Report on the first quarter of fiscal 2003

January through March

- Group operating result 33% up year-on-year
- Core business 51% up on previous year
- Non-core business 86% down year-on-year
- Net income 37% down on previous year

RWE
One Group.
Multi Utilities.

At a glance

RWE Group		Jan-Mar 2003	Jan-Mar 2002	+/- in %	Full year 2002
External net sales	€ million	12,826	13,324	- 3.7	46,633
EBITDA	€ million	2,547	1,883	+ 35.3	7,241
Operating result	€ million	1,752	1,317	+ 33.0	4,504
Income before tax	€ million	1,033	1,045	- 1.1	2,722
Net income	€ million	437	693	- 36.9	1,050
Earnings per share					
_Excl. goodwill amortization	€	1.21	1.45	- 16.6	3.25
_Incl. goodwill amortization	€	0.78	1.23	- 36.6	1.87
Operating cash flow	€ million	1,902	1,855	+ 2.5	5,933
Capital expenditure	€ million	5,671	1,529	+ 270.9	16,985
Free cash flow[1]	€ million	972	1,002	- 3.0	1,838

		03/31/03	12/31/02	+/- in %
Net debt	€ million	22,517	15,494	+ 45.3
Workforce[2]		138,116	131,765	+ 4.8

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

»Our core business is more than just stable: It boosted its operating result by 11% in the first quarter—even net of acquisition-related effects.«

Dear Shareholders,

Your company is well positioned in the international arena. This was evidenced quite clearly by its first-quarter performance. For the first time, sales generated by RWE abroad matched the level achieved in Germany. This makes us much less dependent on the German market. With Innogy, the Czech gas operations and American Water on board, we have enough critical mass in the major utility markets and substantial potential for growth. On top of that, the companies we acquired already made significant contributions to the Group's operating result in the first three months of the current financial year.

I would like to summarize the key facts and figures relating to the first quarter.

- We boosted the Group's operating result by 33%. Our core businesses posted a 51% jump in their operating result, primarily due to the consolidation of the acquired companies. Excluding this effect, they recorded 11% growth. Once more, this positive performance was mainly driven by our German electricity operations. However, the Gas Business Area also contributed to our organic earnings growth. Non-core operations were clearly down on the previous year. Heidelberger Druckmaschinen continued to face a significant erosion in demand.

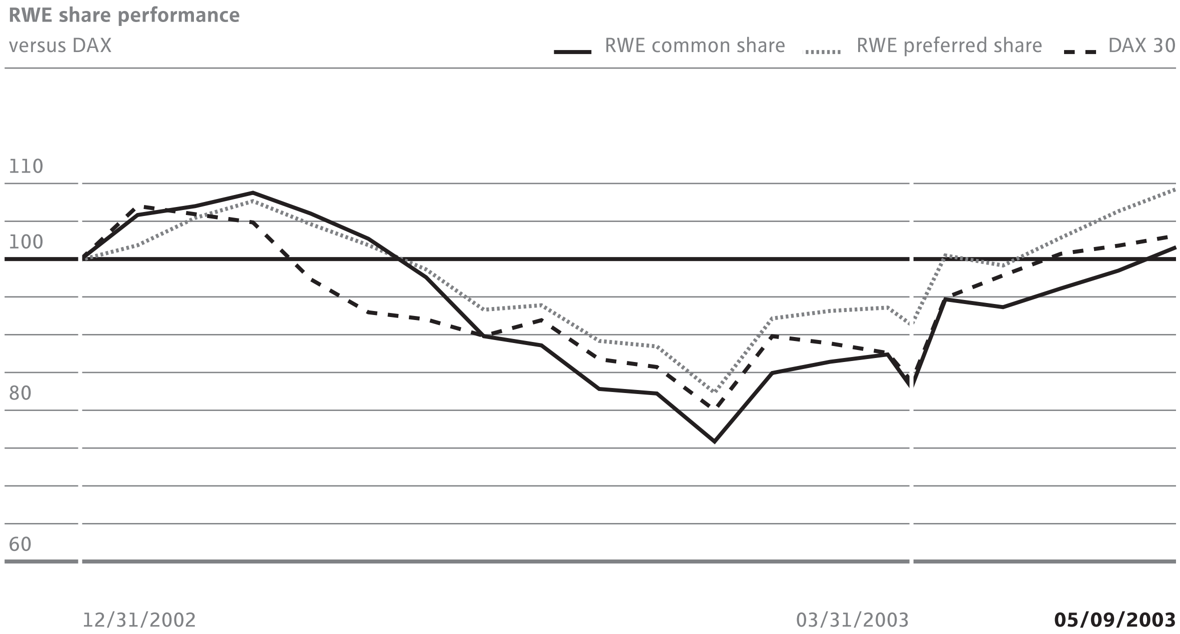
- As planned and announced, the Group's net income reflects the cost of our far-reaching external growth. All of our major acquisitions—along with associated goodwill amortization and interest charges—have been included in our consolidated accounts for the first time. Furthermore, the previous year's corresponding figure was extraordinarily high, owing to gains on disposals. This resulted in a 16% decline in net income before goodwill amortization. After goodwill amortization, net income was 37% down on the previous year.

- Once we paid for the acquisition of American Water, our net financial debt rose to €22.5 billion, as planned. At year-end, our EBITDA will be six times higher than the net interest expense, which gives us a solid position. This was confirmed by Standard & Poor's "A+" credit rating in March.

RWE's common stock was unable to decouple itself from the DAX in the first quarter, declining 17%. It managed to close the gap again in the middle of May. But conditions remain volatile. We are countering the trend with continuity through ongoing cost-cutting, efficient business processes and value-creating organic growth.

Essen, May 2003

Harry Roels
President and CEO



Upward trend following steep dip in share price in Q1

Stock markets continued to slide in the period under review, following slight gains in share prices at the beginning of the year. In the first quarter of 2003, the **DAX 30** slipped 16.2% to 2,424 points. During this period, Germany's leading index was barely able to stay above the 2,200-point mark on occasion. The DAX thus reached the lowest level since November 1995. The stock markets' continued weakness was principally caused by the general uncertainty leading up to the Iraq war, which resulted in extremely high oil prices, and the persistently stagnant economy. Moreover, the situation was compounded by negative business news. It was only once the Iraq war had begun and it became apparent that the conflict may come to an early end that the world's stock markets embarked on the road to recovery, which continued through the end of the reporting period. At the end of April, the index had bounced back above the points total it had recorded at the end of 2002.

RWE's share performance nearly mirrored the DAX. Common stock was down 17.0% to €20.50 in the first quarter of 2003. It fell below the €20 level during the period. Preferred stock put in a slightly more stable performance, slipping 8.7%. It closed the quarter at €18.95. Both the burdens imposed by the general political climate and the global economy as well as errors made by the capital market in assessing the RWE Group's net debt harmed our share performance. However, RWE issues posted a marked gain after the end of the period being reviewed and—in common with the DAX—recovered from the lows recorded in the first quarter.

Core business boosts operating result by 51%

Economic environment still weak
The first three months of 2003 were characterized by the economy's continued weakness. Growth was dampened above all by the Iraq conflict and high oil prices. Contrary to the previous year, the North American continent failed to provide stimuli for the world economy. Although there was a slight resurgence in investment activity in the USA, US consumer spending cooled down. EU countries have yet to overcome the stagnation the markets have been experiencing since 2001. Negative consumer and investor expectations as well as the state budget crises are a burden on demand in the EU single market. By contrast, markets emerging in Eastern Europe and Asia unleashed much stronger growth dynamics, thanks to stable domestic demand. Latin America's economic climate continues to suffer severe burdens from the Argentine financial market crisis.

Germany still shows no signs of economic improvement. This is still due to the lack of consumer and investor spending. According to forecasts published by Germany's five leading economic research institutions, gross domestic product will grow by only 0.5% in 2003.

**Core businesses lift sales by 38%
principally thanks to consolidation effects**
In the first quarter of fiscal 2003, RWE generated €12.8 billion in external net sales. We fell short of the previous year's corresponding figure by 3.7%. Whereas we posted 38.3% growth in our core businesses, our non-core activities only managed to record a quarter of the sales achieved a year earlier. RWE now produces half of its revenues abroad (50.5%), as compared to 27.2% in the corresponding year-earlier period.

The sales trend in our core businesses was primarily determined by the following consolidation effects:

- In the Electricity Business Area, we acquired the UK-based energy utility Innogy (+€1,681 million), which was consolidated as of June 1, 2002, and we consolidated the Polish electricity provider STOEN for the first time effective January 1, 2003 (+€108 million).
- In the Gas Business Area, we consolidated our Czech gas activities as of May 1, 2002 for the first time (+€713 million) and Dutch-based Obragas effective July 1, 2002 (+€121 million).
- In the Water Business Area, we acquired the US water utility American Water, which we included in our consolidated accounts as of January 1, 2003 (+€371 million).

These effects were contrasted in our non-core business by our exit from the Shell & DEA Oil joint venture effective July 1, 2002, which caused us to shed a significant amount of sales. In the first quarter of 2002, our oil downstream business contributed €3,471 million to the Group's external net sales.

Net of first-time consolidations and deconsolidations, sales slipped by 1.0%. This was largely due to the significant deterioration of the sector in which Heidelberger Druckmaschinen is active. Furthermore, our US subsidiary CONSOL Energy had to contend with marked declines in sales in its hard coal business. The sales trend was also hampered by negative currency exchange effects. Due to the weakness of the pound and the dollar, sales generated in these currencies were devalued once they were converted into euros. This mainly affected Thames Water, Innogy, American Water and CONSOL. Currency exchange differences had a net effect of about €200 million on the companies that had already been consolidated in the first quarter of 2002 (Thames Water and CONSOL).

External net sales € million	Jan-Mar 2003	Jan-Mar 2002	+/- in %	Full year 2002
Electricity[1]	7,217	5,482	+ 31.6	23,797
Gas	2,847	1,688	+ 68.7	5,666
Water	1,036	698	+ 48.4	2,850
Environmental Services	486	511	- 4.9	2,136
Total core business	**11,586**	**8,379**	**+ 38.3**	**34,449**
Heidelberger Druckmaschinen	1,212	1,443	- 16.0	4,315
Total non-core business	**1,212**	**4,914**[2]	**- 75.3**	**11,997**[2]
Other activities	28	31	- 9.7	187
Total	**12,826**	**13,324**	**- 3.7**	**46,633**
_Germany	6,352	9,700	- 34.5	28,003
_Foreign	6,474	3,624	+ 78.6	18,630

[1] Net, i.e. excluding the trading of electricity procured from third parties; the previous year's figures have been adjusted.
[2] Including RWE Dea's downstream operations, which were divested as of July 1, 2002, and account for €3,471 million for Q1 of 2002 and €7,682 million for the full year.

EBITDA and operating results post clear double-digit growth over the previous year

We increased the Group's EBITDA and operating result in the first quarter of 2003 despite the sustained economic lull and significant declines in income generated by our non-core business.

EBITDA jumped 35.3% to €2,547 million compared with the previous year. Our core businesses recorded 47.9% growth. Net of the first-time consolidation of Innogy, the Czech gas business and American Water, we advanced EBITDA by 12.4%. Conversely, non-core businesses saw EBITDA decline by 59.0%. Adjusted to exclude our major acquisitions at the Group level, EBITDA rose 3.6%. Without taking the aforementioned currency effect into consideration, which had a negative impact on Thames Water and CONSOL to the tune of -€70 million, the increase would have been more pronounced.

EBITDA € million	Jan-Mar 2003	Jan-Mar 2002	+/- in %	Full year 2002
Electricity	1,290	873	+ 47.8	4,146
Gas	660	357	+ 84.9	1,239
Water	475	377	+ 26.0	1,457
Environmental Services	54	69	- 21.7	281
Total core business	**2,479**	**1,676**	**+ 47.9**	**7,123**
Heidelberger Druckmaschinen	107	245	- 56.3	414
Total non-core business	**107**	**261***	**- 59.0**	**466***
Other/holding/consolidation	- 39	- 54	+ 27.8	- 348
Total	**2,547**	**1,883**	**+ 35.3**	**7,241**

* Including RWE Dea's downstream operations, which were divested as of July 1, 2002, and account for €16 million for Q1 of 2002 and €52 million for the full year.

Operating result € million	**Jan-Mar 2003**	**Jan-Mar 2002**	**+/- in %**	**Full year 2002**
Electricity	919	611	+ 50.4	2,760
Gas	555	295	+ 88.1	885
Water	300	257	+ 16.7	963
Environmental Services	20	28	- 28.6	98
Total core business	**1,794**	**1,191**	**+ 50.6**	**4,706**
Heidelberger Druckmaschinen	39	176	- 77.8	158
HOCHTIEF (at equity)	- 10	46	- 121.7	28
Total non-core business	**29**	**206***	**- 85.9**	**180***
Other/holding/consolidation	- 71	- 80	+ 11.3	- 382
Total	**1,752**	**1,317**	**+ 33.0**	**4,504**

* Including RWE Dea's downstream operations, which were divested as of July 1, 2002, and account for - €16 million for Q1 of 2002 and -€6 million for the full year.

Our operating result rose 33.0% to €1,752 million. Core businesses posted 50.6% growth especially as a result of our large-scale acquisitions. Innogy, our Czech gas activities and American Water contributed €237 million, €154 million and €80 million to the consolidated operating result, respectively. But even without these first-time consolidations, our core businesses would have closed the quarter 11.1% up year-on-year due to our strong electricity and gas business. By contrast, our non-core activities recorded a substantial drop, with their operating result declining by 85.9%. This was mainly due to the collapse in demand experienced by Heidelberg. Net of the aforementioned first-time consolidations, the Group's operating result was 2.7% down on the year-earlier level owing to our weak non-core business. This figure also reflects the adverse currency exchange effects (Thames Water and CONSOL) to the tune of €43 million.

With an operating result of €919 million, the Electricity Business Area was once again the mainstay of our earnings. It boosted earnings by 50.4% year-on-year. This was primarily due to the fact that Innogy was consolidated for the first time. And this effect was compounded by the fact that the period between January and March is typically the strongest quarter for the British energy utility for weather-related reasons. But thanks to the continued upward trend in our German electricity business, the operating result improved by 11.6% even excluding Innogy. Once again, our cost-cutting program, higher wholesale prices and our exclusively return-oriented sales policy were the major success factors. Conversely, CONSOL's earnings situation worsened even more despite improved margins in the gas business. Our US subsidiary sold much less hard coal than in the previous year due to technically-induced production downtimes and low demand. CONSOL's operating result decreased by €29 million to €46 million. This includes the negative currency exchange effects.

The Gas Business Area improved its operating result considerably. It rose 88.1% to €555 million. The Midstream/Downstream Division more than doubled its operating result. Contributing an operating result of €154 million in the first quarter, the inclusion of the Czech gas activities was a major driver. In addition, the winter quarter is typically the period in which the Czech gas business generates above-average earnings. Net of consolidations, the Gas Business Area would have closed the quarter being reviewed clearly up on the previous year's first quarter, recording a jump of 27.8%, since sales were higher due to the weather. The Upstream Division was also able to boost its operating result, posting 45.7% growth.

Major drivers were improved margins on the back of higher oil prices as well as the continuous expansion of our oil and gas production.

The Water Business Area grew its operating result by 16.7% to €300 million. This was due to the first-time consolidation of American Water. American Water generated an operating result of €80 million for the quarter, which is essentially unchanged from the previous year's first quarter under US GAAP. Due to seasonal effects, earnings generated from January to March were significantly below the quarterly average for the year. During the winter months, water consumption decreases and the maintenance costs incurred in the winter to remedy damage to pipes caused by the cold are above average. Earnings produced by our Water Business Area were dampened by negative currency exchange effects.

Once again, the Environmental Services Business Area saw its earnings situation deteriorate considerably in the first quarter. Its operating result was 28.6% down year-on-year. The cyclical downturn and the much more severe competitive pressure in the residential and commercial waste sectors were the main reasons.

In the non-core business, Heidelberger Druckmaschinen recorded an operating result of €39 million—less than a quarter of its operating result total for the first quarter of 2002. The world market leader in printing technology suffered most recently under a dramatic cyclical downturn, which was especially hard felt in its key markets, i.e. in Germany and the USA. HOCHTIEF, which is included in our consolidated financial statements at equity based on its prorated net income, closed the reporting period with a loss of €10 million. This was due to the devaluation of securities held in a special fund and an increased tax rate. The previous year's corresponding figure was exceptionally high owing to proceeds from the sale of the real-estate company Monachia. As expected, HOCHTIEF's operating result displayed a stable development.

Reconciliation to net income € million		**Jan-Mar 2003**	**Jan-Mar 2002**	**+/- in %**	**Full year 2002**
Operating result		**1,752**	**1,317**	**+ 33.0**	**4,504**
+ Non-operating result		35	297	- 88.2	850
_Goodwill amortization		- 244	- 122	- 100.0	- 780
+ Financial results		- 754	- 569	- 32.5	- 2,632
Income before tax		**1,033**	**1,045**	**- 1.1**	**2,722**
- Taxes on income		- 500	- 182	- 174.7	- 1,367
Income after tax		**533**	**863**	**- 38.2**	**1,355**
- Minority interest		- 96	- 170	+ 43.5	- 305
Net income					
_Excl. goodwill amortization		681	815	- 16.4	1,830
_Incl. goodwill amortization		437	693	- 36.9	1,050
Earnings per share					
_Excl. goodwill amortization	€	1.21	1.45	- 16.6	3.25
_Incl. goodwill amortization	€	0.78	1.23	- 36.6	1.87

Decrease in net income reflects acquisition costs

As in the consolidated financial statements for fiscal 2002, the reconciliation to net income reflects planned expenditure on our strong external growth. Now that American Water has been fully consolidated as of January 1, the first quarter of 2003 is the first reporting period that includes all major acquisitions, including goodwill amortization and interest. Net income generated in the year-earlier quarter was exceptionally high, owing to proceeds on divestments and a low tax rate.

The non-operating result declined by €262 million to €35 million. This decrease is mainly due to three factors. High gains were received on disposals in the previous year, whereas there were no comparable proceeds in the period being reviewed. Moreover, goodwill amortization doubled to €244 million. In addition, we accrued €84 million in further restructuring provisions since the market situation experienced by Heidelberger Druckmaschinen worsened even further. The release of €326 million in nuclear energy provisions had a counteractive effect.

Financial results were down 32.5% to -€754 million. This was principally due to the acquisition-induced rise in the interest expense. Income before tax was roughly on par with the previous year's level at €1,033 million. In contrast, income after tax declined by 38.2% since the tax rate increased from 17% to 48%. The previous year's corresponding figure benefited from high tax-exempt gains on disposals. The rise in goodwill amortization also contributed to the increase in the tax rate, because it causes pretax income to decrease, but does not reduce taxes. Minority interests declined by 43.5%. This was caused by the substantial drop in earnings contributed by Heidelberg and CONSOL.

At €681 million, net income before goodwill amortization was 16.4% down on the previous year. This results in earnings per share of €1.21. Including goodwill amortization, net income declined by 36.9% to €437 million. Corresponding earnings per share decreased to €0.78.

Cost offensive: 80% of total goal realized

We aim to achieve €300 million in cost reductions for fiscal 2003 as a whole. Measures implemented already secured some €70 million in cost savings in the first quarter alone. Initiated in 2000, the program focuses on our German electricity operations and envisions reducing annual costs by €2,555 million by the end of 2004. As of March 31, 2003, we had already realized €2,025 million of this target and thus achieved nearly 80% of the cost savings goal.

Cash flow statement—key figures

Operating cash flow generated in the first quarter of 2003 totaled €1,902 million. We thus eclipsed the previous year's figure by 2.5%. The significant improvement in our operating result—adjusted to exclude non-cash effects—contributed to this performance. A counteracting effect was felt from the fact that we reduced net current assets to a lesser extent than in the year-earlier period. Cash flows from investing activities increased by €2,945 million to €4,488 million above all as a result of the acquisition of American Water. Cash flows from financing activities amounted to €2,576 million compared with €1,696 million in the previous year's corresponding quarter. All in all, cash and cash equivalents totaled €2,167 million and were thus essentially unchanged from the beginning of the quarter. Free cash flow, which we define as operating cash flow minus capital expenditure on property, plant and equipment and intangible assets, totaled €972 million and was thus again nearly on par with the high year-earlier level.

Capital expenditure rises through acquisition of American Water

In the first quarter of 2003, capital spending totaled €5,671 million. The clear increase over the previous year is largely due to capital expenditure on financial assets, with the acquisition of the US-based water utility American Water having a major impact (+€4,535 million). Net of this acquisition, capital expenditure on financial assets would have dropped to a third of the previous year's level, or €206 million. Capital expenditure on property, plant and equipment amounted to €930 million. The 9.0% increase is principally due to the effects of consolidation from the inclusion of Innogy's investing activity, the Czech gas companies and American Water.

Capital expenditure € million	Jan-Mar 2003	Jan-Mar 2002	+/- in %	Full year 2002
Electricity	523	663	- 21.1	3,142
Gas	80	253	- 68.4	5,365
Water	4,921	279	-	2,181
Environmental Services	21	108	- 80.6	695
Total core business	**5,545**	**1,303**	**+ 325.6**	**11,383**
Heidelberger Druckmaschinen	112	120	- 6.7	365
Total non-core business	**112**	**133***	**- 15.8**	**397***
Other activities	14	93	- 84.9	5,205
Total	**5,671**	**1,529**	**+ 270.9**	**16,985**
_Capital expenditure on property, plant and equipment	930	853	+ 9.0	4,095
_Capital expenditure on financial assets	4,741	676	+ 601.3	12,890

* Including RWE Dea's Downstream operations, which were divested as of July 1, 2002, and accounted for €13 million for Q1 of 2002 and for €32 million for the full year.

Personnel headcount grows 5% due to acquisitions

As of March 31, 2003, the RWE Group employed 138,116 people (full time equivalent). Our workforce expanded by 6,351 employees, or 4.8%, vis-à-vis December 31, 2002. Operational changes caused the labor force to shrink by a net 278 employees (-0.2%). Heidelberger Druckmaschinen implemented substantial job cuts (-359). First-time consolidations and deconsolidations added 6,629 employees. Primary drivers were the first-time consolidation of American Water (+5,788) and the first-time inclusion of the Polish-based power utility STOEN (+1,677).

Workforce*	As of 03/31/03	As of 12/31/02	+/- in %
Electricity	71,540	69,441	+ 3.0
Gas	9,074	9,176	- 1.1
Water	16,848	11,907	+ 41.5
Environmental Services	14,208	14,406	- 1.4
Total core business	**111,670**	**104,930**	**+ 6.4**
Non-core business (Heidelberger Druckmaschinen)	23,065	23,460	- 1.7
Other/holding	3,381	3,375	+ 0.2
Total	**138,116**	**131,765**	**+ 4.8**
_Germany	76,067	76,202	- 0.2
_Foreign	62,049	55,563	+ 11.7

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

Acquisition of American Water completed successfully

We concluded the acquisition of American Water Works on January 10, 2003—earlier than anticipated. The deal received approval from the company's shareholders, US antitrust authorities and all the regulatory authorities involved. Bill Alexander, President and CEO of Thames Water, was appointed chief executive of the US water utility, a position he fills concurrently to his existing duties. The company was renamed American Water and heads up RWE's entire water business in North and South America.

RWE places the first 30-year bond issued by a utility on the euro capital market

To finance the acquisition of American Water, we increased our existing debt issuance program from €15 billion to €20 billion. By the end of January, we had already privately placed a €750 million euro bond with a term of 30 years. The bond was extremely well received and was oversubscribed several times. It was the first 30-year issuance by a utility on the euro capital market.

Net debt

Net financial debt rose by €7.0 billion in the period being reviewed. It amounted to €22.5 billion as of March 31, 2003. However, taking into account the higher value of financial derivatives that we used to hedge our liabilities against currency and interest effects, net financial debt was about €1.1 billion lower. Both the financing of the €4.5 billion paid to purchase American Water and the assumption of the US water utility's liabilities contributed to the increase in debt. High operating cash flow of €1.9 billion and proceeds from asset disposals of €0.6 billion had a counteracting effect.

At the end of the first quarter, due to the seasonally-induced high EBITDA, the ratio of EBITDA to net interest was 9.0 and thus remained clearly above the lower limit of 5 defined by us and the value of 6 expected for the full year.

Stable credit rating

The world's two leading rating agencies confirm our good creditworthiness despite our most recent acquisitions. Standard & Poor's confirmed our "A+" rating on March 13, merely changing the outlook from "stable" to "negative." Moody's upheld our "A1" rating with a "negative outlook." Both agencies positively underscored the Group's solid portfolio, placing emphasis on the water business, our high liquidity and our current course for consolidation.

Outlook: Core businesses post double-digit growth in operating results

We anticipate being able to uphold the forecast on the Group's earning situation for the full year that we published in March together with the 2002 financial statements.

We will grow our **consolidated operating result** again in the current financial year. We expect to post a double-digit increase that will be achieved solely thanks to our core businesses. This will principally result from the first-time consolidation of American Water and the first-time full-year consolidation of Innogy and our Czech gas operations. Moreover, we anticipate a slight rise in earnings generated by our core businesses even without these consolidation effects. This will be based on the sustained upward trend in our German electricity business. Negative currency exchange effects will have a counteractive effect. Excluding American Water, which was not included in the Group's 2002 consolidated financial statements, and including Innogy and our Czech gas activities on a prorated basis for 2002, we expect our operating result to decline by some €200 million due to currency effects. If one included American Water, Innogy and the Czech gas business in the comparison to the previous year on a full-year basis, the currency effect would be in the order of magnitude of about -€300 million. Our budget is based on the assumption that the average rate of the euro to the US dollar and British pound will be 1:1.10 and 1:0.70, respectively. However, currency charges will largely be absorbed by the non-operating result and the financial results. Accordingly, when converted to euros, goodwill amortization will decrease, as will the interest expense, due to the fact that acquisition financing was conducted in US dollars and British pounds.

We expect the Electricity Business Area to increase its operating result by low double digits. This improvement in earnings will stem primarily from the full-year consolidation of Innogy, compared with seven months of consolidation in 2002. We anticipate our German electricity operations will continue their positive earnings trend, albeit only with moderate growth rates. Measures supporting this development will be the savings realized as part of our cost-cutting program and the slight increase of wholesale electricity prices. The aforementioned currency exchange effects relating to Innogy and CONSOL will depress earnings.

We also expect our Gas Business Area to post moderate double-digit earnings growth. Our Midstream/Downstream Division will record a substantial increase. Growth will be driven by the fact that, in 2003, we will include our Czech gas activities in our consolidated accounts on a full, twelve-month basis for the first time. However, this segment will improve its operating result even without this consolidation effect. This is principally due to the weather-induced rise in sales generated by our German business. According to our forecasts, the Upstream Division will close the fiscal year slightly down on the previous one. Lower oil prices may curtail the operating result in the current financial year. We secured some 50% of the annual production volume with forward contracts.

Operating results generated by the Water Business Area will post significant double-digit growth over the previous year, primarily owing to the first-time consolidation of American Water. As a result, this business will contribute about a quarter of the Group's operating result. But, as mentioned earlier, we are expecting negative currency effects. Furthermore, the regulated UK water business will draw higher capital expenditure, the lion's share of which we are likely to be able to compensate from the beginning of the next regulatory period in 2005 onwards. American Water currently has to contend with poor background economic conditions as well as the increased cost of security and insurance services caused by the September 11 terrorist attacks.

The unfavorable economic conditions under which the Environmental Services Business Area has to operate will become even worse due to the introduction of the mandatory can deposit in Germany. We believe we will only partially be able to offset burdens through cost-cutting measures in the 2003 financial year. Therefore, this business area's operating result will fall just short of the previous year's level.

Our non-core businesses will see another decline in their earnings contribution. Heidelberger Druckmaschinen has to deal with a substantial drop in demand in the printing industry. Therefore, the company has stepped up the cost-reduction program launched in the fall of 2002. The initial €200 million annual savings target was increased by €80 million. Although the cost-cutting program will largely take effect in 2003, Heidelberg's earnings situation will deteriorate considerably during RWE's fiscal year. We expect the earnings contributed by our stake in HOCHTIEF, which is active in the construction industry, to be on par with the year-earlier level.

As explained in the commentary on the first quarter, the reconciliation to **net income** fully reflects the effects of our acquisitions for the first time. Non-operating results will be markedly down year-on-year due to the anticipated increase in goodwill amortization of approximately €1 billion and the decline in sales proceeds. The further release of nuclear energy provisions implemented to account for the reduction in nuclear waste disposal costs will have a counteracting effect. We expect an order of magnitude that at least matches the previous year's level (€963 million). Financial results will continue to drop. This decrease will principally stem from the cost of financing our major acquisitions and the redemption of debt assumed from the acquired companies. Currency effects will provide relief that will largely compensate the negative impact of currency exchange rates on our operating result. Based on the aforementioned planning measures, we expect our net income to experience a burden of €50 million or less at the end of the year. We will have another high tax rate, partially because we will not capitalize any deferred taxes for losses carried forward, as in 2002. In so doing, we are recognizing that we are unlikely to be able to offset a large portion of these tax loss carryforwards against domestic tax in the foreseeable future. We already commented on this in the 2002 annual report. All in all, net income after goodwill amortization will be lower than the €1,050 million achieved a year earlier. We anticipate a decline of between 25% and 30%. Excluding goodwill amortization, net income will roughly match the previous year's level.

Our **net debt**, which rose to €22.5 billion at the end of March 2003 owing to acquisitions, will increase even further over the course of the second quarter primarily due to a tax backpayment and the dividend payout. Our prognosis included a high of €25 billion and claimed that we would reduce our net debt to under €24 billion by the end of the year. Due to the weak dollar and pound, and based on the assumed exchange rates of US$1.10 and £0.70 to the euro, we expect net debt will total less than €23 billion at the end of the year.

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 have made based on information available to us at the time this document was prepared. In the event that the underlying assumptions do not materialize or additional risks arise, actual performance can deviate from the performance expected at present. Therefore, we cannot assume responsibility for the correctness of these statements.

Electricity Business Area

- Operating result up 50%
- 12% organic earnings growth thanks to successful German business

Key figures		Jan-Mar 2003	Jan-Mar 2002	+/- in %	Full year 2002
Electricity sales volume[1]	kWh million	79,995	63,891	+ 25.2	267,502
External net sales[1/2]	€ million	7,217	5,482	+ 31.6	23,797
_Electricity	€ million	5,016	3,503	+ 43.2	15,714
_Electricity trading	€ million	327	184	+ 77.7	869
EBITDA	€ million	1,290	873	+ 47.8	4,146
Operating result	€ million	919	611	+ 50.4	2,760
Capital expenditure	€ million	523	663	- 21.1	3,142

	03/31/03	12/31/02	+/- in %
Workforce[3]	71,540	69,441	+ 3.0

[1] Net, i.e. excluding the trading of electricity procured from third parties; the previous year's figures have been adjusted.
[2] Includes €273 million in direct electricity taxes (Q1 of the previous year: €230 million).
[3] Full time equivalent, according to the percentage of full-time employment.

In the first quarter of 2003, **German** power consumption was about 4% up on the previous year. This was mainly due to the fact that the weather was markedly cooler and that—despite the stagnant economy—the raw materials industry, which is very energy intensive, increased its production, with the chemicals sector leading the way. Wholesale prices paid for electricity rose again. Average one-year forward prices paid for power deliveries in 2004 (day's prices) were €24.89 per megawatt hour of base-load power from January to March and were thus 7.8% higher than the previous year's comparable figure. In the peak-load segment, average prices paid for such forward contracts were up 13.7% to €37.32. Prices paid for power deliveries to end customers rose accordingly. Electricity prices paid by industrial enterprises advanced by 5%. Household customers had to pay about 6% more on average. This was due to price developments on the wholesale market and the increase in the electricity tax that took effect on January 1, 2003, as well as the mounting levies charged to subsidize renewables-based energies.

In the **UK**, our second-largest electricity market, electricity consumption was virtually unchanged. The effects of the cooler weather and the economic slump on demand for electricity offset each other for the most part. Wholesale electricity prices appear to be on the road to recovery since then.

Our **electricity sales volume** was up 25.2% to 80.0 billion kWh, primarily as a result of the first-time inclusions of Innogy and the Polish electric utility STOEN. In the period under review, these companies had sales volumes of 16.3 billion kWh and 2.0 billion kWh, respectively.

External net sales generated by the Electricity Business Area rose 31.6% to €7.2 billion. This was principally due to the two aforementioned effects of consolidating Innogy (+€1,681 million) and STOEN (+€108 million). They were contrasted by declines in operating sales generated by our power trading activities and CONSOL. Due to production downtimes and low demand, our US subsidiary sold far less hard coal than in the previous year. In addition, CONSOL's contribution was negatively affected by currency exchange rates owing to the drop in the dollar.

Electricity Business Area **Key figures by division**	**Total sales***		**External net sales***		**EBITDA**		**Operating result**	
	January - March		**January - March**		**January - March**		**January - March**	
€ million	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Power Generation	1,062	1,212	131	161	253	161	196	121
Lignite-Fired Power Generation and Mining	1,113	1,227	693	802	271	279	143	149
Trading	1,408	2,295	570	781	5	29	4	30
Net	1,197	1,107	560	387	177	208	130	160
Sales and Marketing	3,008	2,885	2,916	2,796	265	174	186	150
Industrial Services	645	540	593	489	13	- 8	2	- 21
UK Energy	1,681	-	1,681	-	276	-	237	-
Other/electricity consolidation	- 2,836	- 3,028	73	66	30	30	21	22
_Harpen	77	67	73	66	30	20	21	13
Total	**7,278**	**6,238**	**7,217**	**5,482**	**1,290**	**873**	**919**	**611**

* Net, i.e. excluding the trading of electricity procured from third parties; the previous year's figures have been adjusted.

The Electricity Business Area improved yet again. **EBITDA** was up 47.8% to €1,290 million, and **operating results** advanced 50.4% to €919 million. This was principally due to Innogy's inclusion. The period from January to March is typically the British utility's strongest quarter due to the weather. The operating result improved 11.6% even without Innogy, thanks to the sustained upward trend in our German electricity business. Once again, the key success factors were our cost-cutting program, higher wholesale prices and our sales policy, which is sharply focussed on returns. By contrast, CONSOL's earnings decreased by €29 million to €46 million despite an improvement in gas margins. This was principally due to the weak performance put in by the hard coal business and the unfavorable dollar-to-euro exchange rate.

We expect the Electricity Business Area to increase its operating result by low double digits for **fiscal 2003 as a whole**. This improvement will stem primarily from the full-year consolidation of Innogy, compared with seven months of consolidation in 2002. We anticipate our German electricity operations will continue their positive earnings trend, albeit only with moderate growth rates. Measures supporting this development will be the savings realized as part of our cost-cutting program and the slight increase of wholesale electricity prices. The aforementioned currency exchange effects relating to Innogy and CONSOL will depress earnings.

Gas Business Area

- Operating result jumps 88% year-on-year primarily due to consolidations
- Cold winter months spur gas sales

Key figures		Jan-Mar 2003	Jan-Mar 2002	+/- in %	Full year 2002
Production (Upstream)					
_Natural gas[1]	m^3 million	762	679	+ 12.2	2,382
_Petroleum	thousand m^3	1,416	1,260	+ 12.4	5,408
Natural gas sales (Midstream/Downstream)	kWh million	112,685	57,765	+ 95.1	220,258
External net sales	€ million	2,847	1,688	+ 68.7	5,666
EBITDA	€ million	660	357	+ 84.9	1,239
Operating result	€ million	555	295	+ 88.1	885
Capital expenditure	€ million	80	253	- 68.4	5,365

	03/31/03	12/31/02	+/- in %
Workforce[2]	9,074	9,176	- 1.1

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

Prices on the **world oil market** were very high in the first quarter of fiscal 2003. Average prices paid for a barrel of Brent crude amounted to $31.5, compared with $21.0 in the previous year's corresponding period. Price developments were characterized by speculation and nervousness in anticipation of the Iraq war. The situation was compounded by production downtimes caused by political instability in Venezuela and Nigeria. Contributing factors were the extremely low inventories in the US as well as long periods of cold weather in parts of Europe and the USA.

Natural gas consumption in Germany and the Czech Republic was up 14% due to cool weather conditions. **Prices** paid for gas on the German market, which track the development of oil prices with a six-month lag, recovered somewhat after recording lows in the middle of 2002. However, they were still 2.4% down on the level achieved in the first quarter of 2002 for deliveries made to municipal and regional utilities. Conversely, gas sales to industrial customers cost 10% more on average, because the window for making price adjustments has become smaller. Private and commercial customers paid about 2.5% more for gas. Prices in the Czech Republic were still some 10% down year-on-year.

Our Upstream Division stepped up its **gas production** by 12.2% to 762 million m^3. In Germany and Great Britain, production from existing oil fields was intensified due to the weather-induced increase in demand. In addition, we became more efficient in exploiting reserves in Egypt. **Natural gas sales volumes** generated by the Midstream/Downstream Division nearly doubled to 112.7 billion kWh. This was principally due to the first-time consolidation of our Czech gas operations as of May 1, 2002. Furthermore, Dutch-based Obragas was included in our consolidated accounts effective July 1, 2002. But sales volumes advanced significantly due to the weather, even without these two consolidation effects. Net of consolidations, they rose by 16.5%. RWE Dea's **petroleum production** increased by 12.4% to 1.4 million m^3 as a result of the expansion of production capacity in the German Mittelplate oilfield.

Gas Business Area Key figures by division	Total sales January-March		External net sales January-March		EBITDA January-March		Operating result January-March	
€ million	2003	2002	2003	2002	2003	2002	2003	2002
Midstream/Downstream	2,555	1,426	2,488	1,390	472	226	418	201
_Gas in the Czech Republic[1]	724	-	713	-	185	-	154	-
Upstream	353[2]	341[2]	359	298	188	131	137	94
Total	**2,908**	**1,767**	**2,847**	**1,688**	**660**	**357**	**555**	**295**

[1] Included as of May 1, 2002.
[2] Including the consolidation of sales within the business area.

External net sales were boosted by 68.7% to €2,847 million in the Gas Business Area. We also posted a substantial gain in the Midstream/Downstream Division. Drivers were the first-time consolidation of our Czech gas business (+€713 million) and Obragas (+€121 million) as well as higher gas sales volumes, which were primarily spurred by the weather. Additionally, the increase of the natural gas tax had an effect on prices. The Upstream Division also recorded a clear rise in sales. The increase was caused by the high level of oil prices and the aforementioned oil and gas sales growth. The Gas Business Area also benefited from the non-recurrent effect of the transfer of our refinery and service-station business to the Shell & DEA Oil joint venture and the sale of these operations to Shell. Proceeds generated from the joint venture were stated as intra-group sales on a 50% basis until our exit as of July 1, 2002. Since then, they have been fully allocated to external net sales.

EBITDA was up 84.9% to €660 million, and **operating results** advanced 88.1% to €555 million. The Midstream/Downstream Division more than doubled its operating result. Key contributing factors were the inclusion of our Czech gas activities, which generated an operating result of €154 million in the first quarter. Moreover, the Czech gas business also records above-average earnings in the winter months. Net of consolidation effects, this business area would have closed the reporting period markedly up on the previous year (+27.8%) due to the weather-induced increase in sales volumes. The Upstream Division was able to improve its operating result significantly in its own right, posting 45.7% growth. Major drivers were improved margins owing to higher oil prices and the continuous expansion of our oil and gas production.

We anticipate a moderate double-digit rise in earnings for **fiscal 2003 as a whole**. Our Midstream/Downstream Division will record a substantial increase. Growth will be driven by the fact that, in 2003, we will include our Czech gas activities in our consolidated accounts on a full, twelve-month basis for the first time. However, the operating result generated by this segment will close the financial year up on the previous one even without this consolidation effect. This is principally due to the weather-induced rise in sales generated by our German business. According to our forecasts, the Upstream Division will close the fiscal year slightly down on the previous one. Lower oil prices may curtail the operating result in the current financial year. We secured some 50% of the annual production volume with forward contracts.

Water Business Area

- Operating result 17% up year-on-year
- American Water consolidated for the first time

Key figures € million	Jan-Mar 2003	Jan-Mar 2002	+/- in %	Full year 2002
External net sales	1,036	698	+ 48.4	2,850
EBITDA	475	377	+ 26.0	1,457
Operating result	300	257	+ 16.7	963
Capital expenditure	4,921	279	-	2,181

	03/31/03	12/31/02	+/- in %
Workforce*	16,848	11,907	+ 41.5

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

The **global water market** remained stable in the first quarter. Business in the water and wastewater services market harbors long-term growth potential due to the significant sums required to finance the modernization of network infrastructure. Privatization and outsourcing trends are still alive. However, competition for new contracts has picked up considerably—especially in large industrial nations.

Water Business Area Key figures by region	External net sales January-March		EBITDA January-March		Operating result January-March	
€ million	2003	2002	2003	2002	2003	2002
Great Britain and Ireland	455	503	256	281	156	195
_Regulated business	401	440	236	258	140	166
Americas	461	110	171	41	106	30
Europe, Middle East, Africa	93	62	46	45	38	25
Asia-Pacific	27	23	2	10	0	7
Total	**1,036**	**698**	**475**	**377**	**300**	**257**

At €1,036 million, **external net sales** were 48.4% higher than in the previous year. This was mainly due to the first-time consolidation of American Water, which took effect on January 1, 2003 (+€371 million). The Americas thus advanced to become our strongest sales region. We experienced a decline in sales in our UK business owing to currency exchange rates. Sales generated in Europe/Middle East/Africa climbed more than 50% through the inclusion of RWW Rheinisch-Westfälische Wasserwerksgesellschaft (+€23 million) and of the two Spanish water utilities PRIDESA and Ondagua (+€20 million).

EBITDA amounted to €475 million—up 26.0% on the previous year's level. The **operating result** rose 16.7% to €300 million, primarily due to the first-time consolidation of American Water. The company posted an operating result of €80 million. This figure was roughly on par with the level achieved a year earlier when American Water was still applying US GAAP. Due to seasonal effects, earnings generated from January to March were substantially lower than the quarterly average for the entire year. Less water is consumed in the winter months and maintenance costs are above average during this period as pipes rupture owing to the cold weather. Operating results recorded by the water business were burdened by a negative currency effect of €32 million compared with the previous year.

Operating results generated by the Water Business Area for **fiscal 2003 as a whole** will post significant double-digit growth over the previous year, primarily owing to the first-time consolidation of American Water. As a result, this business will contribute about a quarter of the Group's operating result. However, the negative currency effects mentioned earlier will depress earnings. Furthermore, the regulated UK water business will draw higher capital expenditure, the lion's share of which we are likely to be able to compensate from the beginning of the next regulatory period in 2005 onwards. American Water currently has to contend with poor background economic conditions as well as the increased cost of security and insurance services caused by the September 11 terrorist attacks.

Environmental Services Business Area

- Operating result down 29% on previous year
- Margins under considerable pressure due to fiercer competition

Key figures € million	**Jan-Mar 2003**	**Jan-Mar 2002**	**+/- in %**	**Full year 2002**
External net sales	486	511	- 4.9	2,136
EBITDA	54	69	- 21.7	281
Operating result	20	28	- 28.6	98
Capital expenditure	21	108	- 80.6	695
	03/31/03	**12/31/02**	**+/- in %**	
Workforce*	14,208	14,406	- 1.4	

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

Germany's waste disposal sector continued to suffer from the economy's persistent weakness. Pressure from competition in the residential and commercial waste business, which was already high, became even more severe. Risks associated with the recycling enterprise "Duales System Deutschland" (DSD) from the mandatory deposit on beverage packagings introduced on January 1, 2003, and from the new invitation to tender for DSD contracts for 2004 initiated in the middle of March. The price level in the secondary raw material sector was stable. This applies especially to the waste paper as well as the electronic and electric scrap markets.

At €486 million, **external net sales** were 4.9% lower than in the previous year. We experienced shortfalls primarily in the residential and commercial waste sectors. Furthermore, the volume of orders received in the cross-border waste and recycling business with the Benelux countries declined.

This business area's earnings situation worsened markedly despite the restructuring that was carried out as planned. Due to the aforementioned burdens, **EBITDA** dropped by 21.7% to €54 million. At €20 million, the **operating result** was 28.6% lower than a year earlier.

Conditions underlying our German waste disposal business are already unfavorable, and they will continue to deteriorate as a result of the introduction of the can deposit in Germany for **fiscal 2003 as a whole**. We believe we will only partially be able to offset burdens through cost-cutting measures in the 2003 financial year. Therefore, this business area's operating result will fall just short of the previous year's level.

Heidelberger Druckmaschinen

- Operating result down 78%
- Demand in the printing machine industry still at record low

Key figures € million	Jan-Mar 2003	Jan-Mar 2002	+/- in %	Full year 2002
External net sales	1,212	1,443	- 16.0	4,315
EBITDA	107	245	- 56.3	414
Operating result	39	176	- 77.8	158
Capital expenditure	112	120	- 6.7	365

	03/31/03	12/31/02	+/- in %
Workforce*	23,065	23,460	- 1.7

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

The cyclical downturn in the printing industry carried over into the first quarter of 2003. Germany and the USA, both key markets for the Heidelberg Group, were characterized by substantial overcapacities and the ensuing lower investment by printing companies. Economic uncertainty in light of the war against Iraq also had a dampening effect.

This difficult situation is reflected in **orders received** by Heidelberg. Posting an aggregate volume of €917 million, order intake was 9.7% down year-on-year in the first quarter of 2003. By the end of the period under review, **orders on hand** had declined by 5.1% to €1,070 million.

Heidelberger Druckmaschinen recorded sales and earnings setbacks across the board. All in all, **external net sales** slipped 16.0% to €1,212 million. **EBITDA** was down 56.3% to €107 million. At €39 million, the **operating result** was less than a quarter the amount recorded in the corresponding period a year earlier. This was principally due to the substantial decline in earnings in the sheetfed business.

We expect demand for printing technology to remain extremely weak during **RWE's current fiscal year**. Therefore, Heidelberger Druckmaschinen stepped up the cost-reduction program launched in the fall of 2002. The initial €200 million annual savings target was increased by €80 million. Although the cost-cutting program should take effect in 2003 for the most part, Heidelberg's earning situation will deteriorate considerably in RWE's financial year.

Supervisory Board

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Chairman

Frank Bsirske*
Deputy Chairman

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Dr. Alfons Friedrich Titzrath

Prof. Karel Van Miert

Erwin Winkel*

* Employee representative.

Executive Board

Harry Roels (as of February 1, 2003)
Chairman

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

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

Dr. Gert Maichel

Manfred Remmel (until March 13, 2003)

Dr. Klaus Sturany

Jan Zilius

Consolidated income statement

€ million		Jan-Mar 2003	Jan-Mar 2002
Revenue[1]		**12,826**	**13,324**
Mineral oil tax/natural gas tax/electricity tax		- 333	- 1,495
Revenue (without mineral oil tax/natural gas tax/electricity tax)		**12,493**	**11,829**
Changes in finished goods and work in progress/other own work capitalized		- 53	108
Cost of materials[1]		- 7,097	- 7,056
Staff costs		- 1,916	- 1,845
Depreciation, amortization and impairment losses		- 1,072	- 791
Other operating result		- 572	- 1,230
Income from operating activities		**1,783**	**1,015**
Income from investments		4	599
Financial result		- 754	- 569
Income before tax		**1,033**	**1,045**
Taxes on income		- 500	- 182
Income after tax		**533**	**863**
Minority interest		- 96	- 170
Net income		**437**	**693**
Earnings per share[2]			
_Excl. goodwill amortization	€	1.21	1.45
_Incl. goodwill amortization	€	0.78	1.23

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

Consolidated balance sheet

Assets € million	**As of 03/31/03**	**As of 12/31/02**
Non-current assets		
Intangible assets	20,905	18,518
Property, plant and equipment	39,853	33,779
Financial assets	7,119	9,280
	67,877	**61,577**
Current assets		
Inventories	3,106	3,505
Accounts receivable and other assets	17,182	16,371
Marketable securities	7,691	8,459
Cash and cash equivalents	2,167	2,143
	30,146	**30,478**
Deferred taxes	**7,725**	**7,593**
Prepaid expenses	**667**	**625**
	106,415	**100,273**

Equity and liabilities € million	**As of 03/31/03**	**As of 12/31/02**
Equity / minority interest		
Group interest	6,516	6,429
Minority interest	2,505	2,495
	9,021	**8,924**
Provisions	**40,807**	**40,187**
Liabilities	**45,601**	**41,140**
Deferred taxes	**7,242**	**6,566**
Deferred income	**3,744**	**3,456**
	106,415	**100,273**

Consolidated cash flow statement

€ million	Jan-Mar 2003	Jan-Mar 2002
Income after tax	**533**	**863**
Depreciation, amortization, impairment losses, write-backs	1,074	794
Changes in long-term provisions	- 111	446
Deferred taxes/non-cash expenses/income	142	- 581
Changes in net current assets/other	264	333
Cash flows from operating activities	**1,902**	**1,855**
Capital expenditure on tangible and financial assets	- 5,671	- 1,529
Proceeds from disposition of tangible and financial assets	621	920
Changes in marketable securities and cash investments	562	- 934
Cash flows from investing activities	**- 4,488**	**- 1,543**
Cash flows from financing activities	**2,576**	**1,696**
Currency translation	- 43	3
Changes in scope of consolidation and other changes	77	- 812
Net change in cash and cash equivalents	**24**	**1,199**
Cash and cash equivalents at beginning of year	2,143	3,842
Cash and cash equivalents at end of reporting period	**2,167**	**5,041**
Financial assets at beginning of year	14,387	18,127
Financial assets at end of reporting period	**11,944**	**18,824**
Gross financial debt at beginning of year	29,881	19,253
Gross financial debt at end of reporting period	**34,461**	**19,971**
Net financial debt at beginning of year	15,494	1,126
Net financial debt at end of reporting period	**22,517**	**1,147**

Changes in equity and minority interest

€ million	Group interest	Minority interest	Total
Balance as of 12/31/2001	**7,730**	**3,399**	**11,129**
Dividends paid	-	- 37	- 37
Other comprehensive income/other	- 469	- 942	- 1,411
Income after tax	693	170	863
Balance as of 03/31/2002	**7,954**	**2,590**	**10,544**
Balance as of 12/31/2002	**6,429**	**2,495**	**8,924**
Dividends paid	-	- 33	- 33
Other comprehensive income/other	- 350	- 53	- 403
Income after tax	437	96	533
Balance as of 03/31/2003	**6,516**	**2,505**	**9,021**

Notes

Accounting and valuation methods

The Interim Report for the Period Ended March 31, 2003 has been prepared in compliance with International Accounting Standards (IAS). The interpretations of the Standing Interpretations Committee (SIC) have been observed. For further information, please consult the Consolidated Financial Statements for the Period Ended December 31, 2002, which provide the basis for this Interim Report.

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

Scope of consolidation

In addition to RWE AG, the Consolidated Financial Statements contain all domestic and foreign companies which RWE controls directly or indirectly. The US water company American Water and the Polish electric utility STOEN were consolidated for the first time. Principal associates are accounted for using the equity method.

The scope of consolidation breaks down as follows:

	03/31/03	**12/31/02**
Fully consolidated companies	780	724
Investments accounted for at equity	246	245

This Interim Report for the Period Ended March 31, 2003 is principally characterized by the first-time consolidation of American Water as of January 1, 2003. Our Czech gas activities and the British electric utility Innogy, which were consolidated for the first time effective May 1 and June 1, 2002, respectively, were thus not yet included in the previous year's corresponding quarter. By contrast, figures for the previous year's first quarter still disclose the Shell & DEA Oil joint venture's downstream business, which was sold as of July 1, 2002.

Revenue

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

Research and development costs

In the first quarter of 2003, research and development costs totaled €130 million.

Own shares

In the first quarter of 2003, RWE Group companies bought 11,255 common shares on the capital market at an average cost of €23.38 per individual share certificate. They account for €28,812.80 of the Corporation's share capital (0.02‰ of subscribed capital). Employees of RWE AG and its subsidiaries received a total of 5,465 common shares at an average price of €25.50 per individual share certificate within the scope of capital formation and 5,790 common shares at an average price of €1.16 on the occasion of service anniversaries. Aggregate proceeds amounted to €146,066.60 million. Differences to the purchase price were recorded with an effect on results.

As of December 31, 2002, 37,827 RWE common shares with an aggregate nominal value of €96,837.12 (0.07‰ of subscribed capital) were held for Thames Water employees by an affiliated company. This company is no longer affiliated.

Stock option plans

Contingent capital in the amount of €51,200,000.00 is available to offer subscription rights for common shares in the name of the bearer to members of the Executive Board as well as to other RWE AG executives and affiliated companies.

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

The stock options can only be exercised if the quoted market price of the common share—calculated on the basis of the total return approach—has increased by at least 6% annually on average (absolute performance) before being exercised and has not trailed the Dow Jones STOXX share index by more than ten percentage points (relative performance) in the same period. The four-week exercise periods start on the 21st trading day following the publication of the provisional revenue and earnings figures for the completed fiscal year and of the semi-annual results.

The stock options can only be exercised by payment of the exercise price. The exercise price equals the quoted market price of the common share on the first trading day after expiry of the relevant exercise period, minus a markdown, which is composed of the absolute and relative performance components. The markdown is limited to 40 percentage points.

Exercise conditions stipulate that the stock options can be used for already existing common shares instead of young shares from contingent capital or that the markdown can be paid in cash instead of in common shares. If the persons holding stock options are not employed by RWE AG, the expenses associated with the exercise are borne by the respective Group company.

The stock options listed in the table below have been issued so far:

Stock options	**Originally issued**	**Balance as of 12/31/02**	**Expired in 2003**	**Balance as of 03/31/03**
1999 tranche	1,935,800	1,319,300	- 47,500	1,271,800
2000 tranche	4,336,500	2,983,000	- 105,500	2,877,500
2001 tranche	5,222,300	4,454,100	- 147,000	4,307,100
2001A tranche	5,262,300	4,818,500	- 108,500	4,710,000
Total	**16,756,900**	**13,574,900**	**- 408,500**	**13,166,400**

Furthermore, other virtual stock option plans are offered to employees, executive board members and other executives of RWE AG and its affiliated companies in Germany and abroad, on which we reported separately in the financial statements for the period ended December 31, 2002.

Dividend proposal

We propose that RWE AG’s distributable profit for fiscal 2002 be appropriated to pay a dividend per share of €1.10, which includes a bonus.

Earnings per share

Earnings per share are calculated as follows:

		Jan-Mar 2003	Jan-Mar 2002
Net income	€ million	437	693
Number of shares outstanding (weighted average)	thousands	562,404	562,405
Earnings per share	€	0.78	1.23
Earnings per share net of goodwill amortization	€	1.21	1.45

Contingent liabilities

Contingent liabilities principally relate to liabilities ensuing from guarantees. They have declined by €45 million since December 31, 2002. This decrease is due to UK Energy.

Reconciliation to the operating result

Reconciliation of income from operating activities to the operating result € million	**Jan-Mar 2003**	**Jan-Mar 2002**
Income from operating activities	**1,783**	**1,015**
+ Income from investments	4	599
- Non-operating result	- 35	- 297
Operating result	**1,752**	**1,317**

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.
- Income and costs that are unusual from an economic perspective, or are the result of exceptional events, prejudice the assessment of operating activities. They are reclassified as part of the non-operating result. Furthermore, the non-operating result includes goodwill amortization from capital consolidation. The non-operating result also contains the release of negative goodwill.
- RWE's share in the net income of the HOCHTIEF Group, which is accounted for using the equity method, is included in the operating result.

Reconciliation from EBITDA to the operating result € million	**Jan-Mar 2003**	**Jan-Mar 2002**
EBITDA	2,547	1,883
- Operating depreciation and amortization	- 769	- 669
EBIT	1,778	1,214
+ Operating result of investments	- 26	103
Operating result	**1,752**	**1,317**

Financial calendar 2003_2004

05/14/2003
Interim report for the first quarter of 2003

05/15/2003
Annual General Meeting

08/12/2003
Interim report for the first half of 2003
_Mid-year press conference
_Analyst conference

11/13/2003
Interim report for the first three quarters of 2003

01/06/2004
Preliminary report on fiscal 2003

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

04/15/2004
Annual General Meeting

05/11/2004
Interim report for the first quarter of 2004

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

11/09/2004
Interim report for the first three quarters of 2004

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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