RWE

January to September

Report on the first three quarters of fiscal 2004

- Group operating result up 13 % year-on-year
- Net income improved by 10 %
- Debt reduction goal achieved

At a glance

RWE Group		Jan – Sep 2004	Jan – Sep 2003	+/- in %	Jan – Dec 2003
External revenue	€ million	29,949	31,935	- 6.2	43,875
EBITDA	€ million	6,213	6,191	+ 0.4	8,476
Operating result	€ million	4,464	3,965	+ 12.6	5,551
Income before tax[1]	€ million	2,830	1,858	+ 52.3	2,123
Net income[1]	€ million	1,611	732	+ 120.1	953
_Last year: excl. goodwill amortization	€ million	1,611	1,459	+ 10.4	1,938
Earnings per share[1]	€	2.86	1.30	+ 120.0	1.69
_Last year: excl. goodwill amortization	€	2.86	2.59	+ 10.4	3.45
Cash flows from operating activities	€ million	3,772	3,976	- 5.1	5,289
Capital expenditure	€ million	2,421	8,132	- 70.2	9,762
Free cash flow[2]	€ million	1,550	1,011	+ 53.3	927

		09/30/04	12/31/03	+/- in %
Net debt	€ million	14,522	17,838	- 18.6
Workforce	FTE[3]	99,890	127,028	- 21.4

[1] Figures for 2004 no longer include goodwill amortization due to a change in International Financial Reporting Standards (IFRS).
[2] Cash flows from operating activities minus capital expenditure on property, plant and equipment.
[3] Full time equivalent (1 FTE = 1 full-time position).

»Following a successful first three quarters, we are confident that fiscal 2004 will be another good year for RWE shareholders.«

Dear Shareholders,

The highlight in the third quarter was the initiation of the sale of the Environmental Services Division. We have thus completed focusing on our core business of energy and water. In light of the extreme pressure on prices in the German waste management sector, this exit will also improve the Group's earning power. So far, our overall performance this financial year has been positive. Furthermore, we have already achieved the net debt reduction goal we had set for 2005. In sum, we can confirm our forecast for the full year. The details of regulation in the German grid business are yet to be finalized. We expect new statutory regulations to come into force in the first half of 2005.

What follows is a summary of key facts and figures for the first three quarters:

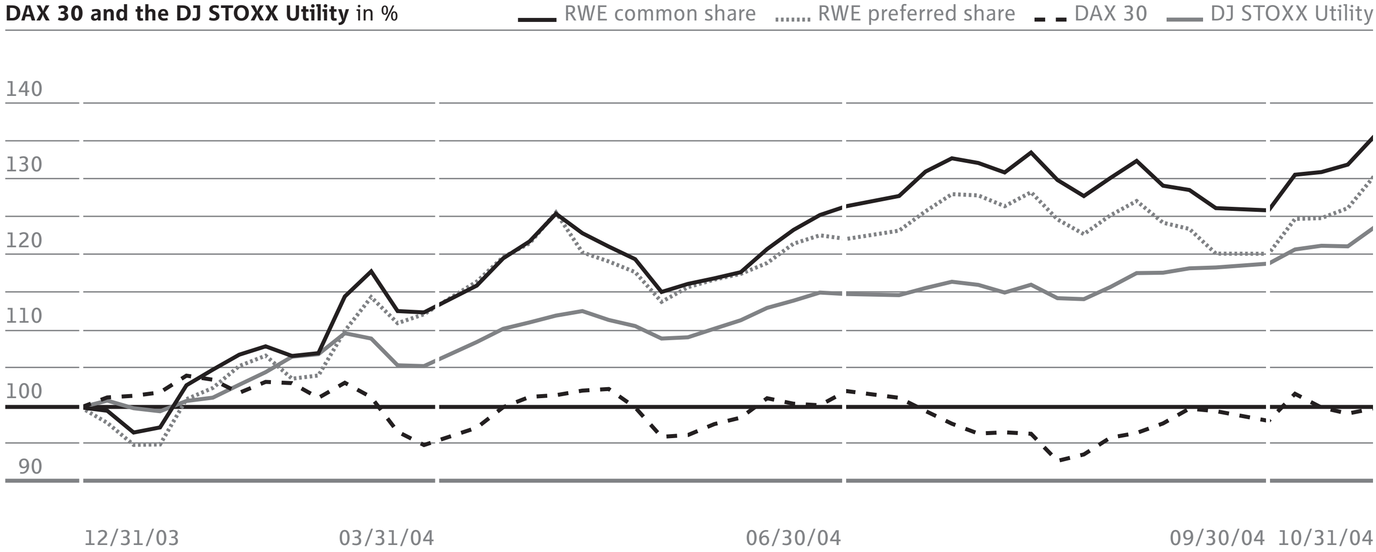
- We improved our operating result by 13%. This was mainly due to the positive performance delivered by the energy business. Net of effects from divestments and currency translation differences, we increased our operating result by 15%.
- Net income was 10% higher year-on-year. This is proof of the strength of our operating activities and the rise in proceeds from divestments. Furthermore, net income reflects the balance-sheet treatment of the initiation of the sale of the environmental business.
- Since the end of 2003, we have reduced net debt by €3.3 billion to €14.5 billion. Our target was to reduce net debt to €17 billion by the end of 2005, excluding the effects of the divestment of non-core businesses, and we closed the period that ended on September 30, 2004 ahead of schedule at €16.8 billion.

On October 23, 2004, the Chairman of the Supervisory Board of RWE AG, Dr. Friedel Neuber, passed away unexpectedly. Dr. Neuber joined our Supervisory Board in 1992 and had chaired it since 1997. Drawing on his exceptional expertise and broad experience, Dr. Neuber made extremely valuable contributions as we sought to reach strategic decisions for our company in the last few years. He was thus instrumental in promoting RWE's development to becoming one of Europe's leading utilities. His absence robs us of an outstanding entrepreneurial personality and a wise adviser in difficult times. We would like to express our most sincere gratitude for all that he has accomplished for our company. He will always be honored in our memory.

Essen, November 2004

Harry Roels
CEO of RWE AG

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



Total return of RWE share is 27 % despite weak market

Sentiment on the stock markets was subdued despite the global cyclical upturn. The sideways movement on the stock markets observed since the beginning of the year continued into the third quarter. At the beginning of July, the **DAX 30** dropped below the 4,000-point mark, failing to exceed it by the end of the period under review. Germany's benchmark index closed the day on September 30 at 3,893 points, slightly (-1.8 %) down on the level achieved at the end of 2003. The stock market's weak development is largely due to the strength of the raw materials markets, which was primarily driven by the sharp rise in prices for crude oil. Investors believe this increasingly endangers the process of economic recovery. Geopolitical uncertainty and the rising fear of inflation and interest rate hikes dampened the mood on the stock markets. Investor sentiment remained restrained even after the end of the reporting period. Record prices exceeding US$ 50 per barrel on the oil market stood in the way of an upward trend.

Contrary to the overall market, **RWE shares** posted a considerable increase in price. Our common stock closed the month of September at € 38.48 — 23 % up on the level at the end of 2003. Including the dividend, this corresponds to a total return of 27 %. This placed RWE among the leaders on the DAX 30, with the company's shares clearly outperforming the Dow Jones STOXX Utility Index, the European utility index, which was up 19 %. RWE's preferred shares also recorded an above-average total return. They gained 17 % to € 32.57, achieving a total return of 21%. The encouraging development in RWE's share price was primarily due to the positive earnings outlook of the German electricity generation business. The news of the sales of our non-core businesses HOCHTIEF, Heidelberger Druckmaschinen and RWE Umwelt was welcomed by the capital markets. Our goal of increasing the dividend by an average of 15 % per year from 2004 to 2006 also boosted confidence in the company's earning power. In the summer, our common shares reached the 40 euro mark, but did not exceed it significantly. This was due to profit taking. Furthermore, the debate on Germany's future regulatory framework was a source of uncertainty as it came to a head. Nevertheless, RWE shares managed to gain further in price after the end of the period under review. Common shares reached their year-to-date high of € 43.50 at the beginning of November.

Group operating result up 13 %

Economic trend on RWE core markets: moderate growth in Germany, dynamic development in the UK and Central Eastern Europe
The world economic upturn that started in summer 2003 is still ongoing. All major industrialized countries are reporting positive figures. However, there were increasing signs of the expansion slowing down in the third quarter. Most importantly, the sharp uptick in oil prices dampens the outlook for the economy. In addition, several industrialized countries tightened their monetary policies. But economic research institutes do not believe this should fuel fear of a reversal in the economy's trend.

Growth dynamics differed significantly among RWE's core markets. Eurozone countries are displaying relatively moderate growth. According to estimates, they increased real gross domestic product by an average of 1.7 % in the first three quarters. They benefited from a considerable rise in exports. Domestic demand recovered somewhat, following a long, drawn-out period of weakness. German growth matched the Eurozone average. Export activity was essentially the only source of stimulus for the economy. This was contrasted by structural problems associated with the revitalization of domestic demand. Of notable mention in this context is the persistent crisis on the labor market and the public sector's tight budget.

The United Kingdom, our second-largest core market, continues to rank among the fastest-growing economies in Europe, although it has a higher prime rate. Real growth in the UK is an estimated 3.5 %. Private consumption and asset investment are the engines of economic development. The most important economies in Central Eastern Europe also continue to display extremely dynamic growth. Exports and investment inject very powerful stimuli. Conversely, price increases dampened the development of real income, which, in turn, slightly curbed consumption.

With 4.5 % growth compared to last year, the US—alongside China—is the driving force behind the world's economic resurgence. Investing and consumer activity cooled down temporarily in the middle of the year. But it was counteracted by expansive fiscal policy and favorable conditions established by monetary policy.

Comments on reporting procedures
After launching the Group's reorganization on October 1, 2003, we had implemented all structural changes by the beginning of fiscal 2004. RWE Thames Water's main water activities in Continental Europe and the bulk of RWE Trading's industrial customer business were incorporated into RWE Energy as of January 1, 2004. Business conducted by the former RWE Gas is now also integrated in RWE Energy. Furthermore, RWE Trading took charge of the trading operations of our UK energy company RWE npower.

In March 2004, the International Accounting Standards Board (IASB) published new accounting regulations. They stipulate that goodwill shall be subject to an impairment test at least once a year and shall no longer be amortized. We voluntarily adopted this regulation as of January 1, 2004, and therefore no longer amortize goodwill.

Pursuant to International Financial Reporting Standards (IFRS), we are stating Heidelberger Druckmaschinen and the Environmental Services Division separately as operations that are to be discontinued ("discontinuing operations") in our 2004 reports. This is due to the fact that Heidelberger Druckmaschinen was deconsolidated in May 2004 and that the sale of the environmental business was initiated. We are still accounting for our remaining stakes in HOCHTIEF and Heidelberg as marketable securities.

External revenue € million	**Jan – Sep 2004**	**Jan – Sep 2003**		**+/- in %**	**Jan – Dec 2003**
RWE Power	2,146	3,542	-	39.4	4,077
RWE Energy	15,571	15,353	+	1.4	21,842
RWE npower	4,021	3,903	+	3.0	5,552
RWE Trading	2,427	1,700	+	42.8	2,444
RWE Thames Water	3,016	3,165	-	4.7	4,249
Discontinuing operations[1]					
_RWE Umwelt	1,343	1,466	-	8.4	1,944
_Heidelberger Druckmaschinen	1,359[2]	2,715	-	49.9	3,658
Other/consolidation	66	91	-	27.5	109
RWE Group	**29,949**	**31,935**	**-**	**6.2**	**43,875**
_Germany	15,970	16,149	-	1.1	22,444
_Outside Germany	13,979	15,786	-	11.4	21,431

[1] Discontinuing operations in accordance with International Financial Reporting Standards (IFRS).
[2] This figure only covers the period until the deconsolidation in May 2004.

Revenue down on previous year due to sale of investments

In the first three quarters of 2004, the RWE Group generated € 29.9 billion in external revenue. This corresponds to a 6 % decrease from the last year's level, principally due to the following deconsolidations:

- CONSOL Energy, the US hard coal and gas producer, was excluded from our scope of consolidation as of September 30, 2003. The company generated € 1,455 million in revenue in the first three quarters of 2003.
- We lost additional revenue with the sale of most of our 50 % stake in the Heidelberg Group. By the time it had been deconsolidated in May 2004, the printing machine manufacturer had earned € 1,359 million in revenue. This equals half the amount achieved a year earlier when Heidelberg was still included in the quarterly financial statements on a nine-month basis.

Without the aforementioned consolidation effects, our revenue improved by 3 %. The strongest organic growth was posted by RWE Trading, mainly as a result of price increases on the electricity and coal markets and the rise in sales of electricity generated by RWE in-house. Moreover, the company took over RWE npower's trading activities effective January 1, 2004. RWE Energy recorded a slight improvement in revenue. Reclassification effects came into play here as well. We transferred major parts of RWE Thames Water's Continental European water business to RWE Energy's regional companies as of January 1, 2004. At the beginning of the year, RWE Solutions, an RWE Energy subsidiary, assumed most of RWE Trading's electricity key account operations. Net of these effects, RWE Energy's business volume decreased slightly. Our UK energy company RWE npower achieved a gain, although it relinquished its trading business. This was due to the increase in electricity and gas tariffs. Revenue achieved by RWE Thames Water declined marginally. The shortfall from the transfer of the Continental European water activities to RWE Energy was only partially offset by tariff increases in the US business. RWE Umwelt's volume of business fell above all owing to the divestment of peripheral activities. Furthermore, orders from the DSD (German dual waste management system) dropped, and prices decreased due to competition.

Currency effects only had a slight impact on the development of revenue in the RWE Group, since the currencies that are of major importance to our business displayed opposing trends. The pound Sterling rose against the euro. The British pound-to-euro exchange rate was 0.67 to 1, compared with 0.69 to 1 for the corresponding period last year. As a result, UK revenue was 3% higher when converted to euros. By contrast, the US dollar-to-euro exchange rate was 1.22 to 1, making the dollar significantly weaker than it was in the same period last year ($1.12/€). The negative currency effect caused American Water's revenue to decrease by 10%.

Operating result posts organic improvement of 15%
Sustained organic growth—especially in the energy business—characterized the RWE Group's earning trend.

At €6,213 million, EBITDA was roughly on par with last year's level, despite deconsolidations. Net of the impact on the result caused by CONSOL and Heidelberg as well as by currency translation, EBITDA rose by 6%.

EBITDA € million	**Jan – Sep** **2004**	**Jan – Sep** **2003**	**+/-** in %	**Jan – Dec** **2003**
RWE Power	1,828	2,015	- 9.3	2,631
RWE Energy	2,207	1,883	+ 17.2	2,750
RWE npower	489	632	- 22.6	850
RWE Trading	52	22	+ 136.4	59
RWE Thames Water	1,434	1,468	- 2.3	2,018
Discontinuing activities[1]				
_RWE Umwelt	146	163	- 10.4	230
_Heidelberger Druckmaschinen	96[2]	82	+ 17.1	120
Other, consolidation	- 39	- 74	+ 47.3	- 182
RWE Group	**6,213**	**6,191**	**+ 0.4**	**8,476**

[1] Discontinuing operations in accordance with IFRS.
[2] This figure only covers the period until the deconsolidation in May 2004.

We lifted the Group's operating result by 13% to €4,464 million. It developed far more favorably than EBITDA, in part owing to lower depreciation (-€305 million). This effect stems from the deconsolidation of CONSOL and Heidelberger Druckmaschinen, both of which are asset-intensive. Furthermore, we improved our income from investments by €171 million, largely due to the discontinuation of goodwill amortization. Excluding the effects of deconsolidations and currency exchange differences, the operating result rose by 15%.

We increased the operating result primarily in our German energy business. In the generation sector, we benefit from higher wholesale electricity prices. In the retail business, we profit from cost-cutting and higher tariffs. Consequently, RWE Power lifted its operating result by 16%, after netting out the effect of CONSOL (-€187 million). RWE Energy also closed the third quarter clearly up on the previous year's figure, which, however, was affected by one-off charges. In the UK energy business, RWE npower succeeded in raising its sales margins, but recorded a clear decline in earnings. This was due to the fact that the trading activities, which have now been transferred to RWE Trading, achieved a very good result in 2003. The RWE npower trading activities, as part of RWE Trading, in 2004 have not matched last year's strong performance, contributing a much lower operating result. Thanks to an increase in earnings at American Water, RWE Thames Water was able to improve its operating result even further. By contrast, our German waste management business suffered from massive competitive pressure. Therefore, the operating result generated by RWE Umwelt fell short of last year's level, which was very low. Conversely, the Heidelberg Group recovered somewhat from the crisis in the printing machine industry. Until it was deconsolidated in May, the company contributed €34 million to the Group's operating result, following a loss of €101 million for the first three quarters of 2003. Since we sold our majority stake in HOCHTIEF, the contribution made by the construction group to the result is no longer recorded in the figures for 2004 (Q1–3 2003: +€6 million).

In common with revenue, the operating result was affected by contrasting currency effects. The strength of the pound Sterling increased the euro-denominated operating result by €28 million. This was contrasted by the negative currency effect of the weak US dollar. American Water's operating result was thus diluted by €32 million.

For a detailed commentary on the earnings trend by division, please turn to pages 18 to 30.

Operating result € million	**Jan–Sep 2004**	**Jan–Sep 2003**	**+/- in %**	**Jan–Dec 2003**
RWE Power	1,300	1,309	- 0.7	1,682
RWE Energy	1,739	1,388	+ 25.3	2,046
RWE npower	412	524	- 21.4	714
RWE Trading	51	20	+ 155.0	59
RWE Thames Water	991	967	+ 2.5	1,374
Discontinuing activities[1]				
_RWE Umwelt	58	63	- 7.9	76
_Heidelberger Druckmaschinen	34[2]	- 101	+ 133.7	- 118
Other, consolidation	- 121	- 205[3]	+ 41.0	- 282[3]
RWE Group	**4,464**	**3,965**	**+ 12.6**	**5,551**

[1] Discontinuing operations in accordance with IFRS.
[2] This figure only covers the period until the deconsolidation in May 2004.
[3] Includes the operating result of HOCHTIEF in the amount of €6 million (Q1–3 2003) and €9 million (fiscal 2003).

Net income improved by 10%

The reconciliation to the RWE Group's net income reflects operating earnings growth as well as improvements in the non-operating and financial results. Accordingly, net income clearly surpassed the level achieved in the same period last year.

Non-operating result € million	**Jan – Sep 2004**	**Jan – Sep 2003**	**+/-** € million	**Jan – Dec 2003**
Capital gains	709	426	+ 283	1,024
Goodwill amortization	- 292*	- 727	+ 435	- 985
Restructuring/other	- 121	286	- 407	- 589
Non-operating result	**296**	**- 15**	**+ 311**	**- 550**

* Impairment for RWE Umwelt; we stopped amortizing goodwill in 2004 due to a change in IFRS.

The non-operating result advanced by € 311 million to € 296 million. Changes break down as follows:

- Capital gains rose by € 283 million to € 709 million. Major drivers were the divestment of the remaining 18.5 % shareholding in CONSOL Energy (+ € 220 million), the lion's share of our 50 % stake in Heidelberger Druckmaschinen (+ € 200 million) and of our interest in Swiss-based Motor-Columbus and Atel.
- Goodwill amortization decreased by € 435 million to € 292 million. This resulted from the new accounting rules under IFRS. Accordingly, RWE stopped amortizing goodwill in January 2004. In the first three quarters of 2003, goodwill amortization reduced the non-operating result by € 727 million. Goodwill must now be subjected to an impairment test at least once a year. We recognized an exceptional impairment of € 292 million for RWE Umwelt that takes into account the book loss from the agreed sale to Rethmann (see page 12 et seq.). However, this was already largely covered by provisions from previous periods.
- The "Restructuring/other" line item decreased considerably. This includes income from the adjustment of nuclear provisions. This income declined from € 933 million to € 554 million. Amortization of RWE npower's customer base increased from € 112 million to € 250 million. This is due to the fact that, in 2004, we shortened the amortization period from 20 to ten years. Furthermore, we built € 250 million in provisions in preparation for future portfolio adjustments. Unlike in this reporting period, last year's corresponding period was effected by substantial provisions, primarily relating to the reorganization of the RWE Group (+ € 250 million) and Heidelberger Druckmaschinen (+ € 289 million).

The financial result improved by € 162 million, or 8 %, to - € 1,930 million. This was due to the fact that long-term provisions decreased owing to the deconsolidation of CONSOL. Accordingly, the associated interest expense was lower. In addition, the earnings of our asset management activities improved. But net interest was lower year-on-year, despite the decline in debt. This reflects the replacement of the short-term interim financing for the acquisition of American Water by the issuance of higher-interest, long-term debt. In addition, we took a one-off charge from the buyback and conversion of bonds implemented in July.

Financial result € million	Jan – Sep 2004	Jan – Sep 2003	+/- in %	Jan – Dec 2003
Interest and similar income	823	914	- 10.0	1,116
Interest and similar expenses	- 1,732	- 1,689	- 2.5	- 2,247
Net interest	**- 909**	**- 775**	**- 17.3**	**- 1,131**
Interest accretion to long-term provisions	- 979	- 1,209	+ 19.0	- 1,558
Other financial results	- 42	- 108	+ 61.1	- 189
Financial result	**- 1,930**	**- 2,092**	**+ 7.7**	**- 2,878**

In sum, this results in income before tax of € 2,830 million. It was thus 9 % higher than the corresponding figure for last year's period net of goodwill amortization. We increased income after tax to € 1,838 million. Without taking goodwill amortization into consideration for last year, income after tax rose by 12 %. The effective tax rate dropped from 37 % to 35 %. The minority interest totaled € 227 million—up € 47 million on the same period in 2003. This was principally due to the significant improvement in the result contributed by Heidelberg.

Reconciliation to net income		Jan – Sep 2004	Jan – Sep 2003	+/- in %	Jan – Dec 2003
Operating result	€ million	**4,464**	**3,965**	**+ 12.6**	**5,551**
Non-operating result	€ million	296	- 15	—	- 550
_Goodwill amortization	€ million	- 292[1]	- 727	+ 59.8	- 985
Financial result	€ million	- 1,930	- 2,092	+ 7.7	- 2,878
Income before tax	€ million	**2,830**	**1,858**	**+ 52.3**	**2,123**
Taxes on income	€ million	- 992	- 946	- 4.9	- 1,187
Income after tax	€ million	**1,838**	**912**	**+ 101.5**	**936**
Minority interest	€ million	- 227	- 180	- 26.1	17
Net income	€ million	**1,611**[2]	**732**	**+ 120.1**	**953**
_Last year: excl. goodwill amortization	€ million	1,611	1,459	+ 10.4	1,938
Earnings per share	€	**2.86**	**1.30**	**+ 120.0**	**1.69**
_Last year: excl. goodwill amortization	€	2.86	2.59	+ 10.4	3.45
Effective tax rate	%	**35**	**51**	**- 31.4**	**56**
_Last year: excl. goodwill amortization	%	35	37	- 5.4	38

[1] Impairment for RWE Umwelt; we stopped amortizing goodwill in 2004 due to a change in IFRS.
[2] - € 277 million of which are allocable to discontinuing operations in accordance with IFRS (Q1 – 3 2003: - € 147 million).

Net income generated by the RWE Group amounts to € 1,611 million. Compared with the figure for the same period in 2003, net of goodwill amortization, it rose by 10 %. Corresponding earnings per share increased from € 2.59 to € 2.86.

Cost-cutting programs: € 260 million in savings realized by the end of September

This year, we will successfully conclude the cost-cutting program launched in February 2000 that focuses on the German electricity business. All in all, it will allow us to reduce annual costs by € 2,555 million. To achieve this goal, we must save a total of € 250 million in costs in 2004.

A second program aims to achieve substantial savings within the scope of the Group's reorganization. We intend to use this program to decrease annual costs by an additional € 500 million by 2006. Measures planned include improvements in material and personnel costs in the German energy business, savings in IT, and efficiency enhancements throughout the water business.

Our third program will enable us to tap into synergies from the large-scale acquisitions made in the last few years. In so doing, we want to cut costs incurred by the UK-based companies RWE npower and RWE Thames Water by € 100 million p.a. by the end of 2006 by pooling general back-office functions. We aim to realize € 80 million in savings at our Czech gas companies during the same period. As of December 31, 2003, we had reduced costs by € 60 million through these two synergy programs.

In sum, we realized € 260 million in savings in the first three quarters of 2004, € 180 million of which were attributable to the first program, while € 80 million stemmed from the second and third programs.

Capital expenditure on property, plant and equipment 25 % down year-on-year

In the first three quarters of 2004, capital spending amounted to € 2,421 million. This corresponds to a decline of 70 %, or € 5,711 million, year-on-year. Capital expenditure on property, plant and equipment decreased by 25 % to € 2,222 million. It recorded the steepest decline at RWE Power (- € 393 million). CONSOL's deconsolidation contributed - € 187 million. Last year's figure also included a power plant project in Duisburg-Hamborn (- € 33 million) as well as purchases of large pieces of real estate in opencast lignite mines (- €41 million). RWE Dea (- € 62 million) and Harpen (- € 26 million) spent less money as well. RWE npower also scaled back capital expenditure considerably (- € 94 million), primarily because the wind power stations, in which the company invests, are no longer in our asset base. In 2004, we started selling newly constructed plants to a joint venture in which RWE npower only holds a minority interest (33 %). Capital spent by RWE npower on equipping power stations with flue gas desulphurization plants increased. Spending by Heidelberger Druckmaschinen on property, plant and equipment was lower mainly as a result of the company's deconsolidation.

Capital expenditure on financial assets amounted to € 199 million—a fraction of the figure (€ 5,167 million) for last year's period, which was exceptionally high due to the acquisition of the US-based water utility American Water (€4.5 billion). Furthermore, we acquired a 49 % stake in Slovak-based VSE as well as the remaining 25 % interest in Thyssengas in 2003. This year, only small acquisitions have been made.

Capital expenditure € million	**Jan – Sep 2004**	**Jan – Sep 2003**	**+/- in %**	**Jan – Dec 2003**
RWE Power	439	862	- 49.1	1,115
RWE Energy	555	1,018	- 45.5	1,652
RWE npower	110	204	- 46.1	215
RWE Trading	4	4	—	4
RWE Thames Water	1,059	5,606	- 81.1	6,129
Discontinuing activities[1]				
_RWE Umwelt	115	123	- 6.5	152
_Heidelberger Druckmaschinen	70[2]	216	- 67.6	262
Other, consolidation	69	99	- 30.3	233
RWE Group	**2,421**	**8,132**	**- 70.2**	**9,762**
_Capital expenditure on property, plant and equipment	2,222	2,965	- 25.1	4,362
_Capital expenditure on financial assets	199	5,167	- 96.1	5,400

[1] Discontinuing operations in accordance with IFRS.
[2] This figure only covers the period until the deconsolidation in May 2004.

Cash flow statement—key figures

In the first three quarters of 2004, cash flows from operating activities amounted to € 3,772 million. This corresponds to a decline of 5 %, or € 204 million, year-on-year. It was a result of the absence of operating cash flows from CONSOL (-€ 166 million) and increased payments for restructuring, among other things. In addition, there was a one-off negative effect on working capital. Most importantly, we made high income and sales tax payments that came due as a result of tax audits for assessment periods in prior years. Excluding CONSOL and the non-recurrent charges applied to working capital, we would have exceeded the high level of cash flows from operating activities achieved in the first three quarters of 2003.

Cash flow statement* € million	**Jan – Sep 2004**	**Jan – Sep 2003**	**+/- in %**	**Jan – Dec 2003**
Cash flows from operating activities	3,772	3,976	- 5.1	5,289
_Change in working capital	- 399	- 348	- 14.7	- 58
Cash flows from investing activities	- 328	- 5,659	+ 94.2	- 6,816
Cash flows from financing activities	- 3,613	2,527	- 243.0	1,639
Effect of changes in currency exchange rates and other changes in value on cash and cash equivalents	7	- 17	+ 141.2	- 74
Net change in cash and cash equivalents	**- 162**	**827**	**- 119.6**	**38**
Cash flows from operating activities	3,772	3,976	- 5.1	5,289
Capital expenditure on property, plant and equipment and intangible assets	- 2,222	- 2,965	+ 25.1	- 4,362
Free cash flow	**1,550**	**1,011**	**+ 53.3**	**927**

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

After netting capital expenditure and divestments, capital expenditure totaled € 328 million. At € 5,659 million, the figure for the first three quarters of last year was much higher, principally owing to the acquisition of American Water. Our goal of improving our financial structure and further reducing debt is reflected in the negative cash flows from financing activities of -€3,613 million. This is the amount by which payments and distributions exceed the issuance of new debt. In the same period in 2003, net cash flows amounted to €2,527 million due to the funds required to finance the acquisition of American Water. Cash and cash equivalents have decreased by €162 million since the beginning of the year.

Despite the slight decline in cash flows from operating activities, free cash flow (cash flows from operating activities minus capital expenditure on property, plant and equipment) rose from €1,011 million to €1,550 million. This was due to the fact that capital expenditure on property, plant and equipment was significantly lower. However, this high figure cannot be extrapolated for the full year since, as usual, capital expenditure on property, plant and equipment will increase by a much higher degree in the fourth quarter.

Net financial debt € million	**At 09/30/04**	**At 12/31/03**		**+/- in %**
Cash and cash equivalents	2,019	2,181	-	7.4
Current marketable securities	9,930	9,615	+	3.3
Non-current marketable securities and other loans	1,308	1,037	+	26.1
Other financial assets	1,521	1,119	+	35.9
Financial assets	**14,778**	**13,952**	**+**	**5.9**
Bonds, notes payable, bank debt and commercial papers	26,806	29,638	-	9.6
Other financial debt	2,494	2,152	+	15.9
Financial debt	**29,300**	**31,790**	**-**	**7.8**
Net financial debt	**14,522**	**17,838**	**-**	**18.6**

Net debt reduction goal already reached

As of September 30, 2004, net financial debt totaled €14.5 billion. This was €3.3 billion less than at the end of 2003, and was principally due to the high proceeds from the sale of stakes in Heidelberg (€825 million), HOCHTIEF (€750 million), CONSOL (third tranche: €228 million) and Motor-Columbus/Atel (€277 million) as well as cash flows from operating activities. Furthermore, Heidelberg's deconsolidation allowed us to remove €0.3 billion in liabilities from our balance sheet. By contrast, the decrease in the euro's strength as of the balance sheet date caused debt to increase by €0.5 billion. As of September 30, 2004, the key currency exchange rates were US$1.24/€ and £0.69/€, as compared to US$1.26/€ and £0.70/€ as of December 2003. Capital expenditure on property, plant and equipment and financial assets made a €2.4 billion contribution to our debt. €0.9 billion was earmarked for distributions. Financial derivatives, which we use to hedge liabilities against currency exchange and interest rate effects, had a market value of €1.3 billion as of September 30, 2004. However, derivatives are not taken into account in net debt.

We have already achieved our medium-term debt-reduction goal. We had announced our intention of reducing net financial liabilities to less than €17 billion by the end of 2005. This target was based on currency exchange rates of US$1.20/€ and £0.70/€ and excludes the impact of divesting stakes in HOCHTIEF, Heidelberg and RWE Umwelt. Based on these premises, net debt totaled €16.8 billion on September 30, 2004.

Workforce FTE[1]	**At 09/30/04**	**At 12/31/03**		**+/- in %**
RWE Power	18,221	19,280	-	5.5
RWE Energy	41,574	42,655	-	2.5
RWE npower	9,421	9,357	+	0.7
RWE Trading	642	397	+	61.7
RWE Thames Water	16,283	17,521	-	7.1
Discontinuing activities[2]				
_RWE Umwelt	10,586	12,578	-	15.8
_Heidelberger Druckmaschinen[3]	–	22,036	-	100.0
Other	3,163	3,204	-	1.3
RWE Group	**99,890**	**127,028**	**-**	**21.4**
_Germany	56,632	72,191	-	21.6
_Outside Germany	43,258	54,837	-	21.1

[1] Full time equivalent (1 FTE = 1 full-time position).
[2] Discontinuing operations in accordance with IFRS.
[3] Deconsolidated in May 2004.

Employee headcount down mainly due to divestments
As of September 30, 2004, the RWE Group employed 99,890 people (full time equivalent), 43,258, or 43 %, of which worked outside of Germany. The workforce thus decreased by 27,138 staff members, or 21%, since December 31, 2003. On balance, acquisitions and divestments caused the labor force to shrink by 23,510 positions, 22,036 of which were shed as a result of the deconsolidation of the Heidelberg Group. The sale of the foreign business along with further peripheral activities of RWE Umwelt led to an additional reduction of 1,109 positions. Net of consolidation effects, the workforce decreased by 3,628 employees, or 3.5 %. In Germany, the employee headcount shrank by 3,157 employees, or 5.3 %. Most of the operating personnel cuts affected domestic regional RWE Energy companies (-1,191), RWE Power (-919) and RWE Umwelt (-850).

Dr. Thomas R. Fischer candidate for chairmanship of RWE Supervisory Board
The Supervisory Board of RWE AG has nominated Dr. Thomas R. Fischer, Chairman of the Managing Board of WestLB, to succeed Dr. h.c. Friedel Neuber, who passed away on October 23, 2004, as member of the Supervisory Board of RWE AG. On November 5, the Executive Board of RWE AG initiated the required legal process. Dr. Fischer is to be elected Chairman of the Supervisory Board subject to legal appointment, which has been requested, at the next Ordinary Supervisory Board Meeting of RWE AG on December 8, 2004.

Sale of the Environmental Services Division initiated
At the end of September, we set the stage for the divestment of our environmental business. The first step will entail Rethmann, an established supplier on the German waste management market, acquiring some 70 % of RWE Umwelt's business. The purchase agreement was signed on September 28. To comply with antitrust restrictions, parts of RWE Umwelt, which account for the remaining 30 % of revenue, will remain under RWE ownership for the time being. These activities are to be sold separately. The sale of our waste management business is based on an enterprise value of about € 800 million for RWE Umwelt as a whole. Factoring in the foreign activities that have already been divested increases the enterprise value to roughly € 1 billion. The RWE Group's net debt will decrease by € 400 million as a result of the sale of its environmental operations. Once the partial sale to

Rethmann has been completed, net debt will drop by an initial €200 million. The transaction is subject to approval from the German Federal Cartel Office.

RWE Power sells stake in Turkish power utility ISKEN

RWE Power has withdrawn from the Turkish energy sector. In October, we sold the 25% interest in the energy provider ISKEN (Iskenderun Enerji Üretim ve Ticaret A.S.) to OYAK, a Turkish pension fund. ISKEN is an independent power producer and owns and operates a 1,210 MW hard coal power plant on the country's south coast. The power station covers some 8% of Turkey's power consumption.

RWE again included in the Dow Jones Sustainability Index

RWE will also be listed in the world-renowned Dow Jones Sustainability Index (DJSI) in 2005. Companies are included and ranked in the index in recognition of their sustainable management and corporate governance. In the DJSI World, RWE is ranked first among electric companies. We command a position in the leading group of the DJSI STOXX Index. This represents an improvement over 2004. RWE is the only German utility to have been represented in the DJSI indices without interruption since the first ranking in 1999.

New cornerstones en route to regulating the German energy market

At the end of October, Germany's Federal Cabinet reached an agreement on the cornerstones of the future regulatory framework for Germany's electricity and gas markets as part of the legislative process en route to the German Energy Act. The fundamentals now envision increasing the room for maneuver given to the German Regulator (REGTP). The agreed regulations would increase the economic risk of investing in grids. According to the government resolutions, all grid fee increases would be subject to prior approval (ex-ante regulation). Moreover, the agreement envisions the introduction of an incentive mechanism at least two years after the new Energy Act has come into force. Grid fee increases announced for January 2005 would be reviewed retrospectively by the regulator. As far as the calculation of grid fees is concerned, the German government adheres to the principle of maintaining net asset value. As in the Electricity Association Agreement, a real return on capital of 6.5% is envisioned for 2005. According to the proposal, from 2006 onwards, the regulator will decide on a return that it believes is suitable for the market. The legislative process has not yet been concluded. The German Energy Act is scheduled to become effective in the first half of 2005. We expect the new regulatory framework will definitely cause the earnings situation of our German grid business to deteriorate significantly. We aim to partially compensate for the resulting negative effects through cost-cutting.

CO_2 emissions trading: UK government revises national allocation plan

The UK government has revised its national allocation plan for trading CO_2 emissions allowances, ensuring slightly more favorable basic conditions for the industry and the energy sector. The original draft, which was submitted to the EU Commission at the end of April, put power producers at an extreme disadvantage. The new plan increases the number of allowances allocated to industry and the energy sector free of charge in the first trading period from 2005 to 2007 from 736.3 million tons to 756.1 million tons of CO_2. Industrial plants will derive a greater benefit than the energy sector. Plant-specific allocations of emissions allowances are not expected to take place before yearend. We anticipate the allocation to RWE npower to slightly exceed the 14.9 million tons p.a. which had been originally envisioned.

Harpen: AGM approves squeeze-out by RWE
On October 15, 2004, the Extraordinary General Meeting of Harpen AG decided by a 99.26 % majority vote to approve the squeeze-out envisioned by RWE AG. The resolution entails transferring the shares of outside shareholders, who account for a combined 4.9 % stake, to RWE AG in return for € 19.50 in cash per individual share certificate. The squeeze-out will take effect once it has been entered into the commercial register.

Outlook for 2004

We largely confirm the forecast we published in our half-year report in August for the current financial year.

Group revenue is expected to fall just short of the € 43.9 billion generated in fiscal 2003. We anticipate a 5 % decrease. This is largely due to the deconsolidation of CONSOL and Heidelberger Druckmaschinen. Our current prognosis is based on exchange rates of US$ 1.20 / € (last year: US$ 1.14 / €) and £ 0.67 / € (last year: £ 0.69 / €). Therefore, the positive currency effect from the strong Sterling will more than compensate for the negative impact felt from the US dollar. This would also hold true if we based the forecast for the full year on the even weaker dollar in the first three quarters. Adjusted to exclude currency effects and the aforementioned deconsolidations, we anticipate revenue will exceed the level achieved in 2003. Therefore, we expect to generate organic growth at a low, single-digit percentage rate.

We expect **EBITDA** to record a slight decline primarily due to the deconsolidation of CONSOL. Without this effect, we anticipate EBITDA will match the level achieved in 2003 (€ 8,476 million).

Conversely, we expect that the **Group's operating result** will improve. We anticipate a single-digit percent gain. This also applies if one excludes Heidelberg and CONSOL from the figures for 2003 and 2004. We have a more positive outlook for the operating result as opposed to EBITDA because far lower depreciation is expected. The high asset-intensity of CONSOL and Heidelberg, both of which have been deconsolidated, comes to bear in this context. Moreover, we expect to see a significant improvement in income from investments.

Our forecast for the **operating result by division**:

We expect **RWE Power's** operating result to be roughly on par with the level achieved in 2003, although CONSOL will no longer make a contribution. Excluding CONSOL, we anticipate this business will record growth that may just reach a double-digit rate. This is primarily due to the increase in electricity wholesale prices.

This division's earnings situation is impacted by opposing trends. We expect our Power Generation Business Unit to close fiscal 2004 at least 20 % up on last year. This will be principally due to the rise in electricity wholesale prices in 2003. We have sold nearly our entire German electricity output for 2005. Negative effects will primarily arise from hard coal prices, which are extremely high at present. Prices quoted by the German Federal Office of Economics and Export Control (BAFA) averaged approximately €54/t in the first three quarters and were thus some 40% higher than the corresponding figure for 2003. We expect the average price for the full year to be in the order of €60/t. We anticipate that increased hard coal purchasing costs will dampen the operating result to the tune of €250 million. Moreover, we expect to incur higher costs to maintain our lignite-fired power generation facilities. The encouraging trend in the power generation business despite these adverse effects will probably be contrasted by a decline in the operating result contributed by RWE Dea's gas and oil production business. This is largely due to the negative currency exchange effects stemming from the US dollar's weak development. Currency effects can be partially offset by capital gains from hedges. But since they were much higher in 2003, there will be a negative effect on the operating result compared with last year. In addition, we cannot fully benefit from the recent strength of crude oil prices since RWE Dea concluded hedges early on. On the whole, however, we anticipate that RWE Dea will generate an operating result of at least €300 million.

The double-digit increase in the operating result posted by **RWE Energy** in the first nine months of the year was marked by one-off effects and cannot be projected for the full year. We expect this business to post a single-digit percent gain in its operating result. We anticipate that principally our foreign regional companies will make operating improvements, in part by reducing costs. In addition, we expect RWE Energy to lift its income from investments.

RWE npower's operating result will decline significantly. This is because the figure achieved in 2003 still included exceptionally high income from the trading business, which has been transferred to RWE Trading. We expect the operating result to decline by about 20%. Net of trading activities, however, RWE npower will likely be able to exceed the level recorded in 2003. We anticipate that price increases for electricity and gas sales to end customers will produce an improvement in the operating result. Moreover, we will benefit from synergies with RWE Thames Water. We anticipate a negative effect from the steep rise in fuel costs and lower production output. Furthermore, income from the provision of balancing power will probably fall shy of the level achieved in 2003, which was high for weather-related reasons.

We anticipate that **RWE Trading** will increase its operating result. This growth will primarily be driven by the takeover of RWE npower's trading business, although its contribution to the operating result will be substantially lower than the unusually high level achieved in 2003.

RWE Thames Water is expected to post another increase in its operating result in the current financial year. We anticipate single-digit percent growth. The rise in the operating result will be exclusively based on organic growth. American Water will increase its operating result, when adjusted to exclude currency effects, primarily due to approved tariff increases and efficiency enhancements. We will improve the operating result generated by the European business thanks to lower costs stemming from the reorganization and synergies with RWE npower, among other things. In addition, we expect a rise in income from investments. Increases in water prices in Berlin will also make a contribution to this growth. There will be a counteracting effect from the transfer of large parts of the Continental European water business to RWE Energy.

The operating result recorded by **RWE Umwelt** will close fiscal 2004 slightly down on the 2003 financial year. We continue to expect that the operating result will be substantially dampened by the intense competitive pressure in the German waste management industry. We will only partially be able to compensate for this through efficiency enhancements and restructuring measures.

We will improve **net income** compared with the figure achieved in 2003 (excluding goodwill amortization). We originally expected net income to grow by 10% to 15%. Due to the aforementioned provisions for future portfolio adjustments and the impairment recognized for RWE Umwelt, the increase will be in the order of 10%.

In August, we anticipated that the non-operating result would surpass the level achieved in 2003 when adjusted to exclude goodwill amortization. We cannot uphold this forecast any longer, owing to the aforementioned burdens. We now expect that the adjusted figure for 2003 (€435 million) will not be reached. This is in part due to the fact that, in 2004, the adjustment of nuclear provisions will produce less income, which we expect will be in the order of magnitude of €0.7 billion as compared to €1.2 billion in 2003. Furthermore, we will increase the amortization of RWE npower's customer base. In addition, we expect to see a decline in capital gains, although we sold most of our shares in Heidelberg and HOCHTIEF. Fiscal 2003 was characterized by the sale of the first two CONSOL tranches. The elimination of one-off expenses incurred in 2003 for the reorganization of the Group and for restructuring will have a positive effect.

Our financial result will improve over 2003. Most importantly, the decline in the interest cost incurred in connection with long-term provisions will have a positive effect. This will be chiefly due to the deconsolidation of CONSOL and Heidelberg. The effective tax rate is expected to be around last year's level (38%). As a result of the improved contribution to the operating result made by Heidelberg, the minority interest will rise again, which will reduce net income.

We will scale back **capital expenditure** significantly in the current year. We expect to spend less than €4 billion. Capital expenditure on financial assets will clearly fall shy of the level achieved in 2003 (€5.4 million), which was characterized by the acquisition of American Water.

Risk management

Our operations are exposed to a number of risks that are inseparably associated with entrepreneurial activity.

Since we generate electricity from fossil fuels such as hard coal and gas, fuel supplies can constitute a substantial risk to our income. We constantly improve procurement processes and use derivative financial instruments to mitigate this risk.

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

Changes in the regulatory framework can create risks throughout the value chains of the energy and water sectors.

Risks associated with prices and sales volumes arise as a result of the liberalization of electricity and gas markets. We counter these risks by pursuing flexible price strategies and adopting a corresponding sales policy as well as forceful measures to manage costs. Principally Central Eastern European markets will face far-reaching structural change. The Czech Republic is currently determining the basic conditions for the deregulation of its gas market starting in 2005.

Risks arising from changes in regulatory framework conditions are closely linked to liberalization processes. We are dealing with these risks by engaging in intensive dialogue with the political decision-makers.

On July 7, 2004, the EU Commission approved the German allocation bill for nationwide CO_2 emissions trading, subject to a few amendments. The RWE Group is exposed to risks arising from forecasts of the future price of CO_2 certificates as well as from uncertainty surrounding the CO_2 emissions trading system after 2007.

The installment of an electricity and gas regulator will give rise to significant risks to returns in the German network business. We expect new statutory regulations to come into force in the first half of 2005.

The regulated UK water business will face risks in preparing for the next regulatory period (2005 to 2010). The UK water regulator will make a decision on the framework conditions on December 2, 2004.

The primary goal behind our energy trading operations is to mitigate earnings risks stemming from price fluctuations on energy markets by hedging future prices of energy sources. There is a limited amount of risk of loss when unexpected, extreme market price fluctuations occur and a certain amount of credit risk when trading partners fail to comply with their contractual obligations. We counteract such events with our systematic risk-management system.

Financial risks principally consist of interest-rate, currency-exchange and price-fluctuation risks. We hedge these risks using non-derivative and derivative financial transactions, among other things.

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

RWE Power

- Operating result on par year-on-year despite sale of CONSOL
- Higher electricity wholesale prices are a key success factor

RWE Power		Jan – Sep 2004	Jan – Sep 2003	+/- in %	Jan – Dec 2003
Electricity production	billion kWh	147.6	143.2	+ 3.1	196.1
_In-house generation[1]	billion kWh	145.4	140.5	+ 3.5	192.5
External revenue	€ million	2,146	3,542	- 39.4	4,077
EBITDA	€ million	1,828	2,015	- 9.3	2,631
Operating result	€ million	1,300	1,309	- 0.7	1,682
Capital expenditure	€ million	439	862	- 49.1	1,115
_Property, plant and equipment	€ million	433	826	- 47.6	1,065
_Financial assets	€ million	6	36	- 83.3	50

		09/30/04	12/31/03	+/- in %
Workforce	FTE[2]	18,221	19,280	- 5.5

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

Electricity prices on the German wholesale market remained high following their substantial increase in 2003. Base-load power continued its upward trend, albeit with moderate growth rates. Developments on the electricity market were largely marked by the sharp rise in prices for primary energy sources. Hard coal prices posted a particularly significant increase. Hard coal power stations are marginal sellers of medium-load power and therefore have a strong influence on electricity prices. The price increase also reflects the fact that power plant capacity has become more scarce. This is especially evident in the contracts for the coming years. In light of the recent steep rise in gas and hard coal prices, however, current electricity prices are not yet high enough to cover the generation costs of new suppliers. The introduction of CO_2 emissions trading on January 1, 2005 also has an impact on electricity prices.

In the first three quarters of 2004, 2005 forward contracts on the Leipzig Energy Exchange (EEX) were traded at an average of €33.32 for base-load power and €49.57 for peak-load power. This represents an increase of 25% and 20%, respectively, over comparable contracts in the same period last year. The rise in forward prices will be reflected in our electricity revenue after 2004. RWE Power sells the electricity it produces via RWE Trading on the basis of forward contracts for one or several years in advance. Therefore, our revenue is currently affected above all by developments on futures markets in prior years. But the significant increase in prices in 2003 only had a limited effect, because we had already sold virtually all of the electricity we expected to generate in 2004 by the middle of 2003. Until then, forward prices were far below the level achieved at the end of 2003.

Prices on the world oil market continued their steep rise in the third quarter of 2004. At the end of September, Brent crude traded at more than US$ 47 per barrel. In the first three quarters of 2004, Brent prices averaged US$ 36.29 per barrel. This is a 27 % increase over the corresponding period in 2003 and 59 % more than the ten-year average. The key factors responsible for the sharp rise were the strong growth in global demand, especially in China, coupled with low inventories in countries with the highest consumption rates and the fact that capacities in oil-producing countries have largely been utilized. Production stoppage caused by warlike conditions in Iraq as well as political tension in Venezuela and Nigeria contributed to the increase in crude oil prices. The strength of the euro over the US dollar reduced the price increase in the euro area countries somewhat. Denominated in euros, Brent prices advanced by just about 16 % on average.

Since oil and gas prices are connected to each other, **natural gas prices** realized by RWE Dea were high as well. However, they were not quite on par with the level achieved a year earlier. This was due to negative currency effects stemming from the weakness of the US dollar. Heating oil prices have risen substantially since the summer of this year and serve as a benchmark in many gas contracts. However, they will not be reflected in gas revenue until the fourth quarter or 2005, since price adjustments are typically made with a lag of several months.

RWE Power's **electricity production** totaled 147.6 billion kWh, 78 % of which was produced by in-house power plants. Of the electricity generated, 20.5 % came from power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. Power purchases accounted for 1.5 %. Electricity production was up 3 % compared with 2003. Output rose especially in nuclear power stations. In the same period in 2003, our nuclear power production was hampered by the prolonged unscheduled downtime at Block A of the Biblis nuclear power plant. The increase in electricity generation was partially made possible by the improved availability of the 1,000 MW lignite block in Niederaussem. Production shortfalls resulting from a damaged generator in Block C of the Gundremmingen nuclear power plant had a counteractive effect.

RWE Dea decreased its **gas production** by 13 % to 1,613 million m^3. However, the prior-year figure was extraordinarily high. In 2003, we placed larger quantities of German-produced gas on the spot market in addition to the sales we made on the basis of long-term contracts. At 4,352,000 m^3, **oil production** was roughly on par year-on-year.

RWE Power generated € 2,146 million in **external revenue**. The level achieved in the first three quarters of 2003 was markedly higher since it included revenue from CONSOL Energy, the US hard coal and gas producer, which was deconsolidated effective September 30, 2003 (€ 1,455 million). Excluding this exceptional effect, RWE Power grew external revenue by 3 %. External revenue was hardly affected by the rise in electricity wholesale prices because RWE Power sells most of its output to buyers within the RWE Group. Price trends are reflected in the total revenue of the Power Generation Business Unit, which improved by 9 %.

RWE Power Business Units January – September	Total revenue		External revenue		EBITDA		Operating result	
€ million	2004	2003	2004	2003	2004	2003	2004	2003
Power Generation[1]	5,104	4,691	1,051	982	1,327	1,111	977	754
RWE Dea	893	918	923	930	426	481	281	321
Harpen	180	185	172	175	75	77	42	47
CONSOL Energy[2]	0	1,457	0	1,455	0	346	0	187
RWE Power	**6,177**	**7,251**	**2,146**	**3,542**	**1,828**	**2,015**	**1,300**	**1,309**

[1] Includes the activities of the former RWE Power and RWE Rheinbraun.
[2] Deconsolidated as of September 30, 2003.

EBITDA generated by RWE Power amounted to €1,828 million and was 9% down year-on-year. This was mainly due to the elimination of earnings contributed by CONSOL. Despite this non-recurrent effect, the **operating result** amounted to €1,300 million, matching the year-earlier level. It grew more than EBITDA largely because depreciation was lower. Here, the sale of the asset-intensive CONSOL business came into play. Net of consolidation effects, RWE Power's operating result jumped 16%. This was based on the success of our German power generation business.

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

- **Power Generation:** The business unit boosted its operating result by 30%. Price-induced margin improvements, coupled with a slight increase in electricity production, provided the basis for this increase. The additional savings realized through our cost-cutting program also made a contribution. Higher fuel costs had a counteractive effect (-€185 million), with hard coal having an especially large impact. However, some of these effects will be delayed and thus will not be reflected until 2005. Income from the provision of balancing power was also down.

- **RWE Dea:** Our upstream company posted an operating result that was 12% lower than the very high level achieved in the first nine months of 2003. This was principally due to the weak US dollar's negative currency effect. Currency effects were partially offset by capital gains from hedges, which were considerably higher in 2003. Therefore, this led to a negative effect on the result when compared to the same period last year. In addition, RWE Dea was unable to fully benefit from the development of crude oil prices since it concluded oil price hedges early on.

- **Harpen:** This subsidiary, which focuses on renewables-based and decentralized power generation, saw its operating result decrease by 11%. The figure achieved in the same period last year benefited from exceptional income from divestments in the real estate sector. The energy business improved its earnings situation.

RWE Energy

- Operating result 25 % up year-on-year
- Growth primarily due to one-off effects and successful foreign business

RWE Energy		Jan – Sep 2004	Jan – Sep 2003	+/- in %	Jan – Dec 2003
Electricity sales volume	billion kWh	113.4	121.9	- 7.0	167.1
Gas sales volume	billion kWh	205.7	198.7	+ 3.5	286.4
External revenue	€ million	15,571	15,353	+ 1.4	21,842
_Electricity[1]	€ million	9,071	8,835	+ 2.7	12,243
_Gas[2]	€ million	4,235	4,413	- 4.0	6,365
EBITDA	€ million	2,207	1,882	+ 17.3	2,750
Operating result	€ million	1,739	1,388	+ 25.3	2,046
Capital expenditure	€ million	555	1,018	- 45.5	1,652
_Property, plant and equipment	€ million	508	574	- 11.5	1,000
_Financial assets	€ million	47	444	- 89.4	652

		09/30/04	12/31/03	+/- in %
Workforce	FTE[3]	41,574	42,655	- 2.5

[1] Including € 692 million in direct electricity taxes; Q1 – 3 last year: € 699 million; fiscal 2003: € 943 million. Also includes grid fees.
[2] Including € 70 million in direct gas taxes; Q1 – 3 last year: € 55 million; fiscal 2003: € 74 million.
[3] Full time equivalent (1 FTE = 1 full-time position).

Power consumption in Germany in the first three quarters of 2004 was some 0.5 % higher than in the first nine months of 2003. The rise was a result of the slight economic revitalization and the calendar effect of the leap year. Lower consumption of electricity for heating in the winter due to the relatively mild weather had a counteracting effect. Moreover, power used for air conditioning dropped due to the cool weather this summer. Our Central Eastern European electricity markets experienced a similar situation. They also saw the positive impact of economic growth dampened by weather-related effects. Power consumption in Poland and Slovakia rose by approximately 3.5 % and just under 2 %, respectively, since economic growth in these countries was considerably stronger than in Germany. In Hungary, demand for electricity was up 1%.

Demand for natural gas in Germany was up a good 1%. Declines in consumption resulting from the mild winter weather were offset by the relatively cold weather in the months thereafter. In addition, the economic revitalization led to a slight increase in gas used by industry. Demand in the Czech Republic, RWE Energy’s largest gas market outside of Germany, climbed by about 0.5 %. This was caused by robust economic growth and the lower average temperature.

German home and small commercial customers saw **electricity prices** rise by an average of 3.5 %. This was due to the steep increase in electricity wholesale prices, which caused power purchases by utilities to become more expensive. Furthermore, the German Renewable Energy Act led to additional costs. Deliveries to industrial enterprises and distributors were approximately 5 % and 8 % more expensive, respectively. The considerable growth in prices for these customer groups is due to the fact that wholesale prices represent a larger proportion of the end price to these customers.

Cross-border prices for natural gas in Central Europe in euros were roughly 10 % below the level recorded in the first three quarters of 2003. They normally track heating oil prices with a six-month time lag. In Germany, this principally had an impact on deliveries to industrial customers, which dropped about 5 % in price. Conversely, household customers were not yet able to benefit from the decrease in prices, since price changes in this sector are usually passed on with a longer delay. An independent regulator is in charge of determining gas prices on a quarterly basis in the Czech Republic. The regulatory authority largely looks to prices quoted on the world's oil markets and major exchange rates when setting prices. Gas was slightly more expensive on average compared with the first nine months of 2003.

In the period under review, RWE Energy's **electricity sales** to outside customers totaled 113.4 billion kWh. This was 7 % less than last year. Because of our value-oriented price strategy, we renounce low-margin power supply agreements. As a result, we lost customers especially in the Northern and Central sales regions, which make up the former RWE Plus' legacy territory in Germany, as well as in the south. Higher sales in the other German regions were unable to offset this. RWE Energy also failed to match the level for last year's corresponding period in Hungary and Poland, RWE Energy's two most important foreign electricity markets. But, although some supply agreements expired, RWE Solutions sold more electricity, largely as a result of the takeover of the bulk of RWE Trading's electricity key account business. RWE Energy's **gas sales volume** climbed by 4 % to 205.7 billion kWh, because gas sales in the Czech Republic grew primarily due to weather-related and cyclical effects. Furthermore, we acquired customers in the Dutch deregulated gas market.

External revenue improved 1% to € 15.6 billion. This was made possible by the transfer of RWE Trading's industrial customers to RWE Solutions as well as of large parts of RWE Thames Water's Continental European water business to regional companies belonging to RWE Energy. Moreover, electricity sales climbed due to organic growth. RWE Energy passed on the increased cost of electricity on the wholesale market to corporate and industrial customers and energy utilities. Furthermore, we raised general tariffs for private and commercial customers effective January 1, 2004. We are thus passing on the increase in statutory fees from last year, in addition to the general rise in cost. Revenue generated by RWE Energy's German gas business in the industrial and distributor segments decreased.

RWE Energy's **EBITDA** was up 17 % to € 2,207 million, and the **operating result** advanced 25 % to € 1,739 million. One driver of this increase was the absence in 2004 of extraordinary charges which affected last year's corresponding period. Margins were improved principally by cutting costs. Income from investments also rose, largely because goodwill amortization for companies accounted for using the equity method was discontinued.

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

- **German Regions:** Our German regional companies increased their operating result to €1,120 million, benefiting significantly from the absence of extraordinary charges incurred in the first three quarters of last year. In 2003, we built extensive provisions to settle outstanding balancing group accounts with external grid operators. Moreover, we incurred above-average expenses for balancing power in the first nine months of 2003. However, increase in earnings is also a result of improved margins stemming from our value-oriented sales policy and ongoing cost-cutting.
- **International Regions:** Our Continental European sales activities outside Germany also closed the reporting period up year-on-year, posting an operating result of €242 million. Here, we benefited above all from increased margins in the electricity business in Hungary, as well as in our Dutch gas operations. Our Polish subsidiary STOEN took advantage of lower electricity purchasing costs. The absence of impairments for small investments, which had a negative effect on the result in the first three quarters of 2003, was also beneficial.

RWE Energy Business Units January – September 2004* € million	**External revenue**	**EBITDA**	**Operating result**
German Regions	9,392	1,362	1,120
_Northern	2,339	283	240
_Central	3,428	456	429
_Eastern	1,960	336	219
_Western	280	44	48
_Southwestern	905	165	131
_Southern	480	78	53
International Regions	2,344	321	242
RWE Solutions	2,168	71	33
Electricity and Gas Transmission	1,481	591	470
Other/consolidation	186	- 138	- 126
RWE Energy	**15,571**	**2,207**	**1,739**

* Prior-year figures are not available since these are new business units, with the exception of RWE Solutions.

- **RWE Solutions** improved its operating result by €9 million to €33 million. This growth was mainly driven by measures to cut costs and optimize the company's organizational structure. The biggest contribution to RWE Solutions' operating result came from the industrial customer segment, which, however, benefited from extraordinary income. RWE Solutions faced a rise in the cost of primary energy sources and production material such as steel and copper, which the company was unable to fully pass on to its customers. It is unlikely that RWE Solutions will be able to match the high operating result achieved for the full year in 2003.
- **Electricity and Gas Transmission:** This business unit oversees our entire German extra high-voltage power grid business, along with Czech-based Transgas' gas transmission and sales operations and (as of January 1, 2004) the German gas transmission network. The Electricity and Gas Transmission Business Unit generated an operating result of €470 million, a large portion of which came from intra-Group business with RWE Energy's regional companies.

RWE npower

- Operating result down 21% following outstanding trading result in last year's period
- Margin growth in the end customer business due to higher prices and lower costs

RWE npower		Jan – Sep 2004	Jan – Sep 2003	+/- in %	Jan – Dec 2003
Electricity production	billion kWh	22.4	27.3	- 17.9	37.7
Electricity sales volume	billion kWh	43.3	43.6	- 0.7	59.3
Gas sales volume	billion kWh	33.2	33.3	- 0.3	48.6
External revenue	€ million	4,021	3,903	+ 3.0	5,552
_Electricity	€ million	2,999	2,932	+ 2.3	4,068
_Gas	€ million	730	687	+ 6.3	1,040
EBITDA	€ million	489	632	- 22.6	850
Operating result	€ million	412	524	- 21.4	714
Capital expenditure	€ million	110	204	- 46.1	215
_Property, plant and equipment	€ million	110	204	- 46.1	215
_Financial assets	€ million	0	0	–	–

		09/30/04	12/31/03	+/- in %
Workforce	FTE*	9,421	9,357	+ 0.7

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

UK electricity consumption was up about 3%. This was a result of the UK's robust economic growth. Summer temperatures were relatively low, somewhat damping consumption due to the reduction in energy used to run air conditioners. **Demand for natural gas** rose by 4%. Gas consumption increased, especially in the UK electricity generation sector.

Prices on the UK energy market advanced considerably. Forward contracts for base-load electricity deliveries in 2005 on the wholesale market traded at an average of £ 26.89 per MWh (€ 39.97/MWh). This is 47% higher than the equivalent forward contract in 2003. One-year forwards for peak-load electricity rose by 34% in price to £ 32.20 (€47.86/MWh). The strength of the UK electricity market is largely due to the recent steep increase in fuel prices, with gas leading the way. Prices also reflect expected burdens from the upcoming introduction of CO_2 emissions trading. Furthermore, market participants anticipate that generation capacity will become more scarce. Average prices quoted on the UK spot market for natural gas were 30% higher year-on-year. The rise in demand clearly contributed to this increase. Moreover, UK gas prices are increasingly affected by the fact that, as customary throughout the world, they track oil prices since the UK is becoming more and more dependent on imports.

The rise in wholesale electricity prices drove the development of **end consumer prices**. All major suppliers increased their prices in the first nine months of the year. Prices paid by household and commercial customers were about 5 % up for electricity and some 6 % up for gas year-on-year. Price adjustments for corporate customers were even more significant. End consumer tariffs are still rising. At the end of the third quarter, the major suppliers announced further price increases for household customers.

In the first three quarters of 2004, RWE npower's **electricity production** amounted to 22.4 billion kWh. This was 18 % less than last year. Main drivers were downtime caused by planned outages as well as the unscheduled stoppage of the Didcot B power station. Furthermore, on occasion we chose not to run coal-fired plants when hard coal prices were extremely high. The **electricity sales volume** totaled 43.3 billion kWh, roughly on par with last year's level. At 33.2 billion kWh, the **gas sales volume** was essentially unchanged. RWE npower currently accounts for 15 % and 9 % of the electricity and gas delivered to household and commercial customers in the UK. In the business customer segment, RWE npower accounts for a share of 21% and 4 % of electricity and gas supplies.

RWE npower grew **external revenue** by 3 % to €4,021 million, despite its trading activities having been transferred to RWE Trading. This was due to the increase in wholesale electricity and gas prices, which we passed on to our end customers. In addition, the strength of Sterling had a positive impact.

EBITDA was down 23 % to €489 million, and the **operating result** declined by 21% to €412 million. The first nine months of 2003 benefited from extraordinarily high income from the trading business. Excluding the trading business, RWE npower improved its operating result. This was principally due to the improvement in margins in the retail sales business, cost savings, and synergies with RWE Thames Water. Offsetting effects stemmed from the reduction in production and the increase in fuel costs.

RWE Trading

- Operating result up year-on-year
- Clear decline in operating result at the trading business taken over from RWE npower

RWE Trading		**Jan – Sep 2004**	**Jan – Sep 2003**	**+/- in %**	**Jan – Dec 2003**
Electricity sales volume[1]	billion kWh	57.7	40.2	+ 43.5	56.5
Total revenue	€ million	6,324	4,060	+ 55.8	5,751
External revenue	€ million	2,427	1,700	+ 42.8	2,444
EBITDA	€ million	52	22	+ 136.4	59
Operating result	€ million	51	20	+ 155.0	59
Capital expenditure	€ million	4	4	–	4
_Property, plant and equipment	€ million	4	3	+ 33.3	3
_Financial assets	€ million	–	1	–	1

		09/30/04	**12/31/03**	**+/-** in %
Workforce	FTE[2]	642	397	+ 61.7

[1] Net, i.e. excluding the trading of electricity procured from third parties.
[2] Full time equivalent (1 FTE = 1 full-time position).

In the third quarter, **liquidity** on the German market remained at the high level achieved in the first half of 2004. Recently, the volume of forward contracts traded on the Leipzig Energy Exchange (EEX) decreased significantly. However, it was offset by growth in electricity traded over the counter (OTC). UK electricity trading was hampered considerably by the deterioration of certain trading partners' creditworthiness. Liquidity in the Continental European business on the gas trading market continued to improve, most recently as a result of the arrival of newcomers on the market. There was a counteracting trend in the UK, predominantly because prices were high.

In the first three quarters of 2004, electricity sales to outside customers by RWE Trading totaled 57.7 billion kWh. This figure does not include sales from the trading of electricity procured from third parties. **Electricity sales** rose by 44% over last year's level. This was mainly because we increased sales of electricity produced in-house on the wholesale market. There was a steep decline in sales to industrial customers. With the exception of aluminum producers, industrial customers were transferred to RWE Solutions. As a result, volume was reduced from 10.2 billion kWh to 5.2 billion kWh.

RWE Trading increased **external revenue** by 42.8 % to € 2,427 million. This rise was principally due to higher prices for both electricity and gas and the fact RWE Trading sold more in-house-generated electricity on the wholesale market. The inclusion of RWE npower's former trading activities also contributed to the rise in revenue. A counteracting effect was felt from the transfer of key accounts to RWE Solutions.

RWE Trading's **EBITDA** climbed from € 22 million to € 52 million, with the **operating result** advancing from € 20 million to € 51 million. However, the trading business that was taken over from RWE npower closed the reporting period considerably below the extraordinarily high level achieved in last year's period.

The operating result generated by RWE Trading is affected by extremely strong fluctuations during the year. They occur because items entered into the trading books are subject to fair value accounting according to IAS 39 as of the balance sheet date. Conversely, profits from the asset-based business are stated with an effect on income only once they are realized.

Furthermore, RWE Trading is an integral part of the energy supply chain as it plays an important role as "asset optimizer." Its task consists in contributing to enhancing the value of the electricity business as a whole. By consequence, isolated trading strategies take back stage.

RWE Thames Water

- Operating result up 2 %, and up 5 % solely based on organic growth
- American Water posts significant growth due to tariff increases

RWE Thames Water		Jan – Sep 2004	Jan – Sep 2003	+/- in %	Jan – Dec 2003
External revenue	€ million	3,016	3,165	- 4.7	4,249
EBITDA	€ million	1,434	1,468	- 2.3	2,018
Operating result	€ million	991	967	+ 2.5	1,374
Capital expenditure	€ million	1,059	5,606	- 81.1	6,129
_Property, plant and equipment	€ million	1,026	1,022	+ 0.4	1,549
_Financial assets	€ million	33	4,584	- 99.3	4,580

		09/30/04	12/31/03	+/- in %
Workforce	FTE*	16,283	17,521	- 7.1

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

The **regulated water and wastewater services business** is generally very stable. It is hardly affected by cyclical factors in RWE's mature core markets, i.e., Europe and the US. Earnings in the US business occasionally experience fluctuation due to the weather. Heavy rainfall recently caused demand for water in several states to decrease. The main driver of growth is the need for investment in infrastructure by regulated water companies, which is financed through tariffs. In the UK, the definitive conditions governing the next regulatory period from April 2005 to March 2010 are currently being negotiated. The Office of Water Services (OFWAT) will announce its decision in early December. Opportunities on Continental European water markets arise from the privatization of state-owned water supply companies, but progress in this area is still slow. Today, private suppliers are largely involved in the operation and maintenance of water and wastewater infrastructure.

RWE Thames Water generated € 3,016 million in **external revenue** in the first nine months of 2004. This was 5 % less than last year and includes negative currency effects to the tune of -€ 88 million. Furthermore, RWE Thames Water transferred to RWE Energy parts of its Continental European activities and sold or discontinued operations in the non-regulated business, thus shedding € 154 million in revenue. Net of these effects, external revenue was 3 % up year-on-year. This was aided by the fact that American Water negotiated tariff increases with regulatory authorities in a number of US states. In addition, the UK business increased tariffs to account for inflation.

RWE Thames Water's **EBITDA** amounted to € 1,434 million—2 % down on last year's level. By contrast, the operating result improved 2 % to € 991 million. The significant increase in income from investments, which was partly due to the increase in water tariffs in Berlin, was one of the main reasons why the operating result grew more than EBITDA. The operating result was affected negatively by currency exchange differences, deconsolidations and reclassifications. Without these exceptional effects, RWE Thames Water improved its operating result by 5 %. This is primarily due to American Water. Denominated in dollars, the US water utility's operating result grew by 12 %, predominantly owing to the aforementioned tariff increases. Our business in Chile was adversely affected by the unfavorable development of indexed water tariffs.

RWE Thames Water Business Units January – September	**External revenue**		**EBITDA**		**Operating result**	
€ million	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Europe/other markets	1,644	1,728	869	897	620	596
_Regulated UK business	1,271	1,203	709	698	427	424
Americas (USA/Chile)	1,372	1,437	565	571	371	371
RWE Thames Water	**3,016**	**3,165**	**1,434**	**1,468**	**991**	**967**

RWE Umwelt

- Operating result 8 % down year-on-year despite cost reductions
- Lost orders in DSD business depress earnings

RWE Umwelt		Jan – Sep 2004	Jan – Sep 2003	+/- in %	Jan – Dec 2003
External revenue	€ million	1,343	1,466	- 8.4	1,944
EBITDA	€ million	146	163	- 10.4	230
Operating result	€ million	58	63	- 7.9	76
Capital expenditure	€ million	115	123	- 6.5	152
_Property, plant and equipment	€ million	67	65	+ 3.1	94
_Financial assets	€ million	48	58	- 17.2	58

		09/30/04	12/31/03	+/- in %
Workforce	FTE*	10,586	12,578	- 15.8

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

The **situation in the German waste disposal sector** is characterized by strong pressure on margins and low volume due to cyclical effects. Prices have recently come under increased pressure in the commercial waste sector. Competition has also become extremely fierce in business with the DSD (Duales System Deutschland). Contractors in the sector had to make substantial price concessions when the DSD contracts for 2004 and 2005 were put back up for tender.

In the first three quarters of 2004, RWE Umwelt generated € 1,343 million in **external revenue**. This was 8 % less than last year, and was largely due to RWE Umwelt's divestment program, which entailed the sale of non-core activities and has been completed. Net of consolidation effects, external revenue slipped 1%. RWE Umwelt suffered losses primarily due to the deterioration of conditions in municipal contracts as well as lower prices and volumes in the DSD business. However, this was contrasted by considerable increases in revenue from business with secondary raw materials.

The unfavorable market trend caused RWE Umwelt's earnings situation to worsen even further. **EBITDA** declined by 10 % to € 146 million, with the **operating result** falling by 8 % to € 58 million. Operating improvements from the ongoing cost-cutting program kept the operating result from decreasing even further.

Supervisory Board

Dr. h.c. Friedel Neuber
Chairman
– deceased on October 23, 2004 –

Frank Bsirske
Deputy Chairman

Dr. Paul Achleitner

Carl-Ludwig von Boehm-Bezing

Wilfried Donisch
– as of August 16, 2004 –

Burkhard Drescher

Ralf Hiltenkamp

Heinz-Eberhard Holl

Berthold Huber

Dr. Dietmar Kuhnt

Dr. Gerhard Langemeyer

Dr. Wolfgang Reiniger

Günter Reppien

Bernhard von Rothkirch

Dr. Manfred Schneider

Klaus-Dieter Südhofer

Uwe Tigges

Prof. Karel Van Miert

Jürgen Wefers

Erwin Winkel

Executive Board

Harry Roels
CEO

Berthold Bonekamp
– as of April 1, 2004 –

Dr. Gert Maichel

Dr. Klaus Sturany

Jan Zilius

Consolidated Income Statement of the RWE Group

€ million	Jul – Sep 2004	Jul – Sep 2003	Jan – Sep 2004	Jan – Sep 2003
Revenue	**8,836**	**9,501**	**29,949**	**31,935**
Natural gas tax/electricity tax	- 218	- 242	- 781	- 819
Revenue (without natural gas tax/electricity tax)	**8,618**	**9,259**	**29,168**	**31,116**
Changes in finished goods and work in progress/other own work capitalized	120	161	300	298
Cost of materials	- 4,755	- 4,705	- 15,926	- 16,414
Staff costs	- 1,360	- 1,850	- 4,613	- 5,703
Depreciation, amortization and impairment losses	- 1,038	- 1,161	- 2,593	- 3,300
Other operating result	- 676	- 850	- 2,242	- 2,241
Income from operating activities	**909**	**854**	**4,094**	**3,756**
Income from investments	170	85	666	194
Financial result	- 649	- 621	- 1,930	- 2,092
Income before tax	**430**	**318**	**2,830**	**1,858**
Taxes on income	- 126	- 130	- 992	- 946
Income after tax	**304**	**188**	**1,838**	**912**
Minority interest	- 50	- 77	- 227	- 180
Net income	**254**	**111**	**1,611**	**732**
Earnings per share: Undiluted/diluted per common and preferred share €	**0.45**	**0.20**	**2.86**	**1.30**

Consolidated Balance Sheet of the RWE Group

Assets € million	At 09/30/04	At 12/31/03
Non-current assets		
Intangible assets	18,661	19,418
Property, plant and equipment	35,891	36,210
Financial assets	5,966	6,778
	60,518	**62,406**
Current assets		
Inventories	2,533	3,285
Accounts receivable and other assets	18,591	16,947
Marketable securities	9,930	9,615
Cash and cash equivalents	2,019	2,181
	33,073	**32,028**
Deferred taxes	**3,599**	**4,325**
Prepaid expenses	**372**	**383**
	97,562	**99,142**

Equity and Liabilities € million	At 09/30/04	At 12/31/03
Equity/minority interest		
Group interest	8,429	7,013
Minority interest	1,516	2,052
	9,945	**9,065**
Provisions	**34,868**	**37,671**
Liabilities	**43,882**	**44,061**
Deferred taxes	**4,474**	**4,526**
Deferred income	**4,393**	**3,819**
	97,562	**99,142**

Consolidated Cash Flow Statement of the RWE Group

€ million	Jan – Sep 2004	Jan – Sep 2003
Income after tax	1,838	**912**
Depreciation, amortization, impairment losses, write-backs	2,594	3,302
Changes in long-term provisions	- 93	- 222
Deferred taxes / non-cash expenses and income / proceeds from disposal of assets and marketable securities	- 157	258
Changes in working capital / other balance sheet items	- 410	- 274
Cash flows from operating activities	**3,772**	**3,976**
Capital expenditure on non-current assets	- 2,421	- 8,132
Proceeds from disposal of non-current assets	2,676	2,890
Changes in marketable securities and cash investments	- 583	- 417
Cash flows from investing activities	**- 328**	**- 5,659**
Cash flows from financing activities	**- 3,613**	**2,527**
Net change in cash and cash equivalents	- 169	844
Effect of changes in currency exchange rates and other changes in value on cash and cash equivalents	7	- 17
Net change in cash and cash equivalents	**- 162**	**827**
Cash and cash equivalents at beginning of reporting period	2,181	2,143
Cash and cash equivalents at end of reporting period	**2,019**	**2,970**
Financial assets at beginning of reporting period	13,952	14,387
Financial assets at end of reporting period	**14,778**	**14,375**
Gross debt at beginning of reporting period	31,790	29,881
Gross debt at end of reporting period	**29,300**	**33,212**
Net debt at beginning of reporting period	17,838	15,494
Net debt at end of reporting period	**14,522**	**18,837**

Changes in Equity and Minority Interest of the RWE Group

€ million	Group interest	Minority interest	Total
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
At 09/30/03	**6,740**	**2,351**	**9,091**
At 12/31/03	**7,013**	**2,052**	**9,065**
Dividends paid	- 703	- 216	- 919
Other comprehensive income/other	508	- 547	- 39
Income after tax	1,611	227	1,838
At 09/30/04	**8,429**	**1,516**	**9,945**

Notes

Accounting policies

The interim report for the period ended September 30, 2004 was prepared in accordance with the International Financial Reporting Standards (IFRS) effective as of the balance sheet date.* Furthermore, RWE is voluntarily applying IFRS 3, "Business Combinations," IAS 36 "Impairment of Assets" (2004), IAS 38 "Intangible Assets" (2004), as well as IFRIC 1.

With the exception of the new rules for accounting for business combinations, for intangible assets, as well as for changes in existing decommissioning, restoration and similar liabilities and the impairment of assets, this interim report was prepared using the accounting policies applied in the consolidated financial statements for fiscal 2003. For further information, please see the consolidated financial statements for the period ended December 31, 2003, which provide the basis for this interim report.

According to IFRS 3, which we have applied together with IAS 36 (2004) and IAS 38 (2004) since January 1, 2004, all business combinations must be reported according to the acquisition method. The purchase price must be allocated to all identifiable assets, liabilities and contingent liabilities. Regardless of the amount of the minority interest, balance sheet items shall be measured at full fair value. Intangible assets shall be reported separately from goodwill if they are separable from the entity or if they arise from a contractual or other legal right. No new restructuring provisions may be recognized within the scope of the purchase price allocation.

According to IFRS 3, capitalized goodwill is no longer amortized as of January 1, 2004. Instead, pursuant to IAS 36 (2004), the carrying amount of goodwill is subjected to an impairment test once a year, or when there are indications of an impairment. If this results in the carrying amount of a cash-generating unit, to which goodwill was allocated, exceeding the recoverable amount, the allocated goodwill is written down by the difference. According to IAS 36 (2004) intangible assets with an indefinite useful life are no longer amortized either, but instead subjected to an annual impairment test.

As of January 1, 2004, negative goodwill was offset against retained earnings without an effect on profits.

The new rules described above also apply accordingly to investments accounted for using the equity method.

According to IFRIC 1, changes in the estimated timing or amount of the payments or changes in the discount rate are taken into account at the same amount in measuring the existing decommissioning, restoration and similar liability as well as the respective asset. If the decrease in the liability exceeds the carrying amount of the underlying asset, the excess is recognized immediately in the profit or loss. For reasons of materiality, when IFRIC 1 was applied for the first time, amounts stated for the previous year did not have to be adjusted.

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

* 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).

Scope of consolidation

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

The scope of consolidation breaks down as follows:

	At 09/30/04	At 12/31/03
Fully consolidated companies	590	697
Investments accounted for using the equity method	224	235

In this interim report for the period ended September 30, 2004, HOCHTIEF was no longer accounted for under the equity method since the stake held in this company was reduced to 9.6% in February 2004. Instead, it was stated as part of "marketable securities." Eighty fully consolidated companies and two companies accounted for using the equity method belonging to the Heidelberger Druckmaschinen Group were deconsolidated in May 2004. In addition, CONSOL Group operations were still fully consolidated until the end of September 2003. In February 2004, we divested the remaining 18.5% stake held in CONSOL Energy after shares in this company had been sold in 2003.

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 this combined transaction totaled about €1.3 billion. The following table shows the main impact of discontinuing the non-core operations of Heidelberger Druckmaschinen on the interim report for the period ended September 30, 2004, compared with December 31, 2003.

€ million		At 09/30/04	At 12/31/03
Assets		–	4,906
Liabilities, provisions, etc.		–	3,536
€ million		**Jan – Sep 2004**	**Jan – Sep 2003**
Revenue		1,359	2,715
Income before tax		25	- 168
Taxes on income		- 44	- 25
Income after tax		- 19	- 193
Net income		- 11	- 112
Undiluted/diluted earnings per common and preferred share	€	- 0.02	- 0.20
Cash flows from operating activities		313	261
Cash flows from investing activities		- 163	- 85
Cash flows from financing activities		- 233	- 180

Taking the first step to divesting RWE Umwelt, RWE sold approximately 70% of the business to its competitor Rethmann per a contract signed on September 28, 2004. The transaction is subject to approval from the German Federal Cartel Office. The remaining 30%, which will remain under RWE ownership for the meantime, are scheduled to be sold as well. Based on the agreed selling price, an impairment loss was recognized for the carrying amount of RWE Umwelt's goodwill of €292 million. The following table shows the material impact that the full divestment of the Environmental Division had on the interim financial statements for the period ended September 30, 2004 and on the last year's period.

€ million	At 09/30/04	At 12/31/03
Assets	1,968	2,701
Liabilities, provisions, etc.	2,020	2,436

€ million		Jan – Sep 2004	Jan – Sep 2003
Revenue		1,343	1,466
Income before tax		- 253	- 12
Taxes on income		- 13	- 21
Income after tax		- 266	- 33
Net income		- 266	- 35
Undiluted / diluted earnings per common and preferred share	€	- 0.47	- 0.06
Cash flows from operating activities		15	96
Cash flows from investing activities		17	- 50
Cash flows from financing activities		- 99	- 18

Revenue

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

Research and development costs

In the first three quarters of 2004, research and development costs totaled € 98 million (first three quarters of 2003: € 303 million). The decline is nearly exclusively due to the deconsolidation of Heidelberger Druckmaschinen.

Own shares

In the first three quarters of 2004, RWE Group companies bought 21,088 common shares on the capital market at an average cost of € 37.29 per individual share certificate. They account for € 53,985.28 of the Corporation's share capital (0.04 ‰ of subscribed capital). Employees of RWE AG and its subsidiaries received a total of 527 common shares at an average price of € 36.14 per individual share certificate within the scope of capital formation and 20,561 common shares at an average price of € 16.85 on the occasion of service anniversaries. Aggregate proceeds amounted to € 359,329.73. Differences to the purchase price were recorded with an effect on income.

Stock option plans

Contingent capital in the amount of € 51,200,000 is available to offer 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 within the scope of the executive stock option plan 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 under the executive stock option plan so far:

Stock options	Originally issued	At 12/31/03	Exercised in 2004	Expired in 2004	At 09/30/04
1999 tranche	1,935,800	1,244,100	0	- 1,244,100	0
2000 tranche	4,336,500	2,740,900	- 2,425,400	- 81,500	234,000
2001 tranche	5,222,300	4,143,000	0	- 430,300	3,712,700
2001A tranche	5,262,300	4,530,900	0	- 436,300	4,094,600
Total	**16,756,900**	**12,658,900**	**- 2,425,400**	**- 2,192,200**	**8,041,300**

Furthermore, our virtual stock option plans are offered to employees, Executive Board members and other executives of RWE AG and its affiliates in Germany and abroad, on which we reported separately in the financial statements for the period ended December 31, 2003. An additional tranche was issued in the second quarter of 2004.

Dividend distribution

On April 15, 2004, RWE AG's Annual General Meeting decided to pay a proposed dividend of €1.25 per common and preferred share for fiscal 2003.

Earnings per share

		Jan – Sep 2004	Jan – Sep 2003
Net income	€ million	1,611	732
Number of shares outstanding (weighted average)	thousands	562,405	562,349
Earnings per share: Undiluted/diluted	€	**2.86**	**1.30**

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

Contingent liabilities

Contingent liabilities principally relate to liabilities ensuing from guarantees and warranty agreements. They decreased by € 864 million to € 1,411 million since December 31, 2003. This decline is essentially attributable to liabilities arising from warranty agreements.

Reconciliation to the operating result

Reconciliation of income from operating activities to the operating result € million	**Jan – Sep 2004**	**Jan – Sep 2003**
Income from operating activities	4,094	3,756
+ Income from investments	666	194
- Non-operating result	- 296	15
Operating result	**4,464**	**3,965**

The reconciliation addresses the following points:

- Income from investments includes all expenses and income that have arisen in connection with operating investments. Income from investments thus constitutes an integral part of the Group's operating activity. In the first three quarters of 2004, the operating result rose by € 75 million due to the discontinuation of goodwill amortization of companies accounted for under the equity method.

- Income and expenses that are unusual from an economic perspective, or are the result of exceptional events, prejudice the assessment of operating activities. They are reclassified as part of the non-operating result. The amortization of goodwill has been abolished as part of the new rules for accounting for business combinations. Accordingly, the non-operating result no longer needs to be adjusted by goodwill amortization. Discontinuing goodwill amortization caused the non-operating result to increase by € 727 million. Goodwill impairment losses caused by the divestment of the environmental business resulted in the non-operating result for the period under review declining by € 292 million.

Reconciliation from EBITDA to the operating result € million	**Jan – Sep 2004**	**Jan – Sep 2003**
EBITDA	6,213	6,191
- Operating depreciation and amortization	- 2,017	- 2,323
EBIT	4,196	3,868
+ Operating income from investments	268	97
Operating result	**4,464**	**3,965**

Financial calendar 2005*

02/24/2005	Annual report for fiscal 2004 _Press conference _Analyst conference
04/14/2005	Annual General Meeting
04/15/2005	Ex-dividend date
05/12/2005	Interim report for the first quarter of 2005 and analyst conference call
08/11/2005	Interim report for the first half of 2005 _Press conference _Analyst conference
11/16/2005	Interim report for the first three quarters of 2005 and analyst conference call

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

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

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