RWE

January through June

Report on the first half of fiscal 2004

- Group operating result up 12 % year-on-year
- Net income excluding goodwill amortization improved by 23 %
- Net debt reduced to less than € 16 billion

At a glance

RWE Group		Jan – Jun 2004	Jan – Jun 2003		+/- in %	Jan – Dec 2003
External revenue	€ million	21,113	22,434	-	5.9	43,875
EBITDA	€ million	4,465	4,376	+	2.0	8,476
Operating result	€ million	3,281	2,935	+	11.8	5,551
Income before tax[1]	€ million	2,400	1,540[2]	+	55.8	2,123[2]
Net income[1]	€ million	1,357	621[2]	+	118.5	953[2]
_Excl. goodwill amortization	€ million	1,357	1,105	+	22.8	1,938
Earnings per share[1]	€	2.41	1.10[2]	+	119.1	1.69[2]
_Excl. goodwill amortization	€	2.41	1.96	+	23.0	3.45
Cash flows from operating activities	€ million	2,257	2,712	-	16.8	5,289
Capital expenditure	€ million	1,630	6,822	-	76.1	9,762
Free cash flow[3]	€ million	809	897	-	9.8	927

		06/30/04	12/31/03	+/- in %	
Net debt	€ million	15,698	17,838	-	12.0
Workforce	FTE[4]	101,660	127,028	-	20.0

[1] The figure for 2004 no longer includes goodwill amortization due to the adoption of International Financial Reporting Standards (IFRS).
[2] Including goodwill amortization.
[3] Cash flows from operating activities minus capital expenditure on property, plant and equipment and intangible assets.
[4] Full time equivalent (1 FTE = 1 full-time position).

»We achieved significant progress towards our goals in the first half of the year. We are thus right on track for 2004 as a whole.«

Dear Shareholders,
The first six months of 2004 were anything but average for us. In just three months, we sold the majority of the stakes we held in HOCHTIEF and Heidelberger Druckmaschinen. This represents significant progress in our strategy of focussing on our core businesses and helped further improve our financial position. At the same time, we hit our performance targets for the first half of the year and initiated additional measures in all our divisions, concentrating on organic earnings growth. The cost-cutting programs you are familiar with are continuing as planned.

What follows is a summary of the key facts and figures relating to the first half of the fiscal year:

- We boosted the Group's operating result by 12 %. Our successful German energy business was the main driver. The water business also displayed encouraging development.

- We increased net income (excluding goodwill amortization) by 23 %. This was due to the strength of our operating activities, the rise in capital gains from divestment, and the improved financial result.

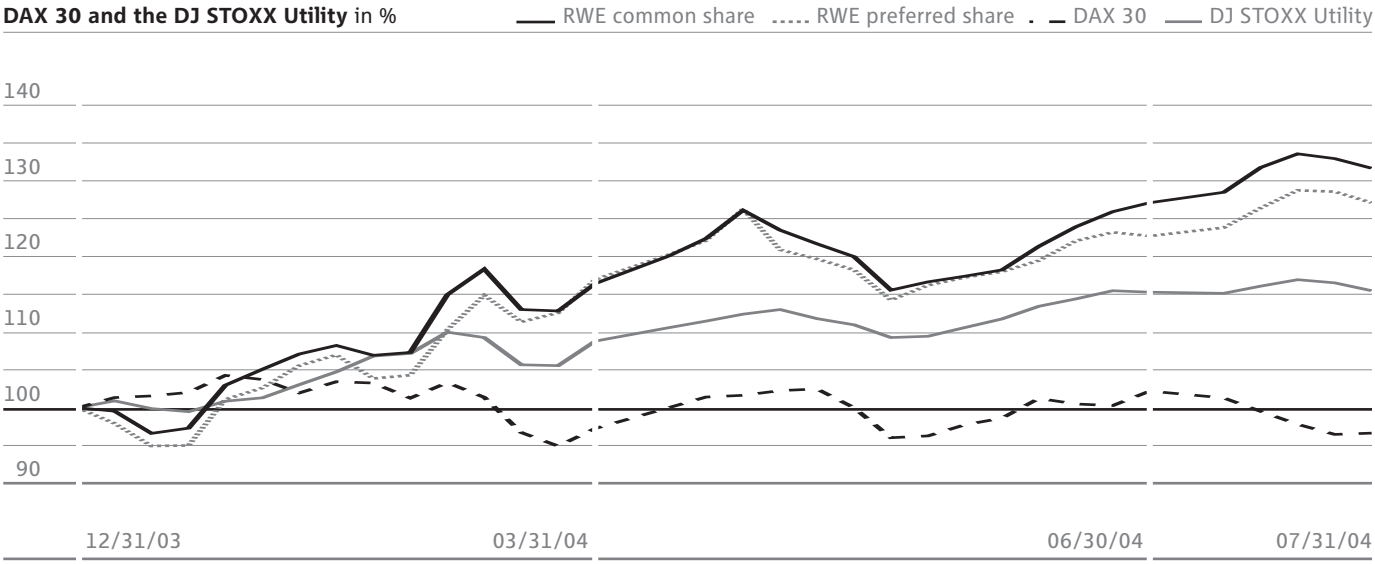
- We reduced net debt even further. It dropped by € 2.1 billion to € 15.7 billion compared to the end of 2003, although currency effects increased debt by € 0.7 billion. Among other things, this was due to proceeds from the divestment of Heidelberger Druckmaschinen, HOCHTIEF and CONSOL.

On the basis of this performance, we confirm our forecast for 2004 as a whole.

Essen, August 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 % while overall market stagnates

The upturn witnessed on stock markets in 2003 is slacking off. In the first half of 2004, the DAX did not post significant gains, hovering around the 4,000 mark. Germany's lead index closed at 4,053 points on June 30. It was thus 2 % up on the level achieved at the end of 2003. The strong growth of the US economy had a positive effect on share prices. By contrast, geopolitical uncertainty, extremely high oil prices as well as increasing fear of inflation and interest rate hikes dampened expectations on the stock markets. Disappointing profit forecasts issued by market leaders in the technology sector in July had an adverse effect on sentiment on the stock markets. The DAX intermittently fell below the 3,800 mark.

In contrast to the market as a whole, RWE shares posted strong growth in the first half of the year. Common shares closed the month of June at € 38.65, which corresponds to a total return of 27 % (including the dividend). This placed RWE second on the DAX 30, with the company's shares clearly outperforming the Dow Jones STOXX Utility Index, which was up 15 %. Preferred shares put in a similar performance of 23 %. Their price rose to € 33.11 at the end of June.

Our encouraging share performance reflects the fact that numerous analysts made upward adjustments to their valuation of RWE. In addition to our positive earnings development, this was due to the implementation of the Group's reorganization and the successful sale of our non-core businesses HOCHTIEF and Heidelberger Druckmaschinen. 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. Our gratifying share performance continued even after the period under review. In light of the positive outlook in the German electricity generation business, additional analysts confirmed their belief that RWE shares are undervalued by lifting their share price targets and improving their ratings. This contributed to the common shares surpassing the € 40 mark at the beginning of July. Closing at € 41.41, they reached a current record high for the year on August 5.

Group operating result up 12 %

Dynamic economic development in RWE's key markets outside the Eurozone
The worldwide economic upturn that started in the summer of 2003 continued into the current year. RWE's key markets developed to varying degrees. Growth recorded in Eurozone countries was comparatively low. Real gross domestic product (GDP) in the Eurozone rose an estimated 1.5 % in the first half of 2004. This was mainly due to stronger exports and a slight increase in consumption. Germany's economic upswing was moderate as well. Growth in the first half of the year also amounted to some 1.5 %. This was a result of an increase in exports. Domestic demand did not supply any significant impetus, owing to the persistently difficult situation on the labor market and state budgeting problems.

The UK, our second largest core market, displayed far more dynamic development. Private consumption was the main reason for its robust growth. UK GDP was up more than 3 % in the first half of the year. Major economies in central Eastern Europe also maintained their pace of expansion. These countries generated growth in exports, amongst other things. Furthermore, increases in real income revitalized consumer spending. The US continued to drive the world's economy. Continued expansionary monetary and fiscal policies, as well as mounting consumer spending helped the US economy continue on its upward trend. Real GDP jumped 4.8 % in the first half of the year.

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 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. Moreover, RWE Trading took over the trading business of our UK energy company RWE Innogy, which has been operating under the new name "RWE npower" since the beginning of August.

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.

We sold the majority of our stakes in the HOCHTIEF construction group and Heidelberger Druckmaschinen at the end of February and the beginning of May. As a result, in 2004, HOCHTIEF has no longer been consolidated at equity. We deconsolidated Heidelberger Druckmaschinen in May 2004. Pursuant to International Financial Reporting Standards (IFRS), we are stating Heidelberg's activities separately as operations that are to be discontinued ("discontinuing operations") in our 2004 reports. We are still accounting for our remaining stakes in HOCHTIEF and Heidelberg as marketable securities.

Revenue decreases due to consolidation effects
In the first half of 2004, the RWE Group generated external revenue of € 21.1 billion. This is 6 % less than in the previous year's corresponding period, and is largely the result of two deconsolidations:

- CONSOL Energy, the US hard coal and gas producer, was excluded from our scope of consolidation as of September 30, 2003. The company had generated € 974 million in revenue in the first six months of 2003.
- Revenue contributed by the Heidelberg Group was considerably lower than in the first half of 2003 after the printing machine manufacturer was removed from the scope of consolidation (€ 1,359 million compared to € 1,924 million).

Net of these effects, revenue improved slightly (+1%). Growth in revenue produced by RWE Energy was driven by the rise in revenue in the power sales business and the revitalization of business at RWE Solutions. RWE npower posted a gain although its trading operations were transferred to RWE Trading. This was due to the increase in prices in the end customer business. RWE Thames Water benefited from US tariff increases, but experienced a slight drop in revenue because major portions of its Continental European water activities were transferred to RWE Energy. Our environmental business recorded the weakest performance, closing the period 9% down year-on-year. This was principally due to the sale of peripheral activities, including all foreign operations. Furthermore, RWE Umwelt suffered a decline in orders from the DSD (German dual waste management system) and had to make competition-induced price reductions in the commercial waste sector.

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 British pound-to-euro exchange rate was 0.67 to 1, making the Sterling stronger than it was a year earlier (£ 0.69/€). As a result, revenue generated in the UK was higher when converted to euros. This currency effect increased revenue by 3% at RWE npower and in the UK water business. Conversely, at US$ 1.22 to the euro, the US dollar was substantially weaker compared with the previous year's corresponding period (US$ 1.11/€). This had a significant impact on revenue produced by the US water utility American Water. The negative currency effect reduced its revenue by 10%.

External revenue € million	**Jan – Jun 2004**	**Jan – Jun 2003**		**+/-** in %	**Jan – Dec 2003**
RWE Power	1,440	2,378	-	39.4	4,077
RWE Energy	11,390	11,180	+	1.9	21,842
RWE npower	2,899	2,802	+	3.5	5,552
RWE Trading	1,097	1,048	+	4.7	2,444
RWE Thames Water	1,995	2,070	-	3.6	4,249
RWE Umwelt	888	973	-	8.7	1,944
Total core business	**19,709**	**20,451**	**-**	**3.6**	**40,108**
Heidelberger Druckmaschinen[1]	1,359[2]	1,924	-	29.4	3,658
Other activities	45	59	-	23.7	109
Total	**21,113**	**22,434**	**-**	**5.9**	**43,875**
_Germany	11,404	11,804	-	3.4	22,444
_Outside Germany	9,709	10,630	-	8.7	21,431

[1] Operations that are to be discontinued ("discontinuing operations") in accordance with International Financial Reporting Standards (IFRS).
[2] This figure only covers the period until the deconsolidation in May.

Operating result up 15 %, net of consolidation and currency effects

The RWE Group improved its earnings especially thanks to the sustained operating success achieved by the energy business.

EBITDA was up 2 % to € 4,465 million. From an operating perspective, i.e. net of CONSOL, Heidelberg and currency translation effects, EBITDA rose 7 %. Heidelberger Druckmaschinen, the non-core business, contributed EBITDA of € 96 million before it was deconsolidated.

EBITDA € million	**Jan – Jun 2004**	**Jan – Jun 2003**	**+/-** in %	**Jan – Dec 2003**
RWE Power	1,278	1,391	- 8.1	2,631
RWE Energy	1,672	1,409	+ 18.7	2,750
RWE npower	356	461	- 22.8	850
RWE Trading	29	14	+ 107.1	59
RWE Thames Water	947	954	- 0.7	2,018
RWE Umwelt	98	108	- 9.3	230
Total core business	**4,380**	**4,337**	**+ 1.0**	**8,538**
Heidelberger Druckmaschinen[1]	96[2]	78	+ 23.1	120
Other, Group Center, consolidation	- 11	- 39	+ 71.8	- 182
Total	**4,465**	**4,376**	**+ 2.0**	**8,476**

[1] Operations that are to be discontinued ("discontinuing operations") in accordance with IFRS.
[2] This figure only covers the period until the deconsolidation in May.

Our consolidated operating result amounted to € 3,281 million—up 12 % on the previous year's level. From an operating perspective, excluding consolidation and currency effects, the operating result rose by 15 %. We posted gains above all in the energy business. Our water operations recorded a slight increase in their operating result, whereas RWE Umwelt fell short of the already weak, year-earlier level, due to losses in the DSD business. The result achieved by the non-core business, which was still negative in 2003 (-€ 54 million) was back in the black. It climbed to € 34 million, primarily benefiting from the improvement in business at Heidelberger Druckmaschinen. Results contributed by HOCHTIEF are no longer stated (previous year: -€ 5 million) since we sold the majority of our stake in this construction group. Exchange rates again had an impact. While the pound's strength compared with the year-earlier period had an effect of +€ 20 million at RWE npower and RWE Thames Water's UK business, the weaker dollar diluted American Water's result by € 17 million.

The operating result improved more than EBITDA owing to lower depreciation and amortization (-€ 185 million) and an increase in income from investments (+€ 72 million). The deconsolidation of CONSOL's asset-intensive business had an impact on depreciation and amortization.

For a detailed commentary on the earnings trend by division, please turn to pages 17 to 29.

Operating result € million	**Jan – Jun 2004**	**Jan – Jun 2003**	**+/-** in %	**Jan – Dec 2003**
RWE Power	950	922	+ 3.0	1,682
RWE Energy	1,347	1,122	+ 20.1	2,046
RWE npower	308	389	- 20.8	714
RWE Trading	29	13	+ 123.1	59
RWE Thames Water	650	614	+ 5.9	1,374
RWE Umwelt	35	45	- 22.2	76
Total core business	**3,319**	**3,105**	**+ 6.9**	**5,951**
Heidelberger Druckmaschinen[1]	34[2]	- 49	+ 169.4	- 118
HOCHTIEF[3]	—	- 5	—	9
Total non-core business	**34**	**- 54**	**+ 163.0**	**- 109**
Other, Group Center, consolidation	- 72	- 116	+ 37.9	- 291
Total	**3,281**	**2,935**	**+ 11.8**	**5,551**

[1] Operations that are to be discontinued ("discontinuing operations") in accordance with IFRS.
[2] This figure only covers the period until the deconsolidation in May.
[3] End of consolidation under the equity method as of December 31, 2003.

Net income before goodwill amortization improves by 23 %

The reconciliation to the RWE Group's net income reflects operating earnings growth as well as considerable improvements in the non-operating and financial results. Thus, net income was boosted substantially.

Non-operating result € million	**Jan – Jun 2004**	**Jan – Jun 2003**	**+/-** € million	**Jan – Dec 2003**
Capital gains	549	67	+ 482	1,024
Goodwill amortization	0	- 484	+ 484	- 985
Restructuring/other	- 149	493	- 642	- 589
Non-operating result	**400**	**76**	**+ 324**	**- 550**

The non-operating result rose by € 324 million to € 400 million. This was due to the following effects:

- Capital gains totaled € 549 million—up € 482 million on the previous year. This was primarily due to the sale of the remaining 18.5 % stake in CONSOL (+ € 220 million) and the lion's share of our 50 % interest in Heidelberger Druckmaschinen (+ € 200 million).
- The fact that we stopped amortizing goodwill this financial year (see p. 3) had a very positive effect. In the first half of 2003, goodwill amortization reduced the non-operating result by € 484 million.
- Conversely, income from changes made to nuclear provisions included in the "restructuring/other" line item decreased from € 655 million in the first half of 2003 to € 389 million. Moreover, we shortened the amortization period for RWE npower's customer base from 20 years to 10 years, starting in 2004. As a result, the amortization more than doubled from € 75 million to € 167 million year-on-year. Furthermore, we built provisions for investments. They principally related to RWE Umwelt and totaled around € 250 million. By contrast, provisions made for Heidelberg declined by € 72 million.

Financial result € million	**Jan – Jun 2004**	**Jan – Jun 2003**	**+/-** in %	**Jan – Dec 2003**
Interest and similar income	550	596	- 7.7	1,116
Interest and similar expenses	- 1,113	- 1,116	+ 0.3	- 2,247
Net interest	**- 563**	**- 520**	**- 8.3**	**- 1,131**
Interest accretion to long-term provisions	- 666	- 838	+ 20.5	- 1,558
Other financial results	- 52	- 113	+ 54.0	- 189
Financial result	**- 1,281**	**- 1,471**	**+ 12.9**	**- 2,878**

The financial result improved by €190 million, or 13%, to -€1,281 million. This was due to the fact that long-term provisions decreased owing to the deconsolidation of CONSOL. Accordingly, the cost of the accrual of interest was lower. In addition, the earnings situation of our asset management activities improved. Nevertheless, net interest was down on the first half of 2003. This reflects the replacement of the short-term interim financing of the acquisition of American Water by the issuance of higher-interest, long-term debt.

In sum, income before tax was €2,400 million. Calculated on a like-for-like basis compared with the previous year, i.e. excluding the effect from the elimination of goodwill amortization, income before tax was up 19%. Income after tax amounted to €1,534 million and was thus 27% higher than the year-earlier figure net of goodwill amortization. The effective tax rate dropped from 40% to 36%, reflecting the rise in tax-free capital gains from the sale of investments. The minority interest rose from €74 million to €177 million. This was largely attributable to Heidelberger Druckmaschinen.

The RWE Group posted €1,357 million in net income. This enabled us to exceed the comparable figure for the first half of 2003 (excluding goodwill amortization) by 23%. Corresponding earnings per share increased from €1.96 to €2.41.

Reconciliation to net income		**Jan – Jun 2004**	**Jan – Jun 2003**	**+/-** in %	**Jan – Dec 2003**
Operating result	€ million	**3,281**	**2,935**	**+ 11.8**	**5,551**
Non-operating result	€ million	400	76	+ 426.3	- 550
_Goodwill amortization	€ million	0[1]	- 484	+ 100.0	- 985
Financial result	€ million	- 1,281	- 1,471	+ 12.9	- 2,878
Income before tax	€ million	**2,400**	**1,540**	**+ 55.8**	**2,123**
Taxes on income	€ million	- 866	- 816	- 6.1	- 1,187
Income after tax	€ million	**1,534**	**724**	**+ 111.9**	**936**
Minority interest	€ million	- 177	- 103	- 71.8	17
Net income	€ million	**1,357[2]**	**621**	**+ 118.5**	**953**
_Excl. goodwill amortization	€ million	1,357[2]	1,105	+ 22.8	1,938
Earnings per share	€	**2.41**	**1.10**	**+ 119.1**	**1.69**
_Excl. goodwill amortization	€	2.41	1.96	+ 23.0	3.45
Effective tax rate	%	**36**	**53**	**- 32.1**	**56**
_Excl. goodwill amortization	%	36	40	- 10.0	38

[1] Due to a change in International Financial Reporting Standards, goodwill is no longer amortized.
[2] Includes -€11 million attributable to operations that are to be discontinued ("discontinuing operations") in accordance with IFRS.

Cost-cutting program: €150 million saved in the first half

This year, we will 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 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 €150 million in savings in the first half of 2004, €110 million of which were attributable to the first program, while €40 million stemmed from the second and third programs.

Capital expenditure € million	**Jan – Jun 2004**	**Jan – Jun 2003**		**+/-** in %	**Jan – Dec 2003**
RWE Power	294	559	-	47.4	1,115
RWE Energy	350	692	-	49.4	1,652
RWE npower	61	90	-	32.2	215
RWE Trading	3	3		—	4
RWE Thames Water	697	5,243	-	86.7	6,129
RWE Umwelt	87	40	+	117.5	152
Total core business	**1,492**	**6,627**	**-**	**77.5**	**9,267**
Heidelberger Druckmaschinen[1]	70[2]	166	-	57.8	262
Other, Group Center, consolidation	68	29	+	134.5	233
Total	**1,630**	**6,822**	**-**	**76.1**	**9,762**
_Capital expenditure on property, plant and equipment	1,448	1,815	-	20.2	4,362
_Capital expenditure on financial assets	182	5,007	-	96.4	5,400

[1] Operations that are to be discontinued ("discontinuing operations") in accordance with IFRS.
[2] This figure only covers the period until the deconsolidation in May.

Capital expenditure on property, plant and equipment down 20%

Capital spending in the first half of the year totaled €1,630 million. This corresponds to a decline of 76%, or €5,192 million, year-on-year. Capital expenditure on property, plant and equipment decreased by 20% to €1,448 million. RWE Power reduced its capital expenditure considerably. This reflected the deconsolidation of CONSOL (-€110 million). Furthermore, the figure for the first half of 2003 included a power plant project in Duisburg-Hamborn. RWE Dea and Harpen cut back on capital expenditure as well. Heidelberger Druckmaschinen also decreased capital spending in light of the persistently weak cyclical trend in the printing machine industry. The deconsolidation of this company also contributed to the decline.

Capital expenditure on financial assets amounted to €182 million—a fraction of the year-earlier figure (€5,007 million), which was exceptionally high due to the acquisition of the US-based water utility American Water (€4.5 billion). In addition, the figure for the first half of 2003 also included the acquisition of a 49% stake in Slovak-based VSE and of the remaining 25% shareholding in Thyssengas. These transactions were contrasted by small acquisitions in the first half of 2004.

Cash flow statement* € million	**Jan–Jun 2004**	**Jan–Jun 2003**	**+/-** in %	**Jan–Dec 2003**
Cash flows from operating activities	2,257	2,712	- 16.8	5,289
_Change in working capital	- 658	- 167	—	- 58
Cash flows from investing activities	98	- 5,056	+ 101.9	- 6,816
Cash flows from financing activities	- 2,321	2,090	- 211.1	1,639
Effects of exchange rate changes and other changes in value	24	39	- 38.5	- 74
Net change in cash and cash equivalents	**58**	**- 215**	**+ 127.0**	**38**
Cash flows from operating activities	2,257	2,712	- 16.8	5,289
Capital expenditure on property, plant and equipment and intangible assets	- 1,448	- 1,815	+ 20.2	- 4,362
Free cash flow	**809**	**897**	**- 9.8**	**927**

* Please turn to page 33 for a complete cash flow statement.

Cash flow statement—key figures

We generated €2,257 million in cash flows from operating activities in the first half of 2004. This was €455 million less than in the corresponding period in 2003. Net of non-cash items, the operating activities improved, despite cash used for restructuring and the elimination of cash flows from CONSOL. However, working capital suffered from negative, one-off effects. Most importantly, we made high income and sales tax payments that came due as a result of business audits for assessment periods in prior years. Excluding CONSOL and the non-recurrent charges applied to working capital, cash flows from operating activities fell slightly short of the year-earlier level.

Proceeds from divestments and asset disposals were marginally higher than capital expenditure. This was mainly a result of the sale of our stakes in HOCHTIEF and Heidelberger Druckmaschinen as well as the third CONSOL tranche. Cash flows from investing activities totaled €98 million. In the first half of 2003, net cash outflows totaled €5,056 million, predominantly due to the acquisition of American Water. Cash flows from financing activities were clearly in the red at -€2,321 million. This is the amount by which payments and distributions exceed the issuance of new debt. In the first half of 2003, we received €2,090 million in cash flows especially due to the financing requirement raised by the acquisition of American Water. Cash and cash equivalents were up by €58 million.

Free cash flow, which is defined as cash flows from operating activities minus capital expenditure on property, plant and equipment and intangible assets, declined from €897 million to €809 million. This was caused by the reduction in cash flows from operating activities. The drop in capital expenditure on property, plant and equipment did not manage to fully offset this.

Net financial debt € million	**At 06/30/04**	**At 12/31/03**		**+/-** in %
Cash and cash equivalents	2,239	2,181	+	2.7
Current marketable securities	9,886	9,615	+	2.8
Non-current marketable securities and other loans	1,489	1,037	+	43.6
Other financial assets	1,269	1,119	+	13.4
Financial assets	**14,883**	**13,952**	**+**	**6.7**
Bonds, notes payable, bank debt and commercial papers	28,141	29,638	-	5.1
Other financial debt	2,440	2,152	+	13.4
Financial debt	**30,581**	**31,790**	**-**	**3.8**
Net financial debt	**15,698**	**17,838**	**-**	**12.0**

Net debt reduced to € 15.7 billion

Net financial debt dropped by € 2.1 billion to € 15.7 billion in the first half of the year. In addition to cash flows from operating activities, this reduction was largely driven by proceeds from the sale of our shares in Heidelberg (€ 825 million) and in HOCHTIEF (€ 750 million) as well as the divestment of the third CONSOL tranche (€ 228 million). Moreover, the deconsolidation of Heidelberg eliminated the printing machine manufacturer's liabilities from our balance sheet (-€ 0.3 billion). The weaker euro as of the balance sheet date caused debt to rise by € 0.7 billion. As of June 30, 2004, the key currency exchange rates were US$ 1.22/€ and £ 0.67/€ as compared to US$ 1.26/€ and £ 0.70/€ as of December 31, 2003. Capital expenditure on property, plant and equipment and financial assets made a € 1.6 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 € 0.9 billion as of June 30, 2004. However, derivatives are not taken into account in net debt.

The ratio of EBITDA to net interest, which is a key indicator in controlling our debt, was 7.9 in the first half of 2004. We expect it to be close to 7.0 for the full year.

We aim to reduce net debt to less than € 17 billion by the end of 2005. This does not take into consideration the effects of the divestment of HOCHTIEF, Heidelberg and—once it has been sold—RWE Umwelt. Furthermore, this goal is based on the following exchange rates: US$ 1.20/€ and £ 0.70/€. Based on the aforementioned premises, net debt amounted to € 17.7 billion as of June 30, 2004.

Workforce FTE[1]	**At 06/30/04**	**At 12/31/03**	**+/-** in %
RWE Power	18,809	19,280	- 2.4
RWE Energy	42,350	42,655	- 0.7
RWE npower	9,345	9,357	- 0.1
RWE Trading	626	397	+ 57.7
RWE Thames Water	16,511	17,521	- 5.8
RWE Umwelt	10,796	12,578	- 14.2
Total core business	**98,437**	**101,788**	**- 3.3**
Heidelberger Druckmaschinen[2]	—	22,036	- 100.0
Other/Group Center	3,223	3,204	+ 0.6
Total	**101,660**	**127,028**	**- 20.0**
_Germany	58,157	72,191	- 19.4
_Outside Germany	43,503	54,837	- 20.7

[1] Full time equivalent (1 FTE = 1 full-time position).
[2] Deconsolidated in May 2004.

Employee headcount down due to consolidation changes

As of June 30, 2004, the RWE Group employed 101,660 people (full time equivalent), 43,503, or 43%, of which worked outside of Germany. The workforce thus decreased by 25,368 staff members, or one fifth, compared with the end of 2003. On balance, acquisitions and divestments caused the labor force to shrink by 23,760 positions, 22,036 of which were shed as a result of the sale of Heidelberger Druckmaschinen. RWE Umwelt's workforce declined by 1,097 people when it sold its foreign waste disposal operations. Net of consolidation effects, the labor force decreased by 1,608 staff members, or 1.6%. In Germany, the workforce shrank by 1,321 employees, or 2.2%.

RAG and RWE step up cooperation

We signed an agreement in principle with RAG at the beginning of June. It stipulates that we grant RAG a line of credit of €400 million at arm's length conditions. In addition, the two companies will step up cooperation. RWE and RAG are committed to reaching an agreement on the continuation of their existing relationships in the electricity sector and on priorities when cooperating on the construction of new and replacement facilities for hard coal-fired power stations. Moreover, RWE Power will have the option of acquiring a stake in STEAG (new), the RAG Group's German energy mainstay that is yet to be established. Details are being negotiated.

Acquisition of outstanding shares in Harpen

We intend to increase our stake in Harpen from just over 95% to 100% via a squeeze-out. As the main shareholder, RWE will pass a resolution to transfer the shares held by outside shareholders to RWE AG, at an extraordinary general meeting of Harpen AG in early fall 2004. Based on the applicable market value, the cash compensation is €19.50 per individual share certificate.

Construction of two topping gas turbines commences at Weisweiler
In June, RWE Power started building two topping gas turbines with a net installed capacity of 190 MW each, which will be placed upstream of two existing 600 MW lignite blocks at Weisweiler. The capital spending budget for this project is €150 million. The topping gas turbines are scheduled to come on stream in 2006. They will be connected to the existing plants and used to cover demand for medium- and peak-load power.

Sale of our share in Turbogas and Portugen initiated
RWE Power has agreed the sale of our 75% interest in the 990 MW Portuguese-based Tapada do Outeiro gas power plant (Turbogas) and of all our shares in the operating company Portugen. An agreement was signed with UK-based International Power in July. It is subject to approval from Portuguese antitrust authorities and the financing banks. Furthermore, the sale will be concluded only if existing preemptive rights are not exercised by the other Turbogas shareholders, i.e. EdP (20%) and Koch Transporttechnik (5%). The selling price is €205 million. If the transaction is a success, we expect to deconsolidate Turbogas/Portugen at the end of 2004 or the beginning of 2005. All in all, RWE's net debt will decrease by about €660 million as a result of this transaction. This sale will enable us to underscore our focus on key regions in which RWE has a strong presence. The Tapada do Outeiro power station is an independent power producer in a market in which RWE has no proprietary downstream grid or sales operations.

CO_2 emissions trading: EU gives go-ahead to national allocation plans
On July 7, 2004, the European Commission approved eight national allocation plans (NAPs) for CO_2 emissions trading, which commences on January 1, 2005. The NAPs for Germany, the UK and Austria were approved subject to slight amendments. The Commission has criticized German rules that allow the number of certificates allocated to be changed ex post facto if a company's needs do not reach its original allotment. Furthermore, the Commission has concerns especially about the lack of information on newcomers to the trading system in the UK allocation plan. It is now up to the national governments to adapt their allocation plans as needed. The EU Commission does not expect this to delay the introduction of CO_2 emissions trading in the affected countries.

Cabinet reaches agreement on revision of German energy law
Germany's federal government adopted the Cabinet's new energy bill on July 28, 2004. The German Energy Act will be used to translate European directives into national law. The bill's main points focus on the future regulatory framework for grid access and grid usage, as well as on the unbundling requirement for grid operators. Although the main details will be set forth in legal directives, the bill already includes important statements regarding the calculation of grid fees. The basic principle of preserving net assets is to be cemented by the act, to maintain the security of supply over the long term, thereby safeguarding the grid operators' ability to make investments. The bill also offers the possibility to have a supplementary incentive rule, which is yet to be detailed. RWE has complied with rules governing unbundling in terms of organizational and legal structures, which will be mandatory for grid operators, since it introduced its new Group structure in October 2003. Only once the German Energy Act comes into force, will the regulator be able to begin work.

RWE buys back and exchanges bonds
We bought back a total of €1.9 billion in bonds in July, €1.25 billion of which we paid for in cash. As part of an exchange offer, we issued a new ten-year bond for the remaining €650 million. The objective behind the transaction was to reduce gross debt and even out our bond maturity profile. The bond buyback and exchange offer was made to holders of a total of €4.5 billion in bonds that come due in 2007 and 2008. €1,143 million of the 2007 bonds were withdrawn from the market at 106.76% of their price and €718 million in 2008 bonds were removed from the market at 106.71% of their price. The new bond has a maturity of 2014 and offers an initial return of 4.72% with a 4.625% coupon.

Outlook for 2004

We confirm the key points of the forecast we published in our interim report for the quarter that ended in May 2004. We reaffirm the outlook for the Group's operating result.

Group revenue is expected to drop below the €43.9 billion achieved in 2003. This will primarily be due to the fact that CONSOL and Heidelberger Druckmaschinen have been deconsolidated. Furthermore, we expect the dollar to be weaker, averaged over the year, than in 2003. Our prognosis is based on an exchange rate of US$1.20/€ (last year: US$1.14/€). We anticipate that the pound, which has recently gained strength, will trade at £0.67 to the euro (last year: £0.69/€) instead of the £0.70/€ exchange rate we have used as a basis so far. This would cause changes in the pound and dollar-to-euro exchange rates to have an opposing effect on revenue. Adjusted to exclude currency effects and the aforementioned deconsolidations, we anticipate generating organic growth at a low, single-digit percentage rate.

The **Group's operating result** will probably rise again, surpassing the exceptionally high figure recorded in fiscal 2003. We expect to post a single-digit percent gain in our operating result despite deconsolidations. This forecast is based on the currency exchange assumptions made above. Even if we exclude Heidelberg and CONSOL from 2003 and 2004 figures, we expect our operating result to grow at a single-digit percentage rate year-on-year.

We expect **RWE Power's** operating result to be on par with the previous year's level, although CONSOL will no longer make a contribution. The forecast we issued in May which announced that we would at least match the previous year's level, had not taken this effect into account. Excluding CONSOL, we anticipate this business will record growth that may just reach a double-digit rate. This is due to the fact that the negative effect of higher fuel costs will be partially delayed and that RWE Dea has a brighter outlook.

RWE Power's earnings situation is characterized by opposing trends. We expect our Power Generation Business Unit to post double-digit growth. This will be principally due to the rise in electricity wholesale prices in 2003. We have sold nearly our entire German electricity output for 2004. Negative effects will primarily arise from hard coal prices, which are extremely high at present. The spot price for a ton of hard coal equivalent averaged €63.82 from January through July and was thus significantly higher than it was averaged over 2003 (€44). This will likely dampen the operating result to the tune of €200 million to €250 million. Moreover, we expect to incur higher costs to maintain our lignite-fired power generation facilities. However, added income stemming from the rise in electricity prices will more than offset these two burdens. The encouraging trend in the power generation business will probably be contrasted by a decline in the operating result contributed by RWE Dea. Oil prices have been extremely high thus far, but the prices we realize will be lower than in 2003 owing to the dollar, which is likely to be weaker, and to the early hedges concluded by RWE Dea. We expect gas prices to display a similar development. On the whole, RWE Dea will thus close the current year with an operating result falling shy of the high level recorded in 2003. Nevertheless, we anticipate RWE Dea will generate an operating result of at least €300 million.

The considerable increase in the operating result posted by **RWE Energy** in the first half of the year was marked by one-off effects and cannot be projected over the full year. We expect this business to post a single-digit percent gain in its operating result. The rise in the operating result over last year will be mainly due to operating improvements—especially in our Eastern European regional companies. In addition, we expect RWE Energy to lift its income from investments. We will continue to carry out cost-cutting measures in all RWE Energy companies.

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 was transferred to RWE Trading as of January 1, 2004. Net of trading activities, however, RWE npower will likely be able to exceed the high level recorded in 2003. We expect electricity and gas sales to end customers to produce an improvement in the operating result since we increased prices in the summer of 2003 and in the spring of 2004. Moreover, we will benefit from synergies with RWE Thames Water. We anticipate a negative effect from the expiration of old supply agreements, which had favorable conditions. 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 improve its operating result. This growth will be driven by the takeover of RWE npower's trading business, despite the latter's marginal operating loss recorded in the first six months. For the whole of fiscal 2004, we expect this division to generate a positive operating result, which however, will be significantly below the unusually high level recorded in fiscal 2003. Net of the one-off effect from RWE npower's trading business, RWE Trading will probably close the year down on fiscal 2003.

RWE Thames Water is expected to post another increase in its operating result in the current financial year. We anticipate single-digit growth. The rise in the operating result will be exclusively based on organic growth. We will improve the operating result generated by the European business thanks to cost effects stemming from the reorganization and synergies with RWE npower, among other things. Increases in water prices in Berlin will also make a contribution to the rise in the operating result. Tariffs in the regulated UK business will be subject to far-reaching adjustments in 2005. American Water will benefit from approved tariff increases and efficiency enhancements.

The operating result recorded by **RWE Umwelt** will close fiscal 2004 down on the 2003 financial year, although cost-cutting efforts were intensified once again. This renewed deterioration is due to the continuing, difficult market conditions and the fact that future prospects in the DSD business are worsening more and more. RWE Umwelt will have to reckon with a significant drop in the volume of business from the award of DSD contracts for 2005. This will have a very adverse effect on earnings and make further restructuring necessary.

We will achieve a double-digit improvement in **net income** over the last year's figure (excluding goodwill amortization). From our current viewpoint, net income will grow by 10% to 15%. We expect to see a positive effect from the non-operating result, which will likely improve, even without taking into account the non-recurrent effect of discontinuing the amortization of goodwill. The elimination of one-off expenses, incurred in 2003 for restructuring and the Group's reorganization, will also have a positive effect. This will be contrasted by a slight decline in capital gains although we sold the lion's share of our stakes in Heidelberg and HOCHTIEF. In fiscal 2003, we realized substantial capital gains from the sale of the first two CONSOL tranches. Additionally, we will have less income from the release of nuclear provisions, which we expect will be in the order of magnitude of €700 million as compared to €1.2 billion in 2003. Furthermore, we will increase the amortization on RWE npower's customer base. Our financial result will improve as well. 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 marginally below the previous year's (38%). As a result of the improved contribution to the operating result made by Heidelberg until the company was deconsolidated, the minority interest will rise and net income will be reduced.

We will scale back **capital expenditure** significantly in the current year—especially as regards financial assets, which we anticipate will drop considerably (2003: €5.4 billion). Having financed the acquisition of American Water in 2003, we do not plan to make any major acquisitions this year. Capital expenditure on property, plant and equipment will fall below €4 billion (2003: €4.4 billion).

We want to reduce **net financial debt** even further. We expect this figure to drop clearly below €17 billion largely owing to the sale of HOCHTIEF and Heidelberger Druckmaschinen.

Risk trend

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. Our electricity and gas operations are exposed to risks associated with prices and sales volumes as a result of the liberalization and regulation of the electricity and gas markets. We counter these risks by pursuing flexible, market-oriented price strategies and adopting a corresponding sales policy as well as forceful measures to manage costs.

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

Regulatory conditions governing the energy sector also give rise to risks for the RWE Group. 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.

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.

Grid operations are exposed to risks in connection with the increasing cost of balancing power and the planned introduction of a regulator for the electricity and gas industry which, in turn, increase the pressure on grid fees in Germany. We address these risks through intensive dialogue with political decision-makers, and especially with the German Federal Economics Ministry and the future Regulatory Authority for Electricity, Gas, Telecommunications and Posts (REGTP).

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 3 % up year-on-year despite sale of CONSOL
- Continuing rise in hard coal prices characterizes price trend on electricity market

RWE Power		Jan – Jun 2004	Jan – Jun 2003		+/- in %	Jan – Dec 2003
Electricity production	billion kWh	100.8	95.1	+	6.0	196.1
_In-house generation[1]	billion kWh	99.3	93.0	+	6.8	192.5
External revenue	€ million	1,440	2,378	-	39.4	4,077
EBITDA	€ million	1,278	1,391	-	8.1	2,631
Operating result	€ million	950	922	+	3.0	1,682
Capital expenditure	€ million	294	559	-	47.4	1,115
_Property, plant and equipment	€ million	288	533	-	46.0	1,065
_Financial assets	€ million	6	26	-	76.9	50

		06/30/04	12/31/03		+/- in %
Workforce	FTE[2]	18,809	19,280	-	2.4

[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 continued their upward trend following a brief horizontal movement at the beginning of the year. This was primarily due to the continuing rise in the price of hard coal. Hard coal power stations are marginal sellers of medium-load power and therefore have a strong influence on the electricity market. The introduction of CO_2 emissions trading on January 1, 2005 already has an impact on electricity prices.

RWE Power sells virtually all the electricity it produces through RWE Trading on the basis of forward contracts. In the first half of 2004, a one year forward contract (for power deliveries in 2005) was traded at an average price of € 32.60 for base-load power and € 48.73 for peak-load power. These prices represent increases of 27 % and 25 %, respectively, over comparable contracts in the same period last year. Clearly these price increases will be reflected in our revenues in 2005 and beyond. This year's revenue is affected by the prices that we secured when we sold our 2004 output on the forward market. Until the middle of 2003, forward prices for 2004 deliveries did not rise as much as in recent times.

Prices on the **world oil market** were high throughout the first half of 2004. Brent crude traded at an average of US$ 33.66 per barrel. This is a 17 % increase over the corresponding period in 2003 and 30 % more than the ten-year average. The key factors responsible for the high oil prices were the steep rise in global demand, especially in China, coupled with low inventories in countries with the highest consumption rates. Terrorist attacks and strikes in producing countries contributed to the increase in prices as well. However, the rise in prices over last year was absorbed by counteracting currency effects in the Eurozone. Denominated in euros, Brent prices advanced by just about 6 % compared with 2003.

Since oil and gas prices are connected to each other, **natural gas prices** realized by RWE Dea in Germany and contractually stipulated prices for the gas we produced in the UK were high. However, they were not quite on par with the level achieved a year earlier. This was due to negative currency effects stemming from the strength of the euro.

RWE Power's **electricity production** totaled 101 billion kWh, 78 % of which was produced by in-house power plants. Twenty percent of electricity generated came from power plants not owned by RWE that we can deploy at our discretion on the basis of long-term agreements. Two percent were purchased from third parties. Electricity production was up 6 % compared with 2003. Power generation in proprietary nuclear power stations, which in 2003 was hampered by the unscheduled downtime at Block A of the Biblis nuclear power plant, rose considerably. Furthermore, we ramped up electricity generation from lignite. This was made possible by the improved availability of the 1,000 MW lignite block in Niederaussem.

RWE Dea's **gas production** in the first half of the year amounted to 1,222 million m^3. This is roughly on par with the year-earlier level. We increased **oil production** by 7 % to 3,057,000 m^3. This was primarily due to new production in the Danish North Sea.

RWE Power generated € 1,440 million in **external revenue**. It was markedly lower than the figure achieved in the first half of 2003 owing to the deconsolidation of CONSOL effective September 30, 2003 (-€ 974 million). Excluding this exceptional effect, we made a slight operating improvement of 3 %. External revenue was hardly affected by the rise in electricity production or wholesale prices because RWE Power sells most of its output to buyers within the RWE Group. Price and volume trends are, however, reflected in total revenue. Without CONSOL, it was up 7 % year-on-year.

RWE Power Business Units January – June	Total revenue		External revenue		EBITDA		Operating result	
€ million	2004	2003	2004	2003	2004	2003	2004	2003
Power Generation[1]	3,428	3,135	676	641	932	771	707	528
RWE Dea	629	642	637	638	294	341	208	238
Harpen	133	132	127	125	52	51	35	33
CONSOL Energy[2]	–	976	–	974	–	228	–	123
RWE Power	**4,190**	**4,885**	**1,440**	**2,378**	**1,278**	**1,391**	**950**	**922**

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

EBITDA generated by RWE Power amounted to € 1,278 million and was 8 % down year-on-year. This was mainly due to the elimination of earnings contributed by CONSOL. Despite this effect, the **operating result** was up 3 % to € 950 million. It outperformed EBITDA because depreciation was lower and, especially the asset-intensive CONSOL business was divested. Net of consolidation effects, RWE Power's operating result jumped 19 %. 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**: This business unit boosted its operating result by 34 %. Price-induced margin improvements, coupled with higher electricity production and continued savings through our cost-cutting program, provided the basis for the increase. Higher fuel costs had a counteractive effect (-€ 85 million), especially hard coal costs. The rise in fuel costs will probably have a bigger impact in the second half of the year.

- **RWE Dea** posted an operating result that was 13 % lower year-on-year. This was due to the fact that we concluded hedges to mitigate oil price risks early on. Average crude oil prices realized by RWE Dea in euros were below those achieved in the first half of 2003 for this reason and due to the weaker dollar. Price gains from hedging transactions partially offset the negative currency effect, but they were markedly higher in the first half of 2003. Therefore, this also had a negative effect on the result when compared to the same period last year.

- **Harpen**: This subsidiary, which focuses on renewables-based and decentralized power generation, posted 6 % growth in its operating result, which, however, was largely driven by extraordinary income. The operating result recorded by the energy business was stable.

RWE Energy

- Operating result climbs 20 % primarily due to one-off effects
- International business improves operations

RWE Energy		Jan – Jun 2004	Jan – Jun 2003		+/- in %	Jan – Dec 2003
Electricity sales volume	billion kWh	77.2	84.6	-	8.7	167.1
Gas sales volume	billion kWh	163.0	164.2	-	0.7	286.4
External revenue	€ million	11,390	11,180	+	1.9	21,842
_Electricity[1]	€ million	6,441	6,166	+	4.5	12,243
_Gas[2]	€ million	3,425	3,619	-	5.4	6,365
EBITDA	€ million	1,672	1,409	+	18.7	2,750
Operating result	€ million	1,347	1,122	+	20.1	2,046
Capital expenditure	€ million	350	692	-	49.4	1,652
_Property, plant and equipment	€ million	311	320	-	2.8	1,000
_Financial assets	€ million	39	372	-	89.5	652

		06/30/04	12/31/03		+/- in %
Workforce	FTE[3]	42,350	42,655	-	0.7

[1] Including € 483 million in electricity taxes (last year: € 485 million) and grid fees.
[2] Including € 68 million in gas taxes (last year: € 50 million).
[3] Full time equivalent (1 FTE = 1 full-time position).

Power consumption in Germany, which is our main market, was up a good 1.5 % in the first half of 2004. The rise was a result of the slight economic revitalization and the calendar effect of the leap year. The slightly cooler weather in our central Eastern European electricity markets had positive effects on demand. But the economy's structural change curtailed growth in consumption although the economic situation was robust. In Hungary, demand for electricity was up about 1.5 %. Growth in Poland and Slovakia was more pronounced, at 3 % and 4 %, respectively. **Demand for natural gas** in Germany slipped somewhat due to the mild winter weather. Counteracting weather-related effects in the second quarter and the increase in gas usage by industry were unable to fully compensate for this. Demand in the Czech Republic, RWE Energy's largest gas market outside of Germany, was essentially unchanged.

German utilities were able to pass on to end customers most of the rise in **electricity prices** on the wholesale market as well as additional grid costs stemming from the German Renewable Energy Act. Private and commercial customers paid about 3.5 % more on average. Deliveries to industrial enterprises and distributors were approximately 5 % and 7 % more expensive, respectively. The considerable growth in prices for these customer groups is due to the fact that the portion of the purchasing price allocable to wholesale prices is larger than for residential customers.

Cross-border prices for natural gas in Central Europe normally track heating oil prices with a six-month time lag. In euros, they were roughly 10 % below the level recorded in the first half of 2003. In Germany, this principally had an impact on deliveries to industrial customers, which dropped 4 % in price. Household customers paid marginally more. 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 2 % more expensive on average compared to the first half of 2003, despite the price decrease implemented as of April 1, 2004.

In the period under review, RWE Energy supplied 77.2 billion kWh of electricity to outside customers. This was 9 % less than in the previous year. **Electricity sales** to energy utilities experienced the steepest decline. Because of our value-oriented price strategy, we lost customers especially in the Northern and Central sales regions, which make up the former RWE Plus' legacy territory in Germany. RWE Energy also failed to match the year-earlier level in Hungary and Poland, RWE Energy's two most important foreign electricity markets. Some of RWE Solutions' contracts with industrial key accounts expired in 2003. But RWE Solutions almost compensated for the ensuing shrinkage in volume by taking over the bulk of RWE Trading's key account business. RWE Energy's **gas sales volumes** declined in part as a result of the mild weather in the first quarter, slipping 1% to 163 billion kWh.

External revenue improved 2 % to € 11.4 billion. This was made possible by passing on the increased costs of electricity 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. Electricity revenue was up on the whole as a result of the increase in prices, although sales volumes declined. Additional sales resulted from the transfer of RWE Thames Water's Continental European water operations to RWE Energy. RWE Solutions benefitted from a revitalization in demand in certain sectors such as communications technology as well as for energy services. Revenue generated by RWE Energy's German gas business decreased principally due to the decline in prices for gas deliveries to industrial customers and distributors.

RWE Energy's **EBITDA** was up 19 % to € 1,672 million, and the **operating result** advanced 20 % to € 1,347 million. A significant driver for the increase was the absence in 2004 of a number of extraordinary charges, which affected the first half of 2003. We made significant improvements in the international business, above all by increasing our margins in Hungary and the Czech Republic. Conversely, income from investments dropped although the amortization of goodwill was discontinued. The figure for the first six months of 2003 benefited from one-off effects. Furthermore, income from investments declined in part as a result of divestments.

RWE Energy Business Units January – June 2004* € million	External revenue	EBITDA	Operating result
German Regions	6,946	1,079	899
_Northern	1,928	229	199
_Central	2,444	387	359
_Eastern	1,408	240	157
_Western	191	42	44
_Southwestern	637	125	101
_Southern	338	56	39
International Regions	1,759	252	204
RWE Solutions	1,361	33	7
Electricity and Gas Transmission	941	361	294
Other/consolidation	383	- 53	- 57
RWE Energy	**11,390**	**1,672**	**1,347**

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

German Regions: Our German regional companies increased their operating result to € 899 million, benefitting significantly from the absence of extraordinary charges incurred last year. In the corresponding period last year, 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 half of 2003. However, the positive earnings trend 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 € 204 million. Here, we benefitted from increased margins in the electricity business in Hungary, as well as in our Czech and Dutch gas operations. Our Polish subsidiary STOEN took advantage of lower electricity purchasing costs.

RWE Solutions saw its operating result decline by 12 % to € 7 million compared with the first half of 2003. However, the year-earlier figure benefited from extraordinary income generated by selling electricity to industrial customers. RWE Solutions faced a rise in the cost of primary energy sources and production material, which the company was often unable to fully pass on to its customers. Positive effects arose from measures to cut costs and optimize the organizational structure. We expect RWE Solutions to make a larger contribution to the operating result in the second half of the year than in the first six months due to seasonal conditions. However, it is unlikely that RWE Solutions will be able to match the level achieved for the full year in 2003.

Electricity and Gas Transmission: This business unit oversees our German 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 € 294 million.

RWE npower

- Operating result down 21% following outstanding trading result in 1st half of 2003
- Margin growth in end customer business

RWE npower		Jan – Jun 2004	Jan – Jun 2003		+/- in %	Jan – Dec 2003
Electricity production	billion kWh	15.5	19.5	-	20.5	37.7
Electricity sales volume	billion kWh	28.9	29.9	-	3.3	59.3
Gas sales volume	billion kWh	27.7	28.8	-	3.8	48.6
External revenue	€ million	2,899	2,802	+	3.5	5,552
_Electricity	€ million	2,071	2,035	+	1.8	4,068
_Gas	€ million	603	583	+	3.4	1,040
EBITDA	€ million	356	461	-	22.8	850
Operating result	€ million	308	389	-	20.8	714
Capital expenditure	€ million	61	90	-	32.2	215
_Property, plant and equipment	€ million	61	90	-	32.2	215
_Financial assets	€ million	0	0		—	—

		06/30/04	12/31/03		+/- in %
Workforce	FTE*	9,345	9,357	-	0.1

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

The UK's robust economy led to an increase in **electricity consumption** by nearly 4%. Unlike in the first half of 2003, the weather hardly had an impact. The adverse effect of mild weather in the first quarter was countered by the cooler weather in the second quarter. **Demand for natural gas** rose by about 3%. 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 £ 25.41 per MWh (€ 37.83). This was 45% more than in the first half of last year. One-year forwards for peak-load electricity rose by 35% in price to £ 30.68 (€ 45.68). According to general sentiment, the recent marked rise in hard coal costs had a substantial impact on the electricity market. Moreover, prices also reflect expected burdens anticipated from the upcoming introduction of CO_2 emissions trading. Average prices quoted on the UK spot market for natural gas were 28% higher year-on-year. Increasing world oil prices and marked growth in demand clearly contributed to this increase.

The rise in wholesale electricity and gas prices drove the development of end consumer prices. Nearly all suppliers increased their prices in the first six months of the year. Prices paid by household and commercial customers were some 5 % up year-on-year. Industrial customers had to pay up to 10 % more for electricity in certain cases.

RWE npower, the new name under which RWE Innogy now operates, produced 15.5 billion kWh of electricity in the period under review. **Electricity production** dropped by one fifth due to scheduled downtime at one of our power plants. We also experienced a decline in sales volumes in the end customer business. This was the result of our focus on supply agreements with attractive margins. Electricity sales volumes declined by 3 % to 28.9 billion kWh, with gas sales volumes slipping 4 % to 27.7 billion kWh. 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 18 % and 4 % of electricity and gas supplies.

RWE npower grew **external revenue** by just over 3 % to € 2,899 million, although its trading activities were transferred to RWE Trading. This was primarily due to the increase in prices in the end customer business. In addition, the strength of Sterling had a positive effect within the scope of currency translation.

EBITDA amounted to € 356 million — 23 % down on last year's level. The **operating result** fell 21 % to € 308 million. The first half of 2003 was still characterized by extraordinarily high income from the trading business. These activities, which are now part of RWE Trading, recorded an operating result of € 115 million in the first half of 2003. Excluding the trading business, RWE npower improved its operating result by 12 %. This was principally due to the improvement in margins in the retail sales business, cost savings, and synergies with RWE Thames Water. As a result, we more than compensated for the earnings shortfalls stemming from the reduction in production and sales volumes as well as the expiration of favorable electricity supply agreements.

RWE Trading

- Sharp decline in operating result compared with Q1 2004
- RWE npower's former trading business closes period markedly down on high year-earlier level

RWE Trading		Jan – Jun 2004	Jan – Jun 2003		+/- in %	Jan – Dec 2003
Electricity sales volume[1]	billion kWh	27.1	25.9	+	4.6	56.5
Total revenue	€ million	3,734	2,651	+	40.9	5,751
External revenue	€ million	1,097	1,048	+	4.7	2,444
EBITDA	€ million	29	14	+	107.1	59
Operating result	€ million	29	13	+	123.1	59
Capital expenditure	€ million	3	3		–	4
_Property, plant and equipment	€ million	3	2	+	50.0	3
_Financial assets	€ million	–	1		–	1

		06/30/04	12/31/03		+/- in %
Workforce	FTE[2]	626	397	+	57.7

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

Liquidity on the German electricity market improved again in the first half of 2004. The volume of forward contracts traded on the Leipzig Energy Exchange (EEX) from April through June was already twice as high as in the strong first quarter. Trading volume was much higher year-on-year. The same holds true for over-the-counter (OTC) electricity trading. Liquidity recently recovered on the UK electricity market after having been marked by the departure of several US power traders at the beginning of the year and uncertainty among buyers and sellers regarding CO_2 emissions trading. Gas trading volumes improved in Continental Europe partly owing to the arrival of newcomers on the market, while they stagnated in the UK.

Electricity sales to outside customers by RWE Trading rose by 4.6 % to 27.1 billion kWh in the first half of 2004. This figure includes sales of electricity generated within the RWE Group on wholesale markets. These were significantly higher in the first half of the year. Trading sales include quantities supplied in the end customer business with industrial enterprises. Here, volume was cut nearly in half to 3.7 billion kWh. This was because, with the exception of aluminum producers, RWE Trading transferred its industrial customers to RWE Solutions as a result of the reorganization of the RWE Group.

RWE Trading increased **external revenue** by 5 % to € 1,097 million. This rise was principally due to the improvement in revenue achieved by Dutch-based coal trader SSM Coal and the inclusion of RWE npower's former trading activities. A counteracting effect was felt from the transfer of key accounts to RWE Solutions.

EBITDA and the **operating result** each came in at € 29 million, surpassing the figure for the first six months of 2003, but these figures declined sharply compared with the first quarter. The UK trading operations made a slightly negative contribution to the operating result after having achieved an above-average performance of € 115 million a year earlier when they were still part of RWE npower. The substantial decline in income from RWE Trading in the second quarter was due to negative margins in the Continental European power trading business and in the coal trading sector, among other things. Furthermore, RWE Trading's result is typically exposed to significant seasonal effects. This is because positions carried in the commercial records 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. We expect RWE Trading to post a considerable improvement in its result in the second half of the year.

RWE Thames Water

- Operating result up 6 %
- American Water posts significant growth due to tariff increases

RWE Thames Water		Jan – Jun 2004	Jan – Jun 2003		+/- in %	Jan – Dec 2003
External revenue	€ million	1,995	2,070	-	3.6	4,249
EBITDA	€ million	947	954	-	0.7	2,018
Operating result	€ million	650	614	+	5.9	1,374
Capital expenditure	€ million	697	5,243	-	86.7	6,129
_Property, plant and equipment	€ million	673	673		—	1,549
_Financial assets	€ million	24	4,570	-	99.5	4,580

		06/30/04	12/31/03		+/- in %
Workforce	FTE*	16,511	17,521	-	5.8

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

The **regulated water and wastewater services business** in our core markets, i.e. Europe and the US, is hardly affected by cyclical factors. The main driver for 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 final result will be published in early December. The volume of business that has been privatized on Continental European water markets in RWE's core regions is still low. The trend towards outsourcing contracts for the operation and maintenance of water and wastewater infrastructure continued.

RWE Thames Water generated € 1,995 million in **external revenue** in the first half of 2004. This was 4 % less than in the previous year. Currency effects diluted revenue by € 60 million on balance. The negative influence of the weaker dollar was only partially offset by stronger Sterling. As part of the RWE Group reorganization, RWE Thames Water transferred to RWE Energy parts of its Continental European activities, which recorded € 53 million in revenue in the first half of 2003. Net of these effects, external revenue was roughly 2 % up year-on-year. American Water posted a 9 % increase in external revenue, adjusted to exclude currency effects. This was mainly due to successfully negotiated tariff increases in several US states. In the UK regulated business, revenue increased due to tariff adjustments, which accounted for inflation.

At €947 million, **EBITDA** was on par with the year-earlier level. The **operating result** amounted to €650 million—up 6% on the first half of 2003. 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 outperformed EBITDA. First and foremost, the rise in the operating result is attributable to American Water. Despite negative currency effects (-€17 million), the US water utility recorded a 13% jump in its operating result, largely due to the increase in tariffs. We benefitted from operating improvements in the UK regulated business. Income generated by the non-regulated UK business and outside of RWE's key regions declined somewhat. We discontinued or sold businesses in these areas. Without currency effects and the exceptional effect stemming from the Group's reorganization, RWE Thames Water improved its operating result by 9%.

RWE Thames Water Regions January – June	**External revenue**		**EBITDA**		**Operating result**	
€ million	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Europe/other markets	1,100	1,157	597	609	428	400
_Regulated UK business	846	804	482	464	292	276
Americas (USA/Chile)	895	913	350	345	222	214
RWE Thames Water	**1,995**	**2,070**	**947**	**954**	**650**	**614**

RWE Umwelt

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

RWE Umwelt		Jan – Jun 2004	Jan – Jun 2003	+/- in %	Jan – Dec 2003
External revenue	€ million	888	973	- 8.7	1,944
EBITDA	€ million	98	108	- 9.3	230
Operating result	€ million	35	45	- 22.2	76
Capital expenditure	€ million	87	40	+ 117.5	152
_Property, plant and equipment	€ million	39	34	+ 14.7	94
_Financial assets	€ million	48	6	+ 700.0	58

		06/30/04	12/31/03	+/- in %
Workforce	FTE*	10,796	12,578	- 14.2

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

The **situation in the German waste disposal sector** is still difficult. Since the new Technical Guideline for Residential Waste (TASi) forbids the dumping of untreated waste from the middle of 2005 onwards, landfill operators are currently offering capacity at marginal cost. The market for the disposal of residential and commercial waste continues to be characterized by extreme competitive pressure. The earnings outlook in the DSD (Duales System Deutschland) business has also deteriorated. Introduced at the beginning of 2003, the mandatory deposit for single-use beverage containers has led to a permanent decline in business volume. Furthermore, some of the contractors in the sector had to make substantial price concessions when the DSD contracts were put back up for tender. About half of the DSD contracts were reissued for three years as early as January 1, 2004. An invitation for bids will probably be placed for the remaining 50 % in August of this year. No significant stimuli have been provided for the waste disposal business by the slight recovery of the domestic economy. Only the secondary raw materials market displayed better development. Above all, waste plastic, paper and scrap steel have become much more expensive due to high demand in China.

At € 888 million, **external revenue** was 9 % lower than in the previous year. This was mainly due to the sale of operations as a result of RWE Umwelt's divestment program, which has since been completed. Among other things, we shed all activities outside of Germany. Net of consolidation effects, external revenue slipped 2 %. This decrease was caused by the loss of contracts and lower prices in the DSD business, as well as lower prices in the municipal business and the commercial waste sector.

RWE Umwelt closed the period under review with **EBITDA** of € 98 million, which was 9 % lower than the figure for the first half of 2003, which was already low. The **operating result** was down 22 % to € 35 million. This was primarily a result of the weak DSD business. However, RWE Umwelt managed to absorb some of the decline in earnings by making progress in its ongoing program to realign its organization and cut costs.

Supervisory Board

Dr. h.c. Friedel Neuber
Chairman

Frank Bsirske
Deputy Chairman

Dr. Paul Achleitner

Carl-Ludwig von Boehm-Bezing

Burkhard Drescher

Ralf Hiltenkamp

Heinz-Eberhard Holl

Berthold Huber

Dr. Dietmar Kuhnt

Dr. Gerhard Langemeyer

Josef Pitz
– until May 11, 2004 –

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

€ million	Apr – Jun 2004	Apr – Jun 2003	Jan – Jun 2004	Jan – Jun 2003
Revenue	8,941	9,608	21,113	22,434
Natural gas tax/electricity tax	- 242	- 244	- 563	- 577
Revenue (without natural gas tax/electricity tax)	**8,699**	**9,364**	**20,550**	**21,857**
Changes in finished goods and work in progress/other own work capitalized	186	190	180	137
Cost of materials	- 4,781	- 4,611	- 11,171	- 11,708
Staff costs	- 1,555	- 1,938	- 3,253	- 3,854
Depreciation, amortization and impairment losses	- 752	- 1,067	- 1,555	- 2,139
Other operating result	- 538	- 819	- 1,566	- 1,391
Income from operating activities	**1,259**	**1,119**	**3,185**	**2,902**
Income from investments	174	105	496	109
Financial result	- 645	- 717	- 1,281	- 1,471
Income before tax	**788**	**507**	**2,400**	**1,540**
Taxes on income	- 314	- 316	- 866	- 816
Income after tax	**474**	**191**	**1,534**	**724**
Minority interest	- 42	- 7	- 177	- 103
Net income	**432**	**184**	**1,357**	**621**
Earnings per share: Undiluted/diluted per common and preferred share €	**0.77**	**0.32**	**2.41**	**1.10**

Consolidated Balance Sheet

Assets € million	**At 06/30/04**	**At 12/31/03**
Non-current assets		
Intangible assets	19,313	19,418
Property, plant and equipment	36,214	36,210
Financial assets	6,279	6,778
	61,806	**62,406**
Current assets		
Inventories	2,261	3,285
Accounts receivable and other assets	16,108	16,947
Marketable securities	9,886	9,615
Cash and cash equivalents	2,239	2,181
	30,494	**32,028**
Deferred taxes	**3,629**	**4,325**
Prepaid expenses	**478**	**383**
	96,407	**99,142**

Equity and liabilities € million	**At 06/30/04**	**At 12/31/03**
Equity / minority interest		
Group interest	8,203	7,013
Minority interest	1,451	2,052
	9,654	**9,065**
Provisions	**34,918**	**37,671**
Liabilities	**42,463**	**44,061**
Deferred taxes	**4,647**	**4,526**
Deferred income	**4,725**	**3,819**
	96,407	**99,142**

Consolidated Cash Flow Statement

€ million	Jan – Jun 2004	Jan – Jun 2003
Income after tax	**1,534**	**724**
Depreciation, amortization, impairment losses, write-backs	1,556	2,144
Changes in long-term provisions	- 93	- 566
Deferred taxes/non-cash expenses and income/proceeds from disposal of assets and marketable securities	- 123	437
Changes in working capital/other balance sheet items	- 617	- 27
Cash flows from operating activities	**2,257**	**2,712**
Capital expenditure on non-current assets	- 1,630	- 6,822
Proceeds from disposal of non-current assets	2,269	696
Changes in marketable securities and cash investments	- 541	1,070
Cash flows from investing activities	**98**	**- 5,056**
Cash flows from financing activities	**- 2,321**	**2,090**
Net change in cash and cash equivalents	34	- 254
Effect of changes in currency exchange rates and other changes in value on cash and cash equivalents	24	39
Net change in cash and cash equivalents	**58**	**- 215**
Cash and cash equivalents at beginning of reporting period	2,181	2,143
Cash and cash equivalents at end of reporting period	**2,239**	**1,928**
Financial assets at beginning of reporting period	13,952	14,387
Financial assets at end of reporting period	**14,883**	**11,584**
Gross debt at beginning of reporting period	31,790	29,881
Gross debt at end of reporting period	**30,581**	**33,903**
Net debt at beginning of reporting period	17,838	15,494
Net debt at end of reporting period	**15,698**	**22,319**

Changes in Equity and Minority Interest

€ million	Group interest	Minority interest	Total
At 12/31/02	**6,429**	**2,495**	**8,924**
Dividends paid	- 619	- 95	- 714
Other comprehensive income/other	52	- 214	- 162
Income after tax	621	103	724
At 06/30/03	**6,483**	**2,289**	**8,772**
At 12/31/03	**7,013**	**2,052**	**9,065**
Dividends paid	- 703	- 208	- 911
Other comprehensive income/other	536	- 570	- 34
Income after tax	1,357	177	1,534
At 06/30/04	**8,203**	**1,451**	**9,654**

Notes

Accounting policies

The interim report for the period ended June 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" (revised 2004), IAS 38 "Intangible Assets" (revised 2004), as well as IFRIC 1.

With the exception of the new rules for accounting for business combinations and for changes in existing decommissioning, restoration and similar provisions, 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 reportable 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 reorganization provisions may be recognized within the scope of the purchase price allocation.

According to IAS 36 (revised 2004), capitalized goodwill is no longer amortized as of January 1, 2004. Rather, 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 realizable amount, the allocated goodwill is written down by the difference. According to IAS 36 (revised in 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 controls directly or indirectly. Principal associates are accounted for under the equity method.

The scope of consolidation breaks down as follows:

	At 06/30/04	At 12/31/03
Fully consolidated companies	594	697
Investments accounted for using the equity method	233	235

In this interim report for the period ended June 30, 2004, HOCHTIEF was no longer accounted for under the equity method since the stake held in this company was reduced to 9.6 %. Instead, it was stated as part of "non-current marketable securities." Eighty fully consolidated companies and two Heidelberger Druckmaschinen companies accounted for using the equity method are no longer included in the scope of consolidation. In addition, CONSOL Group activities were included in the same period last year. 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 approximately € 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 June 30, 2004, compared with December 31, 2003.

€ million	At 06/30/04	At 12/31/03
Assets	—	4,906
Provisions, liabilities etc.	—	3,536

€ million	Jan – Jun 2004	Jan – Jun 2003
Revenue	1,359	1,924
Income before tax	25	- 121
Taxes on income	- 44	- 16
Income after tax	- 19	- 137
Net income	- 11	- 78
Undiluted/diluted earnings per common and preferred share €	- 0.02	- 0.14
Cash flows from operating activities	313	279
Cash flows from investing activities	- 163	- 39
Cash flows from financing activities	- 233	- 253

Revenue

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

Research and development costs

In the first half of 2004, research and development costs totaled € 96 million (1st half of 2003: € 219 million). The decline is nearly exclusively due to the deconsolidation of Heidelberger Druckmaschinen.

Own shares

In the first half of 2004, RWE Group companies bought 10,438 common shares on the capital market at an average cost of € 35.14 per individual share certificate. They account for € 26,721.28 of the Corporation's share capital (0.02 ‰ 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 9,911 common shares at an average price of € 14.61 on the occasion of service anniversaries. Aggregate proceeds amounted to € 144,764.61.

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**	**Expired in 2004**	**At 06/30/04**
1999 tranche	1,935,800	1,244,100	- 1,244,100	0
2000 tranche	4,336,500	2,740,900	- 81,500	2,659,400
2001 tranche	5,222,300	4,143,000	- 142,400	4,000,600
2001A tranche	5,262,300	4,530,900	- 133,400	4,397,500
Total	**16,756,900**	**12,658,900**	**- 1,601,400**	**11,057,500**

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 – Jun 2004	Jan – Jun 2003
Net income	€ million	1,357	621
Number of shares outstanding (weighted average)	thousands	562,405	562,404
Earnings per share: Undiluted / diluted	€	**2.41**	**1.10**

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 same earnings per share are attributed to both common and preferred shares.

Contingent liabilities

Contingent liabilities principally relate to liabilities ensuing from guarantees and warranty agreements. They decreased by € 784 million to € 1,491 million since December 31, 2003. This decline is essentially attributable to liabilities arising from guarantee agreements.

Reconciliation to the operating result

Reconciliation of income from operating activities to the operating result € million	**Jan – Jun 2004**	**Jan – Jun 2003**
Income from operating activities	3,185	2,902
+ Income from investments	496	109
- Non-operating result	- 400	- 76
Operating result	**3,281**	**2,935**

The reconciliation addresses the following points:

- Income from investments includes all costs and income that have arisen in connection with operating investments. Income from investments thus constitutes an integral part of the Group's operating activity. In the first half of 2004, the operating result rose by € 59 million due to the discontinuation of goodwill amortization of companies accounted for under the equity method.

- Income and costs that are unusual from an economic perspective, or are the result of exceptional events, prejudice the assessment of operating activities. They are reclassified as part of the non-operating result. The amortization of goodwill has been abolished as part of the new rules for the balance-sheet treatment of 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 € 484 million. It was not necessary to recognize impairment losses for goodwill during the reporting period.

Reconciliation of EBITDA to the operating result € million	**Jan – Jun 2004**	**Jan – Jun 2003**
EBITDA	4,465	4,376
- Operating depreciation and amortization	- 1,364	- 1,549
EBIT	3,101	2,827
+ Operating income from investments	180	108
Operating result	**3,281**	**2,935**

Financial Calendar 2004 / 2005

08/10/2004 Interim report for the first half of 2004
_Press conference
_Analysts conference

11/09/2004 Interim report for the first three quarters of 2004 including analysts conference call

02/24/2005 Annual report on fiscal year 2004
_Press conference
_Analysts conference

04/14/2005 Annual General Meeting

04/15/2005 Ex-dividend date

05/12/2005 Interim report on the first quarter of 2005 including analysts conference call

08/11/2005 Interim report for the first half of 2005
_Press conference
_Analysts conference

11/16/2005 Interim report for the first three quarters of 2005 including analysts conference call

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

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

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