# Report on the first half of fiscal 2003

## January through June

- Group operating result 35% up year-on-year
- Core business 46% up on previous year
- Net income 24% down on previous year, as anticipated
- Reduction in net debt to less than €20 billion planned
- New Group structure beginning October 1, 2003

RWE

One Group.
Multi Utilities.

# At a glance

| RWE Group | | Jan-Jun 2003 | Jan-Jun 2002 | +/- in % | Full year 2002 |
|---|---|---|---|---|---|
| External net sales | € million | 22,434 | 25,161 | - 10.8 | 46,633 |
| EBITDA | € million | 4,376 | 3,329 | + 31.5 | 7,241 |
| Operating result | € million | 2,935 | 2,169 | + 35.3 | 4,504 |
| Income before tax | € million | 1,540 | 1,176 | + 31.0 | 2,722 |
| Net income | € million | 621 | 818 | - 24.1 | 1,050 |
| Earnings per share | | | | | |
| _Excl. goodwill amortization | € | 1.96 | 1.90 | + 3.2 | 3.25 |
| _Incl. goodwill amortization | € | 1.10 | 1.45 | - 24.1 | 1.87 |
| Operating cash flow | € million | 2,712 | 2,408 | + 12.6 | 5,933 |
| Capital expenditure | € million | 6,822 | 12,576 | - 45.8 | 16,985 |
| Free cash flow[1] | € million | 897 | 780 | + 15.0 | 1,838 |

| | | 06/30/03 | 12/31/02 | +/- in % |
|---|---|---|---|---|
| Net debt | € million | 22,319 | 15,494 | + 44.0 |
| Workforce[2] | | 138,877 | 131,765 | + 5.4 |

[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 continues to show successful development. This allows us to implement our new Group structure rapidly.«

**Dear Shareholders,**

We posted successful developments in the first half of fiscal 2003, although the year is proving to be another difficult one. The world economy is still not making any progress, and political decisions constantly raise new issues. Nevertheless, we are maintaining a stable course with electricity, gas and water. These products more than compensated for the earnings situation at Heidelberger Druckmaschinen and our Environmental Services Business Area, which is unfavorable for cyclical reasons. Our operating figures are exposed to currency effects, which are negative at present. However, they will largely be offset in our net income. Furthermore, the integration of our large-scale acquisitions is on schedule. We have thus set the stage for continued positive development over the course of the fiscal year.

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 35%. Our core businesses even managed to post a 46% rise—despite negative currency effects. This was predominantly due to the consolidation of acquired companies. Excluding this effect, we achieved 9% growth in our core businesses, thanks to our electricity and gas operations, which delivered strong earnings. Operating results in our noncore business were substantially down year-on-year, owing to the drop in demand experienced by Heidelberger Druckmaschinen.

- As apparent in the first quarter, net income reflects the expenditure on our large-scale acquisitions. It reflects the full impact of associated goodwill amortization and financing interest for the first time. Furthermore, the previous year's corresponding figure was extraordinarily high, owing to gains on disposals. Combined, these effects caused net income to see a moderate, 4% rise before goodwill amortization, whereas it declined by 24% after goodwill amortization.

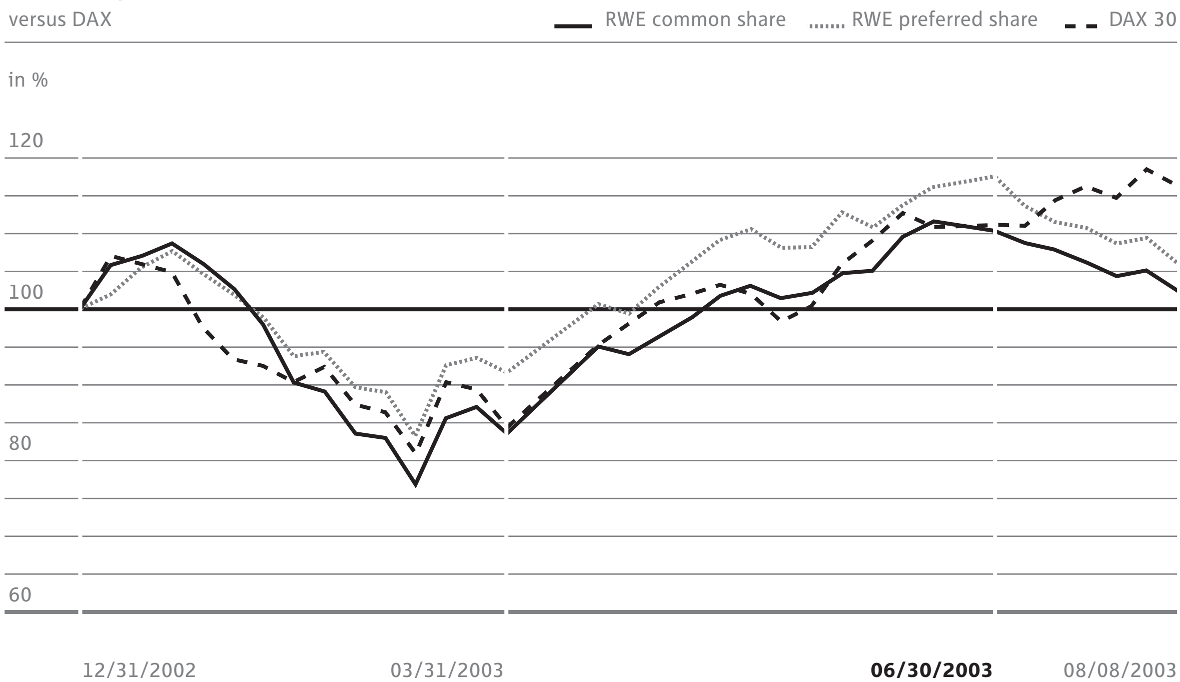
- We have already surpassed our goal of reducing consolidated net debt to less than €24 billion by year-end, having decreased it to €22.3 billion as of June 30.

This provides us with a solid foundation on which to implement our new Group structure as of October 1. Details of the reorganization can be found elsewhere in this interim report. The new structure will allow us to reduce annual costs by an additional €300 million. More importantly, it will establish the prerequisites for rolling out our multi-utility strategy more effectively, as we benefit from integrated electric, gas and water companies organized regionally, giving us even more customer proximity.

Essen, August 2003

Harry Roels
President and CEO

**RWE share performance**
versus DAX




# Upward trend following steep dip in share price in Q1

Stock markets posted a significant recovery following a considerable erosion of share prices in the first quarter, despite the persistently unfavorable economic trend. By the middle of June, the **DAX 30** had risen by nearly 50% over the low for the year on March 12. All in all, Germany's lead index was up 11.3% to 3,221 points in the first half of 2003. The stock market's recovery is principally due to the stabilization of the political environment brought about by the early end of the Iraq war and the decline in oil prices. US and Eurozone note-issuing banks supported the stock markets' turnaround by lowering the prime rate to the lowest levels seen in the last few decades. Stock markets continued their upward trend after the end of the period under review. The DAX closed the month of July just under 3,500 points.

**RWE's shares** were able to recoup the loss in the share price recorded in the first quarter. At the end of June, common stock was up 6.4% to €26.29 compared with its quotation at the end of 2002. Including the dividend, this corresponds to a total return of 10.6%. Preferred stock recorded a slightly stronger surge, advancing 13.0% to €23.44 and posting a total return of 18.0%. RWE issues initially slipped somewhat on conclusion of the period being reviewed.

# Core business boosts operating result by 46%

**Economic slump persists**

RWE's key markets displayed weak economic developments throughout the first half of 2003. The anticipated improvement in medium-term growth prospects following the end of the Iraq war failed to materialize. The US economy suffered from negative market indicators and a decline in industrial production. By consequence, economic output in that country merely recorded a marginal recovery. Great Britain only saw moderate growth after the economic dip at the beginning of the year as well. Euro markets became more entrenched in stagnation. Investment showed a continued downward trend. Exports also displayed weak developments. This was essentially due to the strength of the euro, especially over the US dollar and the British pound. In contrast, central Eastern Europe's economies were able to decouple themselves from the unfavorable economic trend. In those markets, growth maintained its dynamism thanks to robust domestic demand and considerable progress in productivity.

Real growth in the German economy hovered around zero in the first half of 2003. There is still no sign of improvement in the economic climate. Therefore, leading economic research institutes have forecast zero growth for the full year as well.

**Core businesses lift sales by 36% principally thanks to consolidation effects**

In the first half of fiscal 2003, the RWE Group generated €22.4 billion in external net sales. This figure was thus 10.8% down year-on-year. Our core businesses recorded 35.7% growth. This was primarily due to the following acquisitions:

- In the Electricity Business Area, we acquired the UK-based energy utility Innogy (+€2,802 million), which was consolidated for the first time as of June 1, 2002, but was not considered in the accounts for the corresponding year-earlier period, and we consolidated the Polish electricity provider STOEN for the first time effective January 1, 2003 (+€189 million).
- In the Gas Business Area, we consolidated our Czech gas activities as of May 1, 2002 (+€1,034 million), which, like Innogy, were not considered in the accounts for the first half of 2002, and Dutch-based Obragas effective July 1, 2002 (+€168 million).
- In the Water Business Area, we included the US water utility American Water in our consolidated accounts as of January 1, 2003 (+€735 million).

By contrast, our non-core business only managed to achieve a fifth of the sales recorded in the previous year's corresponding period. This was principally due to our exit from the Shell & DEA Oil joint venture effective July 1, 2002. In last year's corresponding period, our oil downstream business contributed €7,682 million to the Group's sales.

External net sales were unchanged when adjusted to exclude all consolidation effects. We posted a significant increase in operating revenue in the grid business, among other activities. This was partially a result of the fact that we passed on legally imposed burdens from the subsidization of renewable energies and combined heat and power generation. Moreover, we raised our grid fees in order to offset the higher expenditure on balancing power. Heidelberger Druckmaschinen suffered substantial losses due to the economic environment. The world's market leader in printing technology recorded an 18.4% decrease.

Furthermore, the Group's external net sales were adversely affected 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 Energy. At Thames Water and CONSOL, both which were included in the Group's accounts for the first half of 2002, currency exchange effects diluted revenue by some €400 million. Translated into euros, CONSOL's sales were down 16.8%. By contrast, they were up 2.6% when denominated in US dollars. This was a result of the rise in prices and sales volumes in the gas business.

| External net sales<br>€ million | Jan-Jun<br>2003 | Jan-Jun<br>2002 | +/- in % | Full year<br>2002 |
|---|---|---|---|---|
| Electricity[1] | 13,180 | 10,054 | + 31.1 | 23,797 |
| Gas | 4,228 | 2,550 | + 65.8 | 5,666 |
| Water | 2,070 | 1,404 | + 47.4 | 2,850 |
| Environmental Services | 973 | 1,058 | - 8.0 | 2,136 |
| **Total core business** | **20,451** | **15,066** | **+ 35.7** | **34,449** |
| Heidelberger Druckmaschinen | 1,924 | 2,358 | - 18.4 | 4,315 |
| **Total non-core business** | **1,924** | **10,040[2]** | **- 80.8** | **11,997[2]** |
| Other activities | 59 | 55 | + 7.3 | 187 |
| **Total** | **22,434** | **25,161** | **- 10.8** | **46,633** |
| _Germany | 11,804 | 18,342 | - 35.6 | 28,003 |
| _Foreign | 10,630 | 6,819 | + 55.9 | 18,630 |

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

The portion of consolidated external net sales generated outside of Germany climbed from 27.1% to 47.4%, owing to acquisitions.

**EBITDA and operating results post clear double-digit growth over the previous year due to consolidation effects**

Although our non-core business posted an operating loss, RWE was able to continue the positive earnings trend from the first quarter. This was due to the significant growth recorded by our electricity and gas operations.

EBITDA jumped 31.5% to €4,376 million. Our core businesses posted a 38.8% gain, whereas our non-core business achieved less than a quarter of the year-earlier figure. Net of the consolidation effects of the acquisition of Innogy, the Czech gas business and American Water, Group EBITDA was essentially unchanged. Currency translation effects at Thames Water and CONSOL Energy had a negative impact on earnings to the tune of €123 million. Excluding the currency and consolidation effects, EBITDA would have risen by 4.5%.

| EBITDA<br>€ million | Jan-Jun<br>2003 | Jan-Jun<br>2002 | +/- in % | Full year<br>2002 |
|---|---|---|---|---|
| Electricity | 2,331 | 1,737 | + 34.2 | 4,146 |
| Gas | 945 | 530 | + 78.3 | 1,239 |
| Water | 954 | 718 | + 32.9 | 1,457 |
| Environmental Services | 108 | 140 | - 22.9 | 281 |
| **Total core business** | **4,338** | **3,125** | **+ 38.8** | **7,123** |
| Heidelberger Druckmaschinen | 78 | 300 | - 74.0 | 414 |
| **Total non-core business** | **78** | **352*** | **- 77.8** | **466*** |
| Other / holding / consolidation | - 40 | - 148 | + 73.0 | - 348 |
| **Total** | **4,376** | **3,329** | **+ 31.5** | **7,241** |

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

| **Operating result**<br>€ million | **Jan-Jun 2003** | **Jan-Jun 2002** | **+/- in %** | **Full year 2002** |
|---|---|---|---|---|
| Electricity | 1,708 | 1,162 | + 47.0 | 2,760 |
| Gas | 753 | 442 | + 70.4 | 885 |
| Water | 614 | 476 | + 29.0 | 963 |
| Environmental Services | 45 | 61 | - 26.2 | 98 |
| **Total core business** | **3,120** | **2,141** | **+ 45.7** | **4,706** |
| Heidelberger Druckmaschinen | - 49 | 179 | - 127.4 | 158 |
| HOCHTIEF (at equity) | - 5 | 50 | - 110.0 | 28 |
| **Total non-core business** | **- 54** | **223*** | **- 124.2** | **180*** |
| Other / holding / consolidation | - 131 | - 195 | + 32.8 | - 382 |
| **Total** | **2,935** | **2,169** | **+ 35.3** | **4,504** |

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

Our operating result rose 35.3% to €2,935 million. Core businesses posted 45.7% growth especially as a result of our large-scale acquisitions. Innogy, our Czech gas activities and American Water contributed €389 million, €231 million and €160 million to the consolidated operating result, respectively. But even without these first-time consolidations, our core businesses would have closed the period 9.3% up year-on-year. This was due to our strong electricity and gas operations. By contrast, our Environmental Services Business Area saw its operating result decline. This decrease was caused by the cyclical downturn and the much more severe competitive pressure in the residential and commercial waste sectors. It also reflects the unfavorable euro-to-dollar and -pound exchange rates. These negative currency effects diluted earnings generated by Thames Water and CONSOL Energy by a total of €73 million. Net of these currency effects and our major acquisitions, our core businesses would have closed the first half 12.7% up on the year-earlier level.

Our non-core business recorded a steep decline in its operating result to -€54 million. This decrease was mainly a result of the cyclical downturn on Heidelberger Druckmaschinen's market. The company closed the period under review with an operating result of -€49 million, €228 million down on the previous year's corresponding period. HOCHTIEF, the construction subsidiary we consolidate at equity on the basis of its prorated net income, also produced a loss. However, at -€5 million, this loss was not substantial. This was partially due to the devaluation of securities held in a special fund. Furthermore in 2003, HOCHTIEF stopped capitalizing deferred taxes on loss carryforwards since it is unlikely that the loss carryforwards will be used in the next few years. As expected, the construction group's operating result displayed positive development.

Net of consolidation effects, the Group's operating result was roughly on par with the previous year's level. It rose by 2.7% excluding the currency exchange effects at Thames Water and CONSOL Energy. For a detailed commentary on the earnings trend by business area, please turn to pages 13 to 20.

| Reconciliation to net income<br>€ million | | Jan-Jun 2003 | Jan-Jun 2002 | +/- in % | Full year 2002 |
|---|---|---|---|---|---|
| **Operating result** | | **2,935** | **2,169** | **+ 35.3** | **4,504** |
| + Non-operating result | | 76 | 162 | - 53.1 | 850 |
| _Goodwill amortization | | - 484 | - 248 | - 95.2 | - 780 |
| + Financial result | | - 1,471 | - 1,155 | - 27.4 | - 2,632 |
| **Income before tax** | | **1,540** | **1,176** | **+ 31.0** | **2,722** |
| - Taxes on income | | - 816 | - 127 | - 542.5 | - 1,367 |
| **Income after tax** | | **724** | **1,049** | **- 31.0** | **1,355** |
| - Minority interest | | - 103 | - 231 | + 55.4 | - 305 |
| **Net income** | | | | | |
| _Incl. goodwill amortization | | 621 | 818 | - 24.1 | 1,050 |
| _Excl. goodwill amortization | | 1,105 | 1,066 | + 3.7 | 1,830 |
| **Earnings per share** | | | | | |
| _Incl. goodwill amortization | € | 1.10 | 1.45 | - 24.1 | 1.87 |
| _Excl. goodwill amortization | € | 1.96 | 1.90 | + 3.2 | 3.25 |
| **Tax rate** | | | | | |
| _Incl. goodwill amortization | % | 53 | 11 | + 381.8 | 50 |
| _Excl. goodwill amortization | % | 40 | 9 | + 344.4 | 39 |

**Net income reflects acquisition costs and Heidelberg's earnings slump**

The reconciliation to net income reflects the planned expenditure on our strong external growth. Now that American Water has been fully consolidated as of January 1, 2003, the consolidated financial statements include all large-scale acquisitions along with associated goodwill amortization and interest. Heidelberg's cyclically-induced earnings slump as well as the associated restructuring expense are a substantial burden. Furthermore, net income for the first half of 2002 was extraordinarily high due to tax-free gains on disposals.

The non-operating result declined by €86 million to €76 million. This decrease was mainly caused by the following developments: We received high proceeds from disposals in the previous year, but gains made in the reporting period were not of the same order of magnitude. Moreover, goodwill amortization was nearly twice as high, rising to €484 million. In addition, we had already accrued €84 million in restructuring provisions for Heidelberg in the first quarter. The non-operating result was positively influenced by the release of €655 million in nuclear energy provisions, which was higher than before. This was largely due to the fact that we lowered the annual cost escalation rate used to determine future expenditure on nuclear waste disposal in line with actual price trends.

Financial results were down 27.4% to -€1,471 million. This was principally due to the acquisition-induced rise in the interest expense. Income before tax was clearly up on the previous year's level at €1,540 million. This increase reflected the rise in our operating result. In contrast, income after tax declined by 31.0% since the tax rate increased from 11% to 53%. The previous year's corresponding figure benefited from high tax-exempt gains on disposals. Moreover, as explained in the 2002 financial statements, we no longer capitalize deferred taxes on loss carryforwards, because it is unlikely that we will be able to offset a large part of these loss carryforwards with taxable profits in the next few years. The rise in goodwill amortization also contributed to the increase in the tax rate, since it causes pretax income to decrease, but does not reduce taxes. Minority interests declined by 55.4%. This was caused by the negative earnings contributed by Heidelberg.

At €1,105 million, net income before goodwill amortization was 3.7% up on the previous year. This results in earnings per share of €1.96. Including goodwill amortization, net income declined by 24.1% to €621 million, or €1.10 per share.

**Cost-cutting program: €2.1 billion already saved**
We aim to achieve €300 million in cost reductions for fiscal 2003 as a whole. Measures implemented already secured some €160 million in cost savings in the first two quarters alone. Initiated in 2000, the program focuses on our German electricity operations and envisions reducing annual costs by a total of €2,555 million by the end of 2004. As of June 30, 2003, we had already realized about 83% of this target, slashing costs by €2.1 billion.

**Capital expenditure considerably down on the previous year, which was high due to acquisitions**
In the first half of 2003, capital spending totaled €6,822 million. This was 46% less than the level we achieved in 2002. The decrease was a result of the substantial decline in capital expenditure on financial assets. The previous year's figure reflected the acquisition of the Czech gas business and Innogy, the UK energy utility. In 2003, capital expenditure on financial assets was nearly exclusively earmarked for the acquisition of American Water (+€4,535 million). Net of our major acquisitions, it would have declined from €2,123 million to €472 million. Capital expenditure on property, plant and equipment rose by 11.5% to €1,815 million. This increase is principally due to the effects of consolidation from the inclusion of the investing activities of Innogy, the Czech gas companies and American Water. Our lignite-fired power generation and mining activities recorded a steep drop. In the previous year, RWE Rheinbraun had invested significant sums in our first lignite-fired power station with optimized plant technology in Niederaußem.

| **Capital expenditure** € million | **Jan-Jun 2003** | **Jan-Jun 2002** | **+/- in %** | **Full year 2002** |
|---|---|---|---|---|
| Electricity | 1,002 | 1,133 | - 11.6 | 3,142 |
| Gas | 342 | 4,907 | - 93.0 | 5,365 |
| Water | 5,243 | 809 | + 548.1 | 2,181 |
| Environmental Services | 40 | 587 | - 93.2 | 695 |
| **Total core business** | **6,627** | **7,436** | **- 10.9** | **11,383** |
| Heidelberger Druckmaschinen | 166 | 198 | - 16.2 | 365 |
| **Total non-core business** | **166** | **230*** | **- 27.8** | **397*** |
| Other, holding | 29 | 4,910 | - 99.4 | 5,205 |
| **Total** | **6,822** | **12,576** | **- 45.8** | **16,985** |
| _Capital expenditure on property, plant and equipment | 1,815 | 1,628 | + 11.5 | 4,095 |
| _Capital expenditure on financial assets | 5,007 | 10,948 | - 54.3 | 12,890 |

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

| Workforce* | As of 06/30/03 | As of 12/31/02 | +/- in % |
|---|---|---|---|
| Electricity | 71,718 | 69,441 | + 3.3 |
| Gas | 8,937 | 9,176 | - 2.6 |
| Water | 18,183 | 11,907 | + 52.7 |
| Environmental Services | 13,709 | 14,406 | - 4.8 |
| **Total core business** | **112,547** | **104,930** | **+ 7.3** |
| Non-core business (Heidelberger Druckmaschinen) | 22,989 | 23,460 | - 2.0 |
| Other / holding | 3,341 | 3,375 | - 1.0 |
| **Total** | **138,877** | **131,765** | **+ 5.4** |
| _Germany | 75,343 | 76,202 | - 1.1 |
| _Foreign | 63,534 | 55,563 | + 14.3 |

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

**Cash flow statement—key figures**
Operating cash flow in the first half of 2003 increased by 12.6% to €2,712 million. This was primarily due to the fact that we reduced net current assets to a lesser extent than in the year-earlier period. Cash flows from investing activities dropped from €12,545 million to €5,056 million. The previous year's high figure results from the acquisition of Innogy and the Czech gas business. This was contrasted by the acquisition of American Water in the period under review. Cash flows from financing activities amounted to €2,090 million, partially through the placement of corporate bonds. The previous year's figure was more than four times as high due to our acquisition financing. As of June 30, 2003, cash and cash equivalents totaled €1,928 million. This was €215 million less than at the beginning of the year. Free cash flow amounted to €897 million, recording a 15.0% increase year-on-year. This figure is calculated by subtracting capital expenditure on property, plant and equipment as well as intangible assets from operating cash flow.

**Personnel headcount grows 5% due to acquisitions**
As of June 30, 2003, the RWE Group employed 138,877 people (full time equivalent), 75,343, or 54.3% of which worked in Germany. Our workforce thus expanded by 7,112 employees, or 5.4% vis-à-vis December 31, 2002. First-time consolidations and deconsolidations added a net 8,130 staff members. Primary drivers were the first-time consolidation of American Water (+6,303) and the first-time inclusion of the Polish-based electric utility STOEN (+1,664). Net of consolidation effects, operating personnel decreased by 1,018 people (-0.8%), 934 of which worked in Germany. Heidelberger Druckmaschinen implemented substantial job cuts (-851).

**Reducing net debt: Target for the full 2003 fiscal year already surpassed**
As of June 30, 2003, our net financial debt amounted to €22.3 billion. It rose by €6.8 billion from the end of 2002. This was principally due to the €4.5 billion we used to finance the acquisition of American Water. Furthermore, we assumed the US water utility's net liabilities. Our payout amounted to €0.7 billion, €619 million of which were distributed among our shareholders. High cash flows and proceeds from asset disposals contributed to the decrease in debt. The weakness of the US dollar and British pound compared to the euro led to a €1.2 billion decline in net debt. This does not include the positive performance of financial derivatives which we used to hedge currency exchange and interest rate effects (market value as of June 30: €1.2 billion).

Our net debt reduction program envisions lowering our net debt to less than €24 billion by the end of 2003. We have already clearly surpassed this target with €22.3 billion in net debt at present. We would have achieved this even excluding the currency effects that had a positive impact on our net debt position. The ratio of EBITDA to net interest, which is a key indicator in controlling our debt, was 8.4 in the reporting period. We expect it to be above 6.5 for the full year and are thus clearly above the lower limit of 5 that we set.

**New Group structure beginning October 1, 2003**
We presented our Group reorganization scheme to the public on June 26, 2003. The restructuring aims to implement our multi-utility strategy via the regional integration of our German electricity, gas and water businesses. To this end, RWE Plus, RWE Gas and RWE Net are to be grouped and placed under a new management company called "RWE Energy" (over €18 billion in external net sales and approx. 42,000 employees). Another goal is to place our entire Continental European power plant portfolio and lignite-fired power generation operations under a new company called "RWE Power" (some €10 billion in revenue and about 26,000 employees). We will reduce the number of operating companies from 13 to seven. Innogy will continue to act as the operating company for the UK energy business. Thames Water will retain responsibility for RWE's water activities. Cooperation between Innogy and Thames Water will be expanded via the shared service center, which has already been set up. RWE Trading will function as the Group's interface to the energy trading market and double as a hub for all of the commodities traded by the Group (electricity, gas, coal and oil). This role will be strengthened through the incorporation of Innogy's energy trading business into RWE Trading. RWE Umwelt will oversee the Group's entire range of environmental services. RWE Systems will continue to provide services for Group-wide tasks especially in the fields of IT, purchasing and real estate.

Once the reorganization has been completed, we will be able to tap into an additional cost savings potential of €300 million per annum, which is to be fully realized by 2006. We will shed about 1,000 positions in overhead functions via socially acceptable redundancy schemes by 2005. The new Group structure is scheduled to be in place as of October 1, 2003.

We are currently in negotiations with the municipal shareholders of RWE Gas, who have to approve the decisions regarding the integration of our subsidiary. Therefore, we expect that we will not be able to integrate the gas operations until after October 1. However, we will implement all of the transaction's other steps. This involves merging RWE Power and RWE Rheinbraun as well as establishing RWE Energy and the new northern and central regional companies, excluding the gas activities for the time being. The two regional companies will start doing business as RWE Rhein-Ruhr with headquarters in Essen (central region) and RWE Westfalen-Weser-Ems with headquarters in Dortmund (northern region). Furthermore, RWE Dea and Harpen will be placed under the management lead of the new RWE Power, while RWE Energy will be put in charge of RWE Solutions. RWE Gas and its investments will be coordinated by RWE Energy from October 1 onwards. RWE Energy's structure is flexible enough to allow for the organizational integration of our gas business later on. We will be able to start implementing 90% of the envisioned synergy-related measures immediately, despite the delay in the gas sector.

**RWE now has full ownership of Thyssengas**
In May 2003, RWE Gas acquired Shell Petroleum N.V.'s 25% stake in Thyssengas. This gives RWE 100% ownership of the long-distance gas company, which has been consolidated since 2002. Now that we have full access to Thyssengas' gas imports and diversified gas procurement portfolio, we will be able to strengthen the Group's vertically integrated gas activities. This will provide us with additional synergies in areas including grid management, purchasing and administration.

**Sale of 40% stake in Stadtwerke Leipzig**

In July of 2003, the Council of the City of Leipzig approved the acquisition of our 40% shareholding in Stadtwerke Leipzig GmbH. It was purchased by LW Leipziger Versorgungs- und Verkehrsgesellschaft mbH, a subsidiary of the city of Leipzig, which already owns 60% of the municipal utility. Proceeds from the sale amounted to €199 million. The decision to make this disposal was based on the fact that the two shareholders had divergent strategic interests and that RWE only had limited influence on the company's operations.

**Possible sale of investment in CONSOL Energy under consideration**

On June 2, 2003, we informed the SEC that we are considering the full or partial sale of our majority stake in the US hard coal producer CONSOL Energy. This information was furnished in compliance with the statutory requirements of 13 D filings in the US. The decision-making process was initiated once we changed our US strategy. In the future, we will focus on the water business in this market.

**Innogy bonds exchanged for RWE bonds**

In May, RWE submitted an offer to convert five of the six outstanding Innogy bonds into RWE bonds. The offer consisted of four tranches with a total volume of £1.1 billion and a tranche in the amount of €500 million. We issued three new Sterling bonds for a total of £1.25 billion as well as one euro bond of €500 million within the scope of the swap. Its high acceptance allowed us to remove the Innogy tranches from the market completely, with the exception of a bond with a term to maturity that expires in 2006. A €500 million bond, which will come due in October 2004, was excluded from the offer. The goal of the swap was to centralize financing at the holding company and optimize our term profile.

**€1.2 billion euro bond successfully placed**

To improve our financing structure even further, we placed a €1.2 billion euro bond with a term of 15 years on the market in July. The issue was conducted as part of our debt issuance program. It met with strong demand and was oversubscribed several times. The aim was to redeem the short-term capital market liabilities that we had taken on within the scope of the acquisition of American Water.

**Fuel cells: Market position strengthened via joint venture with MTU**

RWE and MTU will conduct their fuel cell activities jointly going forward. RWE Fuel Cells acquired a 25.1% stake in MTU CFC Solutions GmbH, a subsidiary previously wholly owned by MTU Friedrichshafen, with retroactive effect as of January 1, 2003. The joint venture's goal is to capture a leading market position in the field of high-temperature fuel cells. MTU CFC Solutions plans to start series production of fuel cell facilities in 2006.

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

Our current forecast largely supports the outlook we issued for the full year in our interim report on the first quarter on May 14.

We will grow our **consolidated operating result** again in the current financial year. We expect to post a low double-digit increase that will be achieved solely thanks to our core businesses. Earnings growth will principally result from the first-time consolidation of American Water and the first-time full consolidation of Innogy and our Czech gas operations. Excluding these one-off effects, the Group's operating result is likely to be slightly below the previous year's level owing to the continued deterioration of our non-core business. By contrast, we expect our core businesses to grow earnings even net of consolidation effects. Without the aforementioned negative currency exchange effects, our core businesses would post a much higher gain. This rise is due to the positive earnings situation in our electricity and gas businesses. Without the US water utility American Water, which had not yet been consolidated in 2002, and including Innogy and the Czech gas business pro-rata temporis, we expect our operating result to be reduced by some €200 million compared with the previous year. However, if American Water, Innogy and the Czech gas activities were considered on a full-year basis, the currency effect would probably amount to about -€300 million. Our forecast is based on the assumption that the average rate of the euro to the US dollar and British pound will be 1:1.15 and 1:0.70, respectively. However, currency charges will largely be offset in the non-operating result and the financial results. As a result, there will be a drop in goodwill amortization, once it has been converted into euros. Furthermore, our interest expense will decrease due to the fact that acquisition financing was conducted in US dollars and British pounds.

For the time being, we will comment on the earnings trend displayed by our business areas on the basis of the Group's current structure. We will report using the new structure for the first time in our 2003 annual report.

We expect the **Electricity** Business Area to increase its operating result by a low double-digit percentage. This is primarily due to the first-time full-year inclusion of Innogy. 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 price increases on the wholesale market. The aforementioned currency exchange effects relating to Innogy and CONSOL will have a counteracting effect.

We also expect our **Gas** Business Area to post moderate double-digit earnings growth. We will record a substantial gain in the Midstream / Downstream Division. This will be principally due to the first-time full-year inclusion of the Czech gas business in our consolidated accounts. However, this segment would close the financial year up on the previous one even without this one-off effect. This is due to the fact that our German gas operations will increase sales volumes due to the weather. We expect our Upstream Division to close the fiscal year slightly down on the high level recorded in the previous year. Major reasons for this forecast are unfavorable currency exchange rates, which, however, are contrasted by the positive effect on income from the increase in crude oil prices and volumes.

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. Moreover, we still have to cope with the delay in rate changes required in order to obtain approval for the acquisition. Therefore, we expect earnings to pick up considerably in 2004.

The **Environmental Services** Business Area continues to be characterized by the extremely unfavorable economic conditions under which it has to operate. The residential and commercial waste sectors are still marked by fierce competition. This situation is compounded by the burdens imposed by the introduction of the beverage can deposit. Despite far-reaching cost-cutting measures, our environmental business will close 2003 with a significant drop in its operating result compared with the previous year.

Our **non-core businesses** will see another decline in their earnings contribution. We expect them to post a double-digit operating loss. We do not anticipate Heidelberg's order intake to make a noteworthy recovery since the printing sector is still suffering from weak demand. The Heidelberg Group has already made substantial progress in implementing its cost-cutting program, which envisions saving an annual €280 million over the medium term. Although the measures should take effect in 2003, the company will post its first negative operating result for RWE's fiscal year. We expect earnings generated by HOCHTIEF, our investment in the construction sector, to be slightly lower, although they will still make a positive contribution. This is primarily due to the fact that HOCHTIEF will probably have to adjust the valuation of the securities it holds in a special fund. However, as expected, operations are showing a positive business trend.

The impact the large-scale acquisitions had on the interest expense and goodwill amortization had a considerable effect on the reconciliation to **net income**. Therefore, the non-operating result will be substantially down on the previous year (€850 million). This decrease is primarily due to the steep decline in gains on disposals. Furthermore, goodwill amortization will rise in 2003 to just under €1 billion, as planned. In addition, the reorganization of the RWE Group led to a one-off charge of €250 million, of which €150 million are earmarked for additional staff costs. However, this exceptional effect is offset by increased book gains. The increase in the amount of nuclear energy provisions released has a positive effect. Some €1.2 billion in nuclear energy provisions will be released, as compared with €963 million a year earlier.

We currently expect financial results to fall short of the previous year's level. This decrease will principally stem from the cost of financing our major acquisitions and the redemption of debt assumed from the acquired companies. Income before tax is expected to fall shy of the level achieved in the previous year. We will have a high tax rate, as in 2002. This stems from the lower level of tax-exempt sales of investments and the increase in goodwill amortization. Furthermore, we stopped capitalizing deferred taxes on loss carryforwards. In sum, net income after goodwill amortization will be between 25% and 30% lower than in the previous year (€1,050 million). Excluding goodwill amortization, it will roughly match the previous year's level. We will fully offset the new one-off costs associated with the reorganization of the Group. As previously mentioned, the weakness of the dollar and pound will have much less effect on net income than on the operating result. We expect this to result in a small burden on net income.

Our **net debt reduction** program envisions lowering our net debt to less than €24 billion by the end of 2003. We have already clearly surpassed this target with €22.3 billion in net debt as of June 30. In light of this development, we have reduced our debt target for 2005 from €22 billion to less than €20 billion. The new goal is based on the exchange ratios valid as of June 30 ($1.14 / € and £0.69 / €). It includes the divestments we made in our core businesses, but it does not include the disposals made in the non-core business.

**Forward-looking statements**

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

# Electricity Business Area

- Operating result 47% up year-on-year
- Electricity prices continue to show positive development

| Key figures | | Jan-Jun 2003 | Jan-Jun 2002 | +/- in % | Full year 2002 |
|---|---|---|---|---|---|
| Electricity sales volume[1] | kWh million | 148,073 | 119,853 | + 23.5 | 267,502 |
| External net sales[2] | € million | 13,180 | 10,054 | + 31.1 | 23,797 |
| _Electricity | € million | 9,109 | 6,472 | + 40.7 | 15,714 |
| _Electricity trading | € million | 567 | 274 | + 106.9 | 869 |
| EBITDA | € million | 2,331 | 1,737 | + 34.2 | 4,146 |
| Operating result | € million | 1,708 | 1,162 | + 47.0 | 2,760 |
| Capital expenditure | € million | 1,002 | 1,133 | - 11.6 | 3,142 |
| | | 06/30/03 | 12/31/02 | +/- in % | |
| Workforce[3] | | 71,718 | 69,441 | + 3.3 | |

[1] Net, i.e. excluding the trading of electricity procured from third parties; the previous year's figures have been adjusted.
[2] Includes €510 million in direct electricity taxes (previous year: €373 million); only includes margins from the trading of electricity procured from third parties; the previous year's figures have been adjusted.
[3] Full time equivalent, according to the percentage of full-time employment.

**Power consumption** on RWE's key electricity markets was marked by the cold winter and the stable industrial trend in central Eastern Europe. Demand for electricity in Germany was up 2%. This was mainly due to the cold weather in the first quarter and the fact that the raw materials industry, which is very energy-intensive, increased production over the previous year's low level. In the UK, demand rose by 0.5% and industrial power consumption declined for cyclical reasons. Hungary and Poland recorded 1.5% and 5% growth, respectively.

Weather conditions, which were predominantly hot and dry, had a strong impact on **electricity prices** in Continental Europe in the second quarter. Water shortage led to a decline in hydroelectric power generation especially in Italy and the Alps. In addition, the significant rise in water temperatures hampered the operation of thermal power stations. Ensuing capacity bottlenecks were compounded by power plant downtimes. At the same time, the increased use of air conditioning systems caused demand to rise. The combination of these factors occasionally led to substantial increases in wholesale prices on Europe's spot markets. In addition, capacity bottlenecks accelerated the price hikes on the German futures market. By consequence in June, the average one-year forward price paid for power deliveries in 2004 was €27.31 per megawatt hour of base-load power and €42.91 per megawatt hour of peak-load power. The mean forward price in the first half was €25.61 / MWh and €38.83 / MWh, respectively, which corresponds to a 10% and 17% rise over the previous year's corresponding figures, respectively. Electricity prices paid by households in the period under review were some 5% higher than a year ago. Besides the increase in wholesale prices, this was primarily due to the electricity tax hike that became effective on January 1, 2003. Prices paid by industrial customers advanced by more than 10% since wholesale prices had a stronger impact and the electricity tax allowance rate rose.

UK wholesale prices continued the moderate recovery observed since the middle of 2002. In the reporting period, the one-year forward price was £17.65 (€25.58) per megawatt hour of base-load power—up 3% year-on-year. It increased by 11% to £22.85 (€33.12) for peak-load power. By contrast, prices paid for power deliveries to end customers were determined by 2002 forward prices. Industrial customers paid some 3% less than a year ago. Forward prices were essentially unchanged in the household customer segment.

| Electricity Business Area<br>Key figures by division<br><br>€ million | Total sales[1]<br>January-June<br>2003 | <br><br>2002 | External net sales[1]<br>January-June<br>2003 | <br><br>2002 | EBITDA<br>January-June<br>2003 | <br><br>2002 | Operating result<br>January-June<br>2003 | <br><br>2002 |
|---|---|---|---|---|---|---|---|---|
| Power Generation | 1,905 | 2,210 | 245 | 316 | 467 | 374 | 383 | 280 |
| Lignite-Fired Power Generation and Mining | 2,222 | 2,378 | 1,370 | 1,555 | 531 | 573 | 275 | 295 |
| Trading | 2,651 | 3,438 | 1,048 | 1,227 | 14 | 41 | 13 | 41 |
| Net | 2,517 | 1,992 | 1,116 | 720 | 406 | 399 | 310 | 310 |
| Sales and Marketing | 5,459 | 5,296 | 5,258 | 5,102 | 365 | 326 | 307 | 252 |
| Industrial Services | 1,342 | 1,152 | 1,216 | 1,021 | 33 | 23 | 8 | - 2 |
| UK Energy[2] | 2,818 | - | 2,802 | - | 461 | - | 389 | - |
| Other / electricity consolidation | - 5,574 | - 6,014 | 125 | 113 | 54 | 1 | 23 | - 14 |
| _Harpen | 132 | 121 | 125 | 113 | 51 | 40 | 33 | 25 |
| **Total** | **13,340** | **10,452** | **13,180** | **10,054** | **2,331** | **1,737** | **1,708** | **1,162** |

[1] Net, i.e. only including the margins from the trading of electricity procured from third parties; the previous year's figures have been adjusted.
[2] Innogy was consolidated as of June 1, 2002; included in the Group's accounts from Q3 2002 onwards.

Our **electricity sales volume** was up 23.5% to 148.1 billion kWh, mainly due to the first-time consolidations of Innogy and STOEN, which sold 29.9 billion kWh and 3.6 billion kWh in the period under review.

**External net sales** were boosted by 31.1% to €13.2 billion in the Electricity Business Area. Innogy and STOEN generated €2,802 million and €189 million in sales, respectively. Net of these consolidation effects, external net sales would only have posted a slight rise. Substantial gains were recorded in areas including the Net Division and were predominantly due to the fact that we passed on legal burdens from the subsidization of renewable energies and combined heat and power generation. Moreover, we raised our grid fees in order to offset the higher expenditure on balancing power. Revenue produced by our US subsidiary CONSOL Energy was 16.8% down in euros year-on-year. By contrast, it was up 2.6% when denominated in US dollars, despite the decline in the amount of hard coal sold. CONSOL Energy benefited from price increases and a slight rise in volumes in the gas business.

**EBITDA** was up 34.2% to €2,331 million. Our **operating result** advanced even more remarkably, growing by 47.0% to €1,708 million. This discrepancy is partially due to the fact that income from investments was up and that depreciation and amortization rose to a lesser extent. Innogy's first-time consolidation was the main reason for this. In terms of its earnings contribution, the UK energy utility's depreciation and amortization are low in comparison. Innogy's inclusion in our consolidated accounts was also the main driver behind the Electricity Business Area's improved earnings situation. However, we increased the operating result by 13.5% even without this consolidation effect, thanks again to the continued upward trend displayed by our German electricity operations. As before, this was due to our cost-cutting program, the rise in German wholesale electricity prices, and our exclusively return-oriented sales policy. By contrast, CONSOL Energy saw its operating result decline by €23 million to €123 million. This reflects the aforementioned currency exchange effect. When denominated in dollars, CONSOL's earnings posted a slight improvement. Earnings growth in the gas business more than compensated for the decline in production and margins in the hard coal business.

# Gas Business Area

- Operating result jumps 70%
- Upstream and Midstream / Downstream Divisions each post 18% organic growth in operating result

| Key figures | | Jan-Jun 2003 | Jan-Jun 2002 | +/- in % | Full year 2002 |
|---|---|---|---|---|---|
| Production (Upstream) | | | | | |
| _Natural gas | $m^3$ million | 1,231 | 1,201 | + 2.5 | 2,382 |
| _Petroleum | thousand $m^3$ | 2,864 | 2,588 | + 10.7 | 5,408 |
| Natural gas sales (Midstream / Downstream) | kWh million | 157,153 | 88,488 | + 77.6 | 220,258 |
| External net sales | € million | 4,228 | 2,550 | + 65.8 | 5,666 |
| EBITDA | € million | 945 | 530 | + 78.3 | 1,239 |
| Operating result | € million | 753 | 442 | + 70.4 | 885 |
| Capital expenditure | € million | 342 | 4,907 | - 93.0 | 5,365 |

| | 06/30/03 | 12/31/02 | +/- in % |
|---|---|---|---|
| Workforce* | 8,937 | 9,176 | - 2.6 |

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

Prices on **the world oil market** were high throughout the first half of 2003. Average prices paid for a barrel of Brent crude amounted to $28.78, compared with $23.22 in the previous year's corresponding period. Price developments in the first quarter were characterized by speculation and nervousness in anticipation of the Iraq war. In addition, key consumer countries experienced cool weather and low inventories. Oil prices declined considerably just before the eruption of the Iraq war. At $26 in the second quarter, they were still far above the ten-year average. This was due to the volume limits imposed by OPEC, persistently low inventories, and the slow pickup of Iraq's oil production.

**Natural gas consumption** on RWE's two key markets, Germany and the Czech Republic, was up 10% and 11%, respectively, owing to the cold weather in the first quarter. **Prices** paid for gas on the German market, which track the development of crude oil prices with a six-month lag, reflected the rise in oil prices at the end of 2002. They were 4.3% up on the level achieved in the first half of 2002 for deliveries made to municipal and regional utilities. Gas sales to industrial customers cost 16% more since the price-adjustment deadlines were moved up, while those paid by private and commercial customers were up 20%. The 58% natural gas tax hike that became effective on January 1, 2003 had an impact on this. Prices on the Czech market rose recently, but they were still 12% below the previous year's level on average.

Our Upstream Division stepped up its **gas production** by 2.5% to 1,231 million $m^3$. Substantial gains were recorded especially in our Egyptian production. In the UK, we boosted production from our existing gas fields in order to meet the increased demand. Volumes produced in Germany were roughly on par with the year-earlier level. **Natural gas sales volumes** generated by the Midstream / Downstream Division climbed 77.6% to 157.2 billion kWh. This was principally due to the effect of the consolidation of the Czech gas business as of May 1, 2002 (+56.8 billion kWh) and Dutch-based Obragas effective July 1, 2002 (+4.5 billion kWh). In addition, operating volume was up (+7.4 billion kWh), primarily due to the cool weather in the first quarter.
At 2.9 million $m^3$, RWE Dea's **petroleum production** was 10.7% up year-on-year, mainly as a result of the expansion of production capacity in the German Mittelplate oil field in the North Sea.

| **Gas Business Area**<br>**Key figures by division**<br><br>€ million | **Total sales**<br>**January-June**<br>**2003** | **2002** | **External net sales**<br>**January-June**<br>**2003** | **2002** | **EBITDA**<br>**January-June**<br>**2003** | **2002** | **Operating result**<br>**January-June**<br>**2003** | **2002** |
|---|---|---|---|---|---|---|---|---|
| Midstream / Downstream | 3,688 | 2,075 | 3,590 | 2,026 | 604 | 260 | 515 | 240 |
| _Gas in the Czech Republic[1] | 1,055 | - | 1,034 | - | 287 | - | 231 | - |
| Upstream | 632[2] | 732[2] | 638 | 524 | 341 | 270 | 238 | 202 |
| **Total** | **4,320** | **2,807** | **4,228** | **2,550** | **945** | **530** | **753** | **442** |

[1] Consolidated as of May 1, 2002; included in the report from Q3 of 2002 onwards.
[2] Including the consolidation of sales within the business area.

**External net sales** generated by the Gas Business Area rose 65.8% to €4,228 million. The Midstream/Downstream Division posted strong growth, recording a 77.2% jump. This was principally because we included the Czech gas business (€1,034 million) and Obragas (€168 million) in our consolidated accounts. This business area achieved 17.8% in operating growth. Here an impact was felt from the weather-induced rise in gas sales volumes and price effects stemming from the increase in the natural gas tax. The Upstream Division improved its external net sales by 21.8%. This increase was driven by higher prices and production in the oil and gas businesses. 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. In line with our 50% stake, we included half of the sales attributable to Shell & DEA Oil in external net sales until we divested this investment on July 1, 2002. Since then, they have been fully allocated to external net sales.

**EBITDA** was up 78.3% to €945 million, and **operating results** advanced 70.4% to €753 million. The Midstream / Downstream Division recorded a strong uptick, more than doubling its operating result. This was primarily due to the acquisition of the Czech gas business, which contributed €231 million in earnings in the first half of the year. These activities had not yet been considered in the report on the first half of 2002. The Gas Business Area boosted earnings by 18% even without taking the consolidation effects into account. This was principally due to the weather-induced increase in sales volumes in the first quarter. Our Upstream Division improved its operating result over the high level achieved in the previous year. This 17.8% rise was driven by the increase in margins stemming from higher oil and gas prices and the expansion of our production activity.

# Water Business Area

- Operating result 29% up year-on-year due to the inclusion of American Water
- Charges incurred due to currency effects

| Key figures<br>€ million | Jan-Jun<br>2003 | Jan-Jun<br>2002 | +/- in % | Full year<br>2002 |
|---|---|---|---|---|
| External net sales | 2,070 | 1,404 | + 47.4 | 2,850 |
| EBITDA | 954 | 718 | + 32.9 | 1,457 |
| Operating result | 614 | 476 | + 29.0 | 963 |
| Capital expenditure | 5,243 | 809 | + 548.1 | 2,181 |
| | 06/30/03 | 12/31/02 | +/- in % | |
| Workforce* | 18,183 | 11,907 | + 52.7 | |

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

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

| Water Business Area<br>Key figures by region | External net sales<br>January-June | | EBITDA<br>January-June | | Operating result<br>January-June | |
|---|---|---|---|---|---|---|
| € million | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Great Britain and Ireland | 912 | 998 | 517 | 543 | 329 | 365 |
| _Regulated business | 804 | 869 | 464 | 501 | 276 | 323 |
| Americas | 913 | 203 | 345 | 73 | 214 | 52 |
| Europe, Middle East, Africa | 186 | 146 | 85 | 89 | 69 | 51 |
| Asia-Pacific | 59 | 57 | 7 | 13 | 2 | 8 |
| **Total** | **2,070** | **1,404** | **954** | **718** | **614** | **476** |

**External net sales** were boosted by 47.4% to €2,070 million in the Water Business Area. This was mainly due to the first-time consolidation of American Water, which took effect on January 1, 2003. Our US water utility contributed €735 million to the Group's revenue. Consolidation effects arose from the inclusion of RWW Rheinisch-Westfälische Wasserwerksgesellschaft (+€20 million) and our Spanish water companies PRIDESA and Ondagua (combined +€44 million). The UK business saw a decline due to currency effects. The unfavorable euro-to-pound exchange rate diluted Thames Water's sales by some €160 million. Net of currency exchange and consolidation effects, the Water Business Area would have increased revenue by 2.9%.

**EBITDA** advanced by 32.9% to €954 million, and **operating results** were up 29.0% to €614 million. This was primarily due to the first-time consolidation of American Water. Our US water utility generated an operating result of €160 million, which, when denominated in US dollars, was slightly down due to unfavorable weather conditions compared with the previous year, during which the company was still applying US GAAP. The earnings situation was depressed above all due to the maintenance costs incurred following a cold winter and sales shortfalls caused by above-average precipitation. Furthermore, the operating result generated by our water business was adversely affected by currency effects that had an impact of -€45 million at Thames Water when compared with the same period in the previous year. Net of first-time consolidations and currency exchange effects, the Water Business Area's operating result was slightly up year-on-year. Additional expenditure associated with infrastructure investments that were agreed on with the UK regulator were more than offset by improvements in the non-regulated UK business and in the international business.

# Environmental Services Business Area

- Operating result down 26%
- Extreme competitive pressure persists

| Key figures<br>€ million | Jan-Jun<br>2003 | Jan-Jun<br>2002 | +/- in % | Full year<br>2002 |
|---|---|---|---|---|
| External net sales | 973 | 1,058 | - 8.0 | 2,136 |
| EBITDA | 108 | 140 | - 22.9 | 281 |
| Operating result | 45 | 61 | - 26.2 | 98 |
| Capital expenditure | 40 | 587 | - 93.2 | 695 |

| | 06/30/03 | 12/31/02 | +/- in % |
|---|---|---|---|
| Workforce* | 13,709 | 14,406 | - 4.8 |

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

**Germany's waste disposal sector** had to deal with extremely difficult conditions in the period under review. The continuing economic slump and ever-fiercer competition in the residential and commercial waste sectors hampered business. In addition, sales volume generated through contracts with the recycling enterprise "Duales System Deutschland" (DSD) was down as a result of the introduction of a mandatory deposit on beverage containers as of January 1, 2003.

**External net sales** were down by 8.0% to €973 million in the Environmental Services Business Area. This was mainly due to the cyclically-induced decline in prices and volumes.

Negative market trends also made a clear mark on earnings. **EBITDA** declined by 22.9% to €108 million, and **operating results** fell by 26.2% to €45 million. We managed to absorb the operating burdens with progress made in implementing realignment and cost-cutting measures initiated in 2002. We intend to save €50 million in annual costs from 2005 onwards.

# Heidelberger Druckmaschinen

- Negative operating result
- Sectoral trend still at rock-bottom

| **Key figures**<br>€ million | **Jan-Jun 2003** | **Jan-Jun 2002** | **+/- in %** | **Full year 2002** |
|---|---|---|---|---|
| External net sales | 1,924 | 2,358 | - 18.4 | 4,315 |
| EBITDA | 78 | 300 | - 74.0 | 414 |
| Operating result | - 49 | 179 | - 127.4 | 158 |
| Capital expenditure | 166 | 198 | - 16.2 | 365 |

| | **06/30/03** | **12/31/02** | **+/- in %** |
|---|---|---|---|
| Workforce* | 22,989 | 23,460 | - 2.0 |

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

Extremely poor demand in virtually all regions, with the key markets in the US and Germany leading the way, determined the **situation in the printing machine industry. Orders received** by the Heidelberg Group continued to drop as a result of the difficult sectoral trend. However, the 20.7% decrease to €1,675 million is also due to the fact that the previous year's corresponding figure was marked by strong order intake at the IPEX specialist trade show. As of June 30, 2003, **orders on hand** totaled €1,008 million, down 20.5% on the year-earlier level.

**External net sales** were down 18.4% to €1,924 million. Heidelberg suffered a significant shortfall in its legacy sheetfed business, which is normally rather stable. At €78 million, **EBITDA** was down 74.0% year-on-year. The **operating result** dropped to -€49 million despite the costs saved through the efficiency-enhancement program that was launched in the fall of 2002 (previous year: €179 million).

# Supervisory Board

**Dr. h.c. Friedel Neuber**
Chairman

**Frank Bsirske***
Deputy Chairman

**Dr. Paul Achleitner**

**Carl-Ludwig von Boehm-Bezing**

**Burkhard Drescher**

**Wilfried Eickenberg***

**Ralf Hiltenkamp***

**Heinz-Eberhard Holl**

**Berthold Huber***

**Berthold Krell***

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

**Dr. Gerhard Langemeyer**

**Josef Pitz***

**Dr. Wolfgang Reiniger**

**Günter Reppien***

**Bernhard von Rothkirch***

**Dr. Manfred Schneider**

**Klaus-Dieter Südhofer***

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

**Prof. Karel Van Miert**

**Erwin Winkel***

* Employee representative.

# Executive Board

**Harry Roels** (as of February 1, 2003)
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 | | Apr-Jun 2003 | Apr-Jun 2002 | Jan-Jun 2003 | Jan-Jun 2002 |
|---|---|---|---|---|---|
| **Revenue**[1] | | **9,608** | **11,837** | **22,434** | **25,161** |
| _Discontinuing operations | | - | 4,211 | - | 7,682 |
| Mineral oil tax / natural gas tax / electricity tax | | - 244 | - 1,233 | - 577 | - 2,728 |
| _Discontinuing operations | | - | - 1,084 | - | - 2,341 |
| **Revenue (without mineral oil tax / natural gas tax / electricity tax)** | | **9,364** | **10,604** | **21,857** | **22,433** |
| Changes in finished goods and work in progress / other own work capitalized | | 190 | 306 | 137 | 414 |
| Cost of materials[1] | | - 4,611 | - 6,528 | - 11,708 | - 13,584 |
| Staff costs | | - 1,938 | - 1,837 | - 3,854 | - 3,682 |
| Depreciation, amortization and impairment losses | | - 1,067 | - 811 | - 2,139 | - 1,602 |
| Other operating result | | - 819 | - 1,122 | - 1,391 | - 2,352 |
| **Income from operating activities** | | **1,119** | **612** | **2,902** | **1,627** |
| Income from investments | | 105 | 105 | 109 | 704 |
| Financial result | | - 717 | - 586 | - 1,471 | - 1,155 |
| **Income before tax** | | **507** | **131** | **1,540** | **1,176** |
| Taxes on income | | - 316 | 55 | - 816 | - 127 |
| **Income after tax** | | **191** | **186** | **724** | **1,049** |
| Minority interest | | - 7 | - 61 | - 103 | - 231 |
| **Net income** | | **184** | **125** | **621** | **818** |
| _Discontinuing operations | | - | - 26 | - | - 67 |
| **Earnings per share**[2] | | | | | |
| _Excl. goodwill amortization | € | 0.75 | 0.45 | 1.96 | 1.90 |
| _Discontinuing operations | € | - | - 0.03 | - | - 0.10 |
| _Incl. goodwill amortization | € | 0.32 | 0.22 | 1.10 | 1.45 |
| _Discontinuing operations | € | - | - 0.05 | - | - 0.12 |

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

# Consolidated balance sheet

| **Assets**<br>€ million | **As of 06/30/03** | **As of 12/31/02** |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | 20,423 | 18,518 |
| Property, plant and equipment | 39,236 | 33,779 |
| Financial assets | 6,919 | 9,280 |
| | **66,578** | **61,577** |
| **Current assets** | | |
| Inventories | 3,289 | 3,505 |
| Accounts receivable and other assets | 17,223 | 16,371 |
| Marketable securities | 7,569 | 8,459 |
| Cash and cash equivalents | 1,928 | 2,143 |
| | **30,009** | **30,478** |
| **Deferred taxes** | 7,526 | 7,593 |
| **Prepaid expenses** | 710 | 625 |
| | **104,823** | **100,273** |

| **Equity and liabilities**<br>€ million | **As of 06/30/03** | **As of 12/31/02** |
|---|---|---|
| **Equity / minority interest** | | |
| Group interest | 6,483 | 6,429 |
| Minority interest | 2,289 | 2,495 |
| | **8,772** | **8,924** |
| **Provisions** | **39,797** | **40,187** |
| **Liabilities** | **44,670** | **41,140** |
| **Deferred taxes** | **7,231** | **6,566** |
| **Deferred income** | **4,353** | **3,456** |
| | **104,823** | **100,273** |

# Consolidated cash flow statement

| € million | Jan-Jun 2003 | Jan-Jun 2002 |
|---|---|---|
| **Income after tax** | **724** | **1,049** |
| Depreciation, amortization, impairment losses, write-backs | 2,144 | 1,758 |
| Changes in long-term provisions | - 566 | 476 |
| Deferred taxes / non-cash expenses / income | 437 | - 592 |
| Changes in net current assets / other | - 27 | - 283 |
| **Cash flows from operating activities** | **2,712** | **2,408** |
| _Discontinuing operations | - | 300 |
| Capital expenditure on tangible and financial assets | - 6,822 | - 12,576 |
| Proceeds from disposition of tangible and financial assets | 696 | 1,223 |
| Changes in marketable securities and cash investments | 1,070 | - 1,192 |
| **Cash flows from investing activities** | **- 5,056** | **- 12,545** |
| _Discontinuing operations | - | - 318 |
| **Cash flows from financing activities** | **2,090** | **8,873** |
| _Discontinuing operations | - | - 42 |
| Currency translation | - 50 | - 57 |
| Changes in scope of consolidation and other changes | 89 | - 801 |
| **Net change in cash and cash equivalents** | **- 215** | **- 2,122** |
| Cash and cash equivalents at beginning of year | 2,143 | 3,842 |
| **Cash and cash equivalents at end of reporting period** | **1,928** | **1,720** |
| | | |
| Financial assets at beginning of year | 14,387 | 18,127 |
| **Financial assets at end of reporting period** | **11,584** | **15,382** |
| Gross financial debt at beginning of year | 29,881 | 19,253 |
| **Gross financial debt at end of reporting period** | **33,903** | **27,105** |
| Net financial debt at beginning of year | 15,494 | 1,126 |
| **Net financial debt at end of reporting period** | **22,319** | **11,723** |

# 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 | - 562 | - 131 | - 693 |
| Other comprehensive income / other | - 919 | - 876 | - 1,795 |
| Income after tax | 818 | 231 | 1,049 |
| **Balance as of 06/30/2002** | **7,067** | **2,623** | **9,690** |
| | | | |
| **Balance as of 12/31/2002** | **6,429** | **2,495** | **8,924** |
| Dividends paid | - 619 | - 95 | - 714 |
| Other comprehensive income / other | 52 | - 214 | - 162 |
| Income after tax | 621 | 103 | 724 |
| **Balance as of 06/30/2003** | **6,483** | **2,289** | **8,772** |

# Notes

## Accounting and valuation methods

The Interim Report for the Period Ended June 30, 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.

This Interim Report was prepared using the accounting and valuation methods applied in the Consolidated Financial Statements for Fiscal 2002.

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

## Scope of consolidation

In addition to RWE AG, the Consolidated Financial Statements contain all domestic and foreign companies which RWE controls directly or indirectly. The US water company American Water and the Polish electric utility STOEN were consolidated as of January 1, 2003. Principal associates are accounted for using the equity method.

The scope of consolidation breaks down as follows:

| | **06/30/03** | **12/31/02** |
|---|---|---|
| Fully consolidated companies | 767 | 724 |
| Investments accounted for at equity | 246 | 245 |

This Interim Report for the Period Ended June 30, 2003 is principally characterized by the first-time consolidation of American Water. 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 not yet included in the previous year's corresponding quarter. By contrast, figures for the first half of 2002 still disclose the Shell & DEA Oil joint venture's downstream business, which was sold as of July 1, 2002. All results and activities pertaining to the divested downstream business are stated under "discontinuing operations."

## Revenue

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

## Research and development costs

In the first half of 2003, research and development costs totaled €219 million.

## Own shares

In the first half of 2003, RWE Group companies bought 17,355 common shares on the capital market at an average cost of €23.83 per individual share certificate. They account for €44,428.80 of the Corporation's share capital (0.03‰ 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 11,890 common shares at an average price of €2.73 on the occasion of service anniversaries. Aggregate proceeds amounted to €171,799.68 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 ceased to be affiliated with RWE as of June 30, 2003.

## Stock option plans

Contingent capital in the amount of €51,200,000 is available to offer subscription rights for common shares in the name of the bearer to members of the Executive Board as well as to other executives of RWE AG and 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 06/30/03** |
|---|---|---|---|---|
| 1999 tranche | 1,935,800 | 1,319,300 | - 55,000 | 1,264,300 |
| 2000 tranche | 4,336,500 | 2,983,000 | - 147,500 | 2,835,500 |
| 2001 tranche | 5,222,300 | 4,454,100 | - 184,500 | 4,269,600 |
| 2001A tranche | 5,262,300 | 4,818,500 | - 146,000 | 4,672,500 |
| **Total** | **16,756,900** | **13,574,900** | **-533,000** | **13,041,900** |

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 payout

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

## Earnings per share

Earnings per share are calculated as follows:

| | | Jan-Jun 2003 | Jan-Jun 2002 |
|---|---|---|---|
| Net income | € million | 621 | 818 |
| Number of shares outstanding (weighted average) | thousands | 562,404 | 562,405 |
| Earnings per share | € | 1.10 | 1.45 |
| Earnings per share net of goodwill amortization | € | 1.96 | 1.90 |

## Contingent liabilities

Contingent liabilities principally relate to liabilities from guarantees. They have declined by €58 million since December 31, 2002. This decrease primarily relates to UK Energy.

## Reconciliation to the operating result

| **Reconciliation of income from operating activities to the operating result**<br>€ million | **Jan-Jun 2003** | **Jan-Jun 2002** |
|---|---|---|
| **Income from operating activities** | **2,902** | **1,627** |
| + Income from investments | 109 | 704 |
| - Non-operating result | - 76 | - 162 |
| **Operating result** | **2,935** | **2,169** |

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**<br>€ million | **Jan-Jun 2003** | **Jan-Jun 2002** |
|---|---|---|
| EBITDA | **4,376** | **3,329** |
| - Operating depreciation and amortization | - 1,549 | - 1,354 |
| EBIT | **2,827** | **1,975** |
| + Operating result of investments | 108 | 194 |
| **Operating result** | **2,935** | **2,169** |

# Financial calendar 2003_2004

## 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 and conference call*

## 01 / 06 / 2004
Preliminary report on fiscal 2003

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

## 04 / 15 / 2004
Annual General Meeting*

## 04 / 16 / 2004
Ex-dividend date

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

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

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

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

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

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