	3,399	11,129
Dividends paid	– 562	– 231	– 793
Other comprehensive income/other	– 1,961	– 906	– 2,867
Income after tax	906	251	1,157
Balance at 09/30/02	**6,113**	**2,513**	**8,626**
Balance at 12/31/02	6,429	2,495	8,924
Dividends paid	– 619	– 174	– 793
Other comprehensive income/other	198	– 150	48
Income after tax	732	180	912
Balance at 09/30/03	**6,740**	**2,351**	**9,091**

Notes

Accounting policies

The interim report for the period ended September 30, 2003 has been prepared in accordance with International Financial Reporting Standards (IFRS). IFRS comprise the IFRS newly adopted by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) as well as the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and of the Standing Interpretations Committee (SIC).

This interim report was prepared using the accounting policies applied in the consolidated financial statements for fiscal 2002. For further information, please consult the consolidated financial statements for the period ended December 31, 2002, which provide the basis for this interim report.

The interest rate for pension provisions, provisions for nuclear waste disposal and provisions for mining is 5.5% as of January 1, 2003 (previous year: 6.0%).

Scope of consolidation

In addition to RWE AG, the consolidated financial statements contain all domestic and foreign companies which RWE controls directly or indirectly. The US water company American Water and the Polish electric utility STOEN were consolidated as of January 1, 2003. RWE relinquished its majority stake in the US hard coal producing company CONSOL Energy by selling shares held in CONSOL at the end of September 2003. Therefore, we stopped consolidating the CONSOL Group fully as of September 30, 2003 and now account for it under the equity method. Principal associates are accounted for under the equity method. Other principal associates are also accounted for under the equity method. The scope of consolidation breaks down as follows:

	09/30/03	12/31/02
Fully consolidated companies	698	724
Investments accounted for at equity	230	245

These interim financial statements for the period ended September 30, 2003 are principally characterized by the first-time consolidation of American Water and the transition from the full consolidation to the equity accounting method for the CONSOL Group. Our Czech gas activities and the British electric utility Innogy, which were consolidated for the first time effective May 1 and June 1, 2002, respectively, were included in the previous year's corresponding period on a five- and four-month basis, respectively. Furthermore, figures for the previous year's first three quarters still disclose the Shell & DEA Oil joint venture's downstream business, which was sold as of July 1, 2002. All results and activities pertaining to the divested downstream business are stated under "discontinuing operations."

Revenue

Revenue from energy trading operations is stated only at realized gross margins. The previous year's gross figures have been adjusted accordingly.

Research and development costs

In the first three quarters of 2003, research and development costs totaled €303 million.

Own shares

In the first three quarters of 2003, RWE Group companies bought 279,080 common shares on the capital market at an average cost of €24.98 per individual share certificate. They account for €714,444.80 of the Corporation's share capital (0.05‰ of subscribed capital). Employees of RWE AG and its subsidiaries received a total of 5,465 common shares at an average price of €25.50 per individual share certificate within the scope of capital formation and 23,615 common shares at an average price of €3.55 on the occasion of service anniversaries. Aggregate proceeds amounted to €223,190.75. Differences to the purchase price were recorded with an effect on results.

RWE AG held 250,000 common shares as own shares as of September 30, 2003. This share package held in connection with the issuance of own shares to Group employees has a value of €640,000.00 (0.04‰ of subscribed capital).

As of December 31, 2002, 37,827 RWE common shares with an aggregate nominal value of €96,837.12 (0.01‰ of subscribed capital) were held for RWE Thames Water employees by an affiliate. This company ceased to be affiliated with RWE as of September 30, 2003.

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 executives of RWE AG and affiliates.

The Executive Board of RWE AG has been authorized to issue non-transferable subscription rights to a total of up to 20,000,000 common shares to the aforementioned persons up to the end of the day on March 8, 2004. There is a three-year waiting period for the stock options which have 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 provisional 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 so far:

Stock options	Originally issued	Balance at 12/31/02	Expired in 2003	Balance at 09/30/03
1999 tranche	1,935,800	1,319,300	– 67,700	1,251,600
2000 tranche	4,336,500	2,983,000	– 191,500	2,791,500
2001 tranche	5,222,300	4,454,100	– 233,000	4,221,100
2001A tranche	5,262,300	4,818,500	– 195,500	4,623,000
Total	**16,756,900**	**13,574,900**	**– 687,700**	**12,887,200**

Furthermore, other 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, 2002.

Dividend payout

For RWE AG's fiscal 2002, a dividend of €1.10 per share was paid, which included a bonus.

Earnings per share

Earnings per share are calculated as follows:

		Jan–Sep 2003	Jan–Sep 2002
Net income	€ million	732	906
Number of shares outstanding (weighted average)	thousands	562,349	562,405
Earnings per share	€	1.30	1.61
Earnings per share net of goodwill amortization	€	2.59	2.57

Undiluted earnings per share are identical to diluted earnings per share.

Contingent liabilities

Contingent liabilities principally relate to liabilities ensuing from guarantees. They have increased by €108 million to €1,315 million since December 31, 2002. This rise was principally caused by the Electricity Business Area.

Reconciliation to the operating result

Reconciliation of income from operating activities to the operating result € million	**Jan–Sep 2003**	**Jan–Sep 2002**
Income from operating activities	3,756	2,594
+ Income from investments	194	503
– Non-operating result	15	86
Operating result	**3,965**	**3,183**

The reconciliation addresses the following points:

- Income from investments includes all costs and income that have arisen in connection with operating investments. Income from investments thus constitutes an integral part of the Group's operating activity.
- RWE's share in the net income of the HOCHTIEF Group, which is accounted for under the equity method, is included in the operating result.
- Income and costs 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. Furthermore, the non-operating result includes goodwill amortization from capital consolidation. The non-operating result also contains the release of negative goodwill.

Reconciliation from EBITDA to the operating result € million	**Jan–Sep 2003**	**Jan–Sep 2002**
EBITDA	6,191	5,115
– Operating depreciation and amortization	– 2,323	– 2,136
EBIT	3,868	2,979
+ Operating result of investments	97	204
Operating result	**3,965**	**3,183**

Financial calendar 2003_2004

11/13/2003
Interim report for the first three quarters of 2003 and conference call *

01/06/2004
Preliminary report on fiscal 2003

02/26/2004
Annual report for fiscal 2003
_Balance sheet press conference
_Analyst conference*

04/15/2004
Annual General Meeting *

04/16/2004
Ex-dividend date

05/11/2004
Interim report for the first quarter of 2004 and conference call *

08/10/2004
Interim report for the first half of 2004
_Mid-year press conference
_Analyst conference*

11/09/2004
Interim report for the first three quarters of 2004 and conference call *

* These 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.

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

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