



Annual Report 2003

RWE Dea AG



At a glance

| RWE Dea Group | | 2003 | 2002 | +/- in % |
|---------------------------------------|-------------|-------------|-------------|-----------------|
| Net sales revenues (IAS) | (€ million) | 1,227 | 8,934 | - 86.3 |
| EBITDA (IAS) | (€ million) | 618 | 639 | - 3.3 |
| Operating income (IAS) | (€ million) | 389 | 379 | 2.6 |
| Investments incl. acquisitions | (€ million) | 295 | 665 | - 55.6 |
| Workforce (final total) ¹⁾ | | 903 | 904 | - 0.1 |

| RWE Dea AG | | 2003 | 2002 | +/- in % |
|---------------------------------------|-------------|-------------|-------------|-----------------|
| Net sales revenues (HGB) | (€ million) | 740 | 785 | - 5.7 |
| Income from ordinary activities (HGB) | (€ million) | 335 | 1,199 | - 72.1 |
| Profit transfer to RWE AG | (€ million) | 350 | 1,090 | - 67.9 |
| Investments incl. acquisitions | (€ million) | 157 | 515 | - 69.5 |
| Workforce (final total) ¹⁾ | | 738 | 730 | 1.1 |

¹⁾ based on employee equivalents according to pro rata hours worked (excluding apprentices)

| Indicators | | 2003 | 2002 |
|-----------------------------------|-----|-------------|-------------|
| Earnings per share | (€) | 25.99 | 76.90 |
| Return on capital employed (ROCE) | (%) | 30.9 | 18.3 |
| Return on equity capital | (%) | 21.6 | 58.0 |
| Income to sales ratio | (%) | 31.5 | 5.3 |
| Equity capital ratio | (%) | 52.8 | 37.4 |
| Ratio of equity to assets | (%) | 99.2 | 158.6 |

Explanation of indicators

| | | |
|-----------------------------------|---|--------------------------------------------------------------------------------------------------|
| Return on capital employed (ROCE) | = | Operating income : Operating assets |
| Return on equity capital | = | Income after taxes : Average equity capital |
| Income to sales ratio | = | Operating income less Income from participations : Net sales (excl. declared mineral oil tax) |
| Equity capital ratio | = | Equity capital : Total capital |
| Ratio of equity to assets | = | Equity capital plus long-term provisions and long-term debts : Fixed assets |

| Operating data | | 2003 | 2002 | +/- in % |
|------------------------------|-----------------------------|-------------|-------------|-----------------|
| Natural gas production | (million m ³) | 2,584 | 2,382 | 8.5 |
| Domestic | (million m ³) | 2,188 | 2,006 | 9.1 |
| Foreign | (million m ³) | 396 | 376 | 5.3 |
| Crude oil production | (thousand m ³) | 5,818 | 5,408 | 7.6 |
| Domestic | (thousand m ³) | 1,287 | 1,230 | 4.6 |
| Foreign | (thousand m ³) | 4,531 | 4,178 | 8.4 |
| Total reserves ¹⁾ | (million m ³ OE) | 145.2 | 152.3 | - 4.7 |
| Natural gas reserves | (million m ³ OE) | 86.0 | 88.1 | - 2.4 |
| Crude oil reserves | (million m ³ OE) | 59.2 | 64.2 | - 7.8 |

¹⁾ as of December 31.

Brief Portrait of RWE Dea AG

RWE Dea AG, Hamburg, a legally independent enterprise, is part of the corporate division RWE Power, which comprises the generation and production activities of the RWE Group in continental Europe. The company conducts international exploration for natural gas and crude oil. RWE Dea produces these hydrocarbons in Germany, the UK, Norway, Denmark, Egypt, Dubai and Kazakhstan. RWE Dea holds additional exploration licenses in Algeria, Libya, Spain and Poland. In Germany, RWE Dea operates high-volume underground storage facilities for natural gas. In all its operations RWE Dea can rely on state-of-the-art drilling and production technology and wide-ranging expertise.



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Foreword from the Board of Management



Dr. Georg Schöning,
Chairman of the Board
of Management



Lutz-Michael Liebau,
Member of the Board
of Management



Dr. Rolf Wiese,
Member of the Board
of Management

**Dear Shareholders,
Dear Employees,
Dear Friends of the Company,**

At the close of fiscal 2003, REW Dea had been operating as a purely upstream enterprise for a full financial year. We can report that the restructuring of our company has been successful and that the efforts made to reinforce our exploration and production operations are bearing fruit. Encouraging growth rates were achieved both in our natural gas extraction and oil production activities. In addition, our income figures benefited from high oil and gas prices. On this basis, we continued our successful business activities of the last several years and managed to attain respectable results in 2003 that even slightly exceeded the high prior-year figures of our upstream operations. The company therefore delivered proof of its performance potential in the wake of its strategic reorientation.

Since October 2003, RWE Dea has been part of the corporate division RWE Power, which comprises the generation and production activities of the RWE Group in continental Europe. RWE Dea continues to be engaged in this new corporate division as an independent enterprise. Our task in the newly structured RWE Group remains to secure and further reinforce our competitive position in the field of gas extraction and oil production and to provide part of the RWE Group's requirements for the gas market, which has a highly promising future. In order to achieve this, we plan to extend our gas commitments in the proximity of the European consumption centers and to bring our reserves on stream without delay.

In the year under review, we again managed to record successful exploration activities. For instance, in our drilling campaign in Egypt we managed to find further encouraging gas-bearing deposits and to confirm the prospects of additional reserves indicated by previous test wells. Moreover, as in preceding years, we also increased our chances for further production growth thanks to license awards and the acquisition of new concessions in the year under review.

In particular, the activities launched in Algeria and Libya in 2003, where we anticipate substantial gas potential, have given rise to justified optimism. On the whole, therefore, we can look back on a successful year, even though the results of our exploration activities did not meet our expectations everywhere.

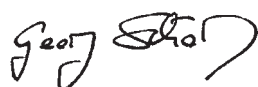
We continue to exploit the potential of our existing oil concessions to an optimum degree in order to be able to use the proceeds to develop our gas activities as well, without delay. Our oil production activities made good progress in the year under review. Following the conclusion of two drilling operations in Denmark in 2003, we are now engaged in oil production there for the first time. Production at the Danish sites has developed better than anticipated.

In the year under review, we were granted approval for a pipeline link from the Mittelplate production island to the Dieksand land station. This constitutes an important step in our efforts to be able to utilize oil deposits in the Mittelplate field better and more speedily in future. The positive approval also represents a recognition of the high priority RWE Dea has assigned for many years now to the issues of environmental protection and safety. Our many years of problem-free operations bear testimony to our consistent efforts to address these concerns in line with our corporate guidelines. By virtue of intensive detailed engineering in the run-up to the pipeline construction now planned for 2005, we want to ensure that we do justice to the high environmental requirements that apply to the project in the sensitive Wadden Sea region.

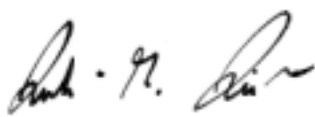
The fact that high ethical standards are a key function of our corporate culture is documented by the initial employee survey conducted at RWE Dea in the financial year under review. The approval figures on questions relating to environmental protection, safety and ethical standards are particularly high. On the whole, the satisfaction values among employees canvassed at RWE Dea are considerably higher than comparative figures found elsewhere. The results show a very high degree of identification of our employees with their company and its objectives.

We wish to thank all of those who contributed to our success during the last financial year. Our past corporate development clearly indicates that we can rely on a team of competent, and highly motivated employees to overcome the fresh challenges we will face. Accordingly, we trust that the projects currently under way will be successful, and we look forward to the fiscal year 2004 with confidence.

The Board of Management



Dr. Georg Schöning
Chairman of the Board
of Management



Lutz-Michael Liebau
Member of the Board
of Management



Dr. Rolf Wiese
Member of the Board
of Management

Report of the Supervisory Board



Dr. Gert Maichel
Chairman of the Supervisory Board

□ The Supervisory Board continuously monitored the company's management during the reporting period. It was regularly informed by the Board of Management, both orally and in writing, about the situation of the company, corporate policy essentials, and the development of business. On the basis of Board of Management reporting, the Supervisory Board thoroughly reviewed the course of business, the development of production, sales, costs and revenues, the earnings situation, corporate planning, and all significant transactions.

The Supervisory Board also reviewed the measures planned or carried out by RWE Dea in the development of exploration, production, and marketing of natural gas and crude oil. The Supervisory Board received in-depth information about applications submitted for licensing rounds and about new commitments in Algeria and Libya. The Board also met to consider acquisition projects. The preparations for the proposed pipeline link between the production island Mittelplate and the Dieksand land station in Schleswig-Holstein were also discussed.

In addition, the Supervisory Board received regular and comprehensive updates regarding the measures taken to hedge business risks.

In a number of meetings the Supervisory Board dealt with the implementation of measures set out in the German Corporate Governance Code. The Board of Management and the Supervisory Board report on this issue in the next chapter, on pages 8 to 9, in conformity with No. 3.10 of the German Corporate Governance Code.

In addition, the Chairman of the Supervisory Board discussed important business policy matters and the situation and development of the company with individual members of the Board of Management.

The Supervisory Board held four meetings during the 2003 financial year. The Personnel Committee met once, whereas the Mediation Committee (pursuant to Art. 27, section 3, Codetermination Act) was not required to meet during the period under review.

The Financial Statements for the 2003 fiscal year drawn up by the Board of Management, the Consolidated Financial Statements and the combined Management Report for RWE Dea AG and the RWE Dea Group, including the accounting records, were audited and given unqualified certification by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Essen Office, appointed auditors by the General Meeting of May 7, 2003 and commissioned by the Supervisory Board to perform the audit. The Annual Financial Statements, the Consolidated Financial Statements and the combined Management Report for RWE Dea AG and the RWE Dea Group, as well as the Auditor's Reports on the Annual Financial Statements and the Consolidated Financial Statements were submitted to all members of the Supervisory Board in time for the balance sheet meeting on February 16, 2004. The auditor took part in the meeting to discuss the Annual Financial Statements and the Consolidated Financial Statements, reported on the principal findings of his audit, and was available to answer any relevant questions in this regard. The Supervisory Board approved the audit results in relation to the Annual Financial Statements and the Consolidated Financial Statements.

The Supervisory Board examined the Annual Financial Statements, the Consolidated Financial Statements and the combined Management Report compiled by the Board of Management. The final audit did not give rise to any objections. The Supervisory Board approved the Consolidated Financial Statements and the RWE Dea AG Financial Statements of December 31, 2003. The latter has thus been adopted.

On October 31, 2003, Dr. Klaus Sturany retired from the Supervisory Board. He had been a member of the Board since 1999, and during his period in office he was involved in decisions of fundamental importance in the far-reaching corporate reorientation. We take this opportunity to thank him for the many years of close cooperation and for his outstanding effort. Mr. Berthold Bonekamp was appointed to succeed Dr. Sturany as a member of the Supervisory Board by court order effective as of November 1, 2003.

Hamburg, February 16, 2004

The Supervisory Board

A handwritten signature in black ink, appearing to read 'Gert Maichel', written in a cursive style.

Dr. Gert Maichel

Chairman of the Supervisory Board

Corporate Governance Report

□ The long-standing, close cooperation characterized by mutual trust between the Board of Management and the Supervisory Board clearly expresses the high standard of Corporate Governance in our company.

As a member of the RWE Group, RWE Dea AG has been following high corporate governance standards for a long time, and solid, responsible management is of overriding importance for our company. Ever since the German Corporate Governance Code ("the Code") was enacted in 2002, we have continually dealt with corporate governance issues. Pursuant to Art. 161 of the German Stock Corporation Act (AktG), each year the Board of Management and Supervisory Board of RWE Dea AG submit an annual Declaration of Compliance confirming that the Government Commission's recommendations have been implemented and are being complied with, and setting out which recommendations have not been or are not being implemented.

In December 2002, the Board of Management and the Supervisory Board of RWE Dea AG submitted their first Declaration of Compliance in accordance with the Code. The Declaration stated that RWE Dea AG accepted the Code and implemented it with a few exceptions: no facilitation of the personal exercise of shareholders' voting rights according to Art. 134, section 3, sentence 2, AktG, no separate compensation for the Chairman and members of Supervisory Board committees, no performance-based compensation for members of the Supervisory Board and no Audit Committee to be set up in the Supervisory Board.

In February 2003, the Board of Management and the Supervisory Board proposed at the General Meeting that provisions be added to the RWE Dea AG By-Laws on facilitating the personal exercise of shareholders' voting rights and on Supervisory Board compensation for committee membership. This resulted in RWE Dea AG issuing a new Declaration of Compliance in February 2003.

On May 7, 2003 the General Meeting approved the proposed amendment, eliminating inconsistencies regarding

separate compensation for membership in Supervisory Board committees and the facilitation of personal exercise of shareholders' voting rights. For this reason, a further Declaration of Compliance was submitted in June 2003, stating that RWE Dea AG departed from the recommendations of the Code in only two points: the first is that members of the Supervisory Board do not receive performance-related compensation in addition to fixed compensation because linking such a compensation payment to the dividend, as is customary within the RWE Group, would not be practicable due to the existing profit transfer agreement with RWE Aktiengesellschaft. The second issue is that the Supervisory Board has not set up an Audit Committee. RWE Dea AG is subject to a control agreement with RWE Aktiengesellschaft and is included in the group of consolidated subsidiaries. It is therefore not necessary to establish an Audit Committee.

The expanded version of the Code published in July 2003 is in line with the position at RWE Dea AG, with one more exception: compensation payments to the Board of Management and the Supervisory Board are not individually published. However, total compensation to the Supervisory Board is broken down into fixed amounts, performance-related components and components with a long-term incentive effect.

The Declaration of Compliance has been made available to the shareholders on our Internet pages and is updated whenever any changes are made to the Declaration.

Fundamentals of compensation for the Board of Management and Supervisory Board

Compensation paid to members of the Board of Management consists of a fixed and a performance-related component. Board of Management members continue to receive a variable compensation component in the form of Stock Appreciation Rights (SAR) as part of a Long-Term Incentive Plan (LTIP). The LTIP details are explained in the Notes to the Consolidated Financial Statements (see page 54). Assessment criteria for the appropriateness of compensation include the duties of the Board of Management

member, personal performance and that of the full Board of Management, the business and economic situation, the success of and future prospects for the company.

Remunerations paid to the Board of Management for fiscal 2003 totaled € 1,399,817.86, including € 758,001.36 in variable remunerations. Under the RWE AG stock option plan, the members of the Board of Management hold non-transferable subscription rights for 510,000 common shares of RWE AG as well as 220,000 units of SAR as part of the LTIP, on the balance sheet date.

Compensation for Supervisory Board members is governed by Art. 11 of the By-Laws. At the end of each fiscal year, members of the Supervisory Board receive a fixed compensation of € 16,000 per fiscal year for their contribution. The Chairman of the Supervisory Board receives double, his Deputy one-and-a-half times this amount. Each member of the Supervisory Board receives an additional annual compensation of € 500, with the Chair of a committee receiving twice that amount. Supervisory Board members serving only part of the fiscal year receive a pro-rata compensation payment. Expenses incurred are also refunded.

Declaration of Compliance with the German Corporate Governance Code

At their respective meetings of February 16, 2004, the Board of Management and the Supervisory Board issued the following Declaration of Compliance pursuant to Art. 161, AktG:

RWE Dea AG has complied with the recommendations of the German Corporate Governance Code effective as of July 4, 2003 with the following exceptions:

- Members of the Supervisory Board do not receive performance-based compensation in addition to the fixed compensation (Code section 5.4.5, sentence 4). The past practice of fixed compensation for Supervisory Board members remains unchanged because linking such a compensation payment to the dividend, as is customary within the RWE Group, would not be practicable due to the existing profit transfer agreement with RWE Aktiengesellschaft.

- The Supervisory Board has not set up an Audit Committee (Code section 5.3.2, sentence 1) because the company is subject to a Control Agreement with RWE Aktiengesellschaft and is part of the group of consolidated subsidiaries of RWE Aktiengesellschaft.
- The information provided on compensation for Board of Management members (Code section 4.2.4, sentence 2) and Supervisory Board members (Code section 5.4.5, sentence 6) does not reflect individual payments.

Since the Declaration of Compliance submitted in December 2002, RWE Dea AG has complied with the recommendations of the German Corporate Governance Code (version of November 26, 2002) with the following exceptions:

- Members of the Supervisory Board do not receive performance-based compensation in addition to fixed compensation (Code section 5.4.5, sentence 4).
- The Supervisory Board did not set up an Audit Committee (Code section 5.3.2, sentence 1).
- The exceptions relating to Code section 2.3.3, sentence 2 and section 5.4.5, sentence 3 (facilitation of the personal exercise of shareholders' voting rights and separate compensation for the Chairman and members of Supervisory Board committees) no longer apply due to changes to the By-Laws approved by the Annual General Meeting of May 7, 2003. The Declaration of Compliance submitted in December 2002 was therefore amended in February and June 2003.

The Statement of Compliance is published on the company's website under

[www.rwede.com/Company/Investor Relations](http://www.rwede.com/Company/Investor%20Relations)

Hamburg, February 2004

RWE Dea AG


The Board of Management

The Supervisory Board

Management Report

Thanks to high oil prices and an increased volume of production, RWE Dea managed to build on the good performance over the last several years by generating another good operating result for fiscal 2003, demonstrating the great potential of what is now a purely upstream enterprise.





□ Under the management of RWE Power AG, RWE AG combined the gas and oil production operations of RWE Dea and lignite production along with all power stations in Continental Europe in a new core business area called Generation and Production, effective as of October 1, 2003. Within this new core business area, RWE Dea continues to operate as an independent corporate entity. The corporate restructuring also affects the exercise of rights from the control and profit transfer agreement with RWE AG. Among other things, RWE AG authorized RWE Power AG to exercise its right to issue directives as stipulated in the control agreement. This does not impact on the profit transfer agreement remaining in force with RWE AG.

Following the final disposal of downstream activities effective as of July 1, 2002, RWE Dea operated as an exclusively exploration and production company for the remainder of fiscal 2003. Comparisons with prior-year figures contained in this Management Report relate both to key RWE Dea Group figures, including the downstream business during the first half of 2002, and the key figures for the upstream-only business in fiscal 2002. The Consolidated Financial Statements of RWE Dea AG as at December 31, 2003 are drawn up in accordance with the International Financial Reporting Standards (IFRS).

Economic climate

The price of a barrel of Brent crude averaged US\$ 28.8 for the year. This was 37.4% above the ten-year average, and the Brent crude price was 15.6% higher year-on-year. However, due to exchange-rate effects the average price of Brent crude of € 25.5/bbl was 3.5% below the previous year's level in euro terms. During the first quarter the level of prices was affected by a hike in the run-up to the Iraq war, and this led to Brent crude prices topping US\$ 32/bbl at times. After the outbreak of war, prices quickly slipped to below US\$ 25/bbl as a result of concerns regarding the supply situation. OPEC's policy of

cutting production volumes, delays in the resumption of oil production in Iraq and low inventories combined to force oil prices up starting in mid-year, to an average of just under US\$ 29/bbl.

Prices obtained for natural gas were almost at the previous year's level, thus holding steady in respect of the long-term average. On account of contractual stipulations, natural gas prices largely followed those for light and heavy fuel oil over the preceding six months. More or less the same applies to the price provisions in the long-term gas supply agreements in place for our production in the British North Sea. Heating oil prices largely developed in tandem with crude oil prices. Nevertheless, for several reasons gas prices on the markets serviced by us failed to keep pace with oil prices. The wholesale trade made use of exemption clauses in gas supply agreements to achieve price adjustments. Pressure on prices triggered by liberalization measures and tax hikes was thus passed on to producers as well. In addition, the low level of prices in the emerging spot markets for gas also compromised pricing during the summer. The weak dollar on the other hand meant that price trends for crude oil and products traded in US\$ only had a limited impact on gas prices as gas is traded in euros.

Production boosted further

Production and sales figures developed positively in fiscal 2003. Largely as a result of a demand-driven expansion in our domestic gas production, we managed to boost overall gas output by 8.5% compared to the previous year, to 2.6 billion m³.

With a total volume of 5.8 million m³, our oil production exceeded the prior-year level by 7.6%. Production in Kazakhstan in particular was successfully boosted thanks to optimized production facilities and an improved transport and marketing infrastructure. The start of production in August from the Danish oil fields Nini and Cecilie also contributed to the overall increase in output.

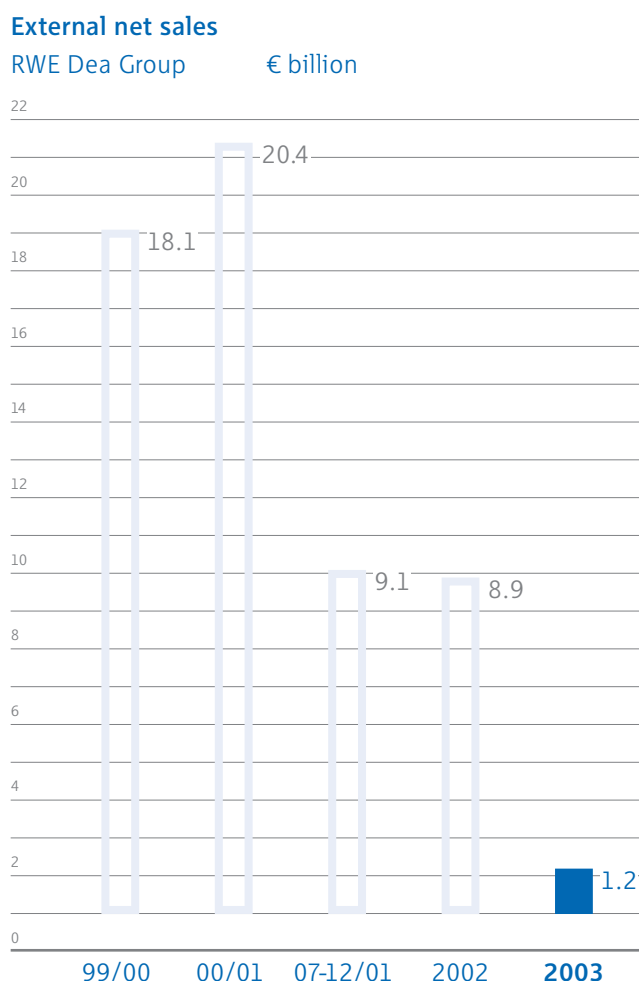
Production in Norway was also up due to increases in production from the Snorre field. In Germany, our production rose chiefly as a result of extraction from the Dieksand 7 and 8 production wells in the Mittelplate field. Oil production in Egypt declined due to the rising water cut in the extracted oil.

| Gas and oil production | | 2003 | 2002 |
|------------------------|-------------------------------|--------------|--------------|
| RWE Dea Group | | | |
| Natural gas | | | |
| Germany | million m ³ | 2,188 | 2,006 |
| Foreign | million m ³ | 396 | 376 |
| Total | million m³ | 2,584 | 2,382 |
| Crude oil | | | |
| Germany | thousand m ³ | 1,287 | 1,230 |
| Norway | thousand m ³ | 1,803 | 1,726 |
| Egypt | thousand m ³ | 937 | 1,086 |
| Kazakhstan | thousand m ³ | 926 | 554 |
| Other | thousand m ³ | 865 | 812 |
| Total | thousand m³ | 5,818 | 5,408 |

Upstream sales figures just about steady at previous year's level

External net sales for the RWE Dea Group for the year 2003 amounted to € 1,227 million, almost equaling the upstream business for the previous year (€ 1,249 million). The previous year's figure for the Group was significantly higher at € 8,934 million because up until June 30, 2002 it also included the high-revenue mineral oil downstream business. The share of foreign operations in the Group's external net sales for the year under review was 49.0%.

| External net sales (incl. mineral oil tax)* | | 2003 | 2002 |
|------------------------------------------------|--|--------------|--------------|
| RWE Dea Group € million | | | |
| Upstream | | 1,227 | 1,249 |
| Downstream | | - | 7,685 |
| Total | | 1,227 | 8,934 |



* External net sales of the RWE Dea Group include turnover with other RWE companies.

Operating figures positive once again

The operating result of € 389 million generated by the RWE Dea Group in fiscal 2003 again was quite encouraging, even slightly exceeding the previous year's high level (€ 379 million). This positive result is due to the sustained level of high oil and gas prices and to increased production. The negative effects of the weaker US dollar were substantially cushioned by hedging transactions conducted at an early stage. As a result we managed to slightly exceed the previous year's result for the upstream business, which had earned € 385 million in 2002. The downstream business, of which we divested ourselves as of July 1, 2002, had made a negative contribution to earnings in the previous year.

Among our segments it was the domestic operations in particular that contributed an amount of € 318 million to the operating result, allowing us to exceed the previous year's high level by just under 5%. A solid increase in crude oil production in Norway and the start of production in Denmark meant that the Europe/CIS sector was able to more than double its operating income. However, a negative operating income figure was recorded for the North Africa/Middle East region. Besides increased expenditure on exploration, this was mainly due to the marked drop in the volume of crude extracted in Egypt, which not only meant reduced income but also called for unscheduled valuation adjustments.

| Operating income | 2003 | 2002 |
|------------------|------------|------------|
| RWE Dea Group | € million | |
| Upstream | 389 | 385 |
| Downstream | - | - 6 |
| Total | 389 | 379 |

EBITDA declined by 3.3%, to € 618 million. However, compared to the EBITDA of the upstream business in the previous year, this represented an increase of 5.1%.

Income before taxes, at € 525 million, was well below the figure for the same period of the previous year (€ 1,217 million), which included € 937 million in income from the sale of RWE Dea's downstream operations. The high income before taxes for fiscal 2003 also included the profit from the sale of our 10.1% share in Bergemann GmbH, as well as a special effect relating to the termination of the joint venture Shell & DEA Oil GmbH. The completion of the transfer of our shares in CONDEA-HUNTSMAN GmbH & Co. KG to Sasol Chemical Holdings GmbH & Co. KG also had a positive effect. A negative impact resulted from a special goodwill amortization of RWE Dea Suez GmbH, whose oil reserves had to be downgraded in value on account of more conservative assumptions regarding their remaining useful life. These effects are reported under non-operating income.

Income after taxes came to € 349 million. After deduction of minority interests, whose total effects on net income are negligible, the net earnings figure remains unchanged.

Business

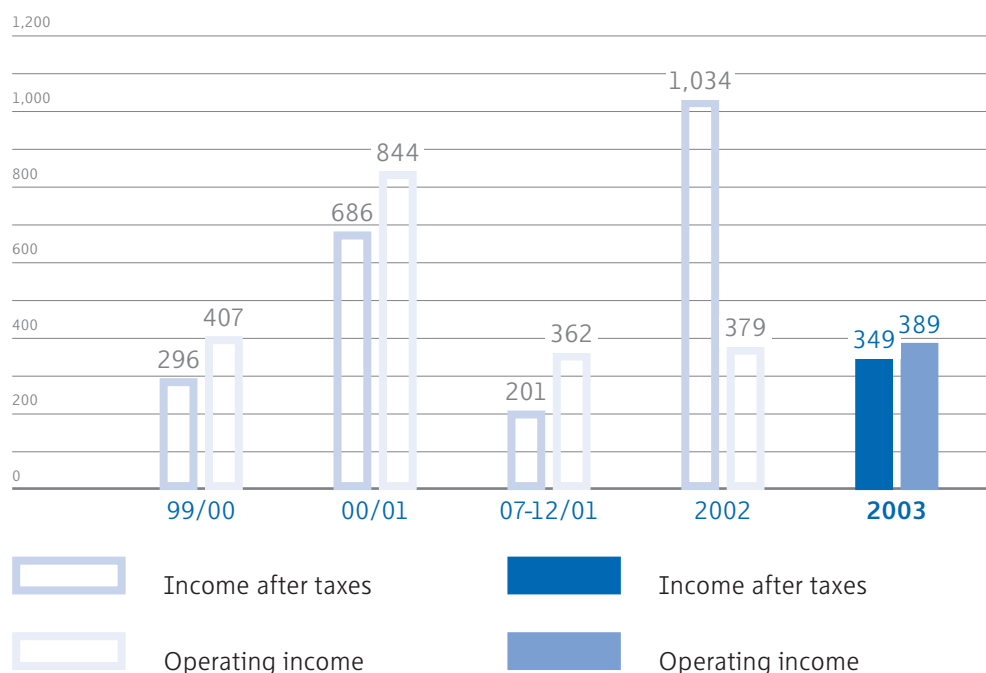
| Income Statement | 2003 | 2002 |
|----------------------------|-----------|-------|
| RWE Dea Group | € million | |
| EBITDA | 618 | 639 |
| Depreciation | - 232 | - 289 |
| Income from participations | 3 | 29 |
| Operating income | 389 | 379 |
| Non-operating income | 153 | 750 |
| Financial result | - 17 | 88 |
| Income before taxes | 525 | 1,217 |
| Income taxes | - 176 | - 183 |
| Income after taxes | 349 | 1,034 |
| Minority interests | ▪ | ▪ |
| Net income | 349 | 1,034 |

▪ negligible amount

Operating income and income after taxes

RWE Dea Group

€ million



High return on capital and sizeable value contribution

The return on capital employed (ROCE) is determined as the ratio of operating income to average operating assets. For a value contribution to be generated, ROCE must be higher than the cost of capital calculated for the operating assets. The RWE Group has set this cost for the RWE Dea Group at a current 13%.

The ROCE for the RWE Dea Group was 30.9%. During the same period in the previous year we had recorded a ROCE of 18.3%. The comparative value for the upstream business in 2002 was 29.8%. After deduction of the calculated capital cost, this results in a value contribution of 17.9% for the year 2003. In the previous year this value was 5.3% for the Group and 16.7% for the upstream business. The difference is essentially due to the fact that earnings remained steady while operating assets were reduced following the disposal of the downstream business. Expressed in absolute figures, the RWE Dea Group's value contribution for the reporting year amounted to € 225 million. In the previous year this value was € 110 million for the RWE Dea Group and to € 217 million for the upstream business.

Investments

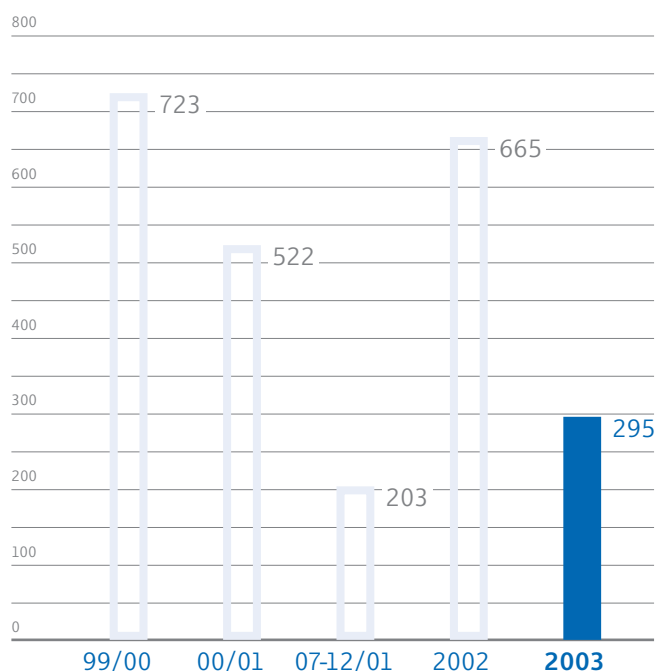
RWE Dea invested a total of € 295 million in the 2003 fiscal year. These investments were below those made in the previous year (€ 665 million). However, these included amounts spent on the acquisition of British Highland Energy Holdings Ltd. and the acquisition of the outstanding shares of Veba Oil & Gas GmbH in Norway and Egypt as well as pro-rata investments of Shell & DEA Oil GmbH. Excluding these special transactions, investments in fiscal 2003 were only about 10% below those in fiscal 2002. The primary focus for our investment activities in 2003 was the Europe/CIS region (€ 179 million), with investments going into the development of our fields in Denmark and the expansion of production operations in Norway. We also acquired shares in two blocks in the British North Sea. An additional focus for our investment activities was the North Africa/Middle East region, with a total volume of € 71 million.

| Investments | | 2003 | 2002 |
|-------------------------------------------|-----------|------------|------------|
| RWE Dea Group | € million | | |
| Upstream | | 295 | 636 |
| Downstream | | - | 29 |
| Total* | | 295 | 665 |
| Property, plant and equipment/Intangibles | | 294 | 353 |
| Financial investments/Acquisitions | | 1 | 312 |

* excl. equity participations and other loans

Investments

RWE Dea Group € million



Information about the Financial Statements of RWE Dea AG in conformity with the provisions of German commercial law

RWE Dea AG's sales revenues in 2003 amounted to € 740 million. In fiscal 2002 the corresponding figure was € 785 million. Income reported in the individual statements of RWE Dea AG came to € 350 million for the year under review. The previous year's income of € 1,090 million included the sale of our downstream operations. The income figure for this year in turn reflects the successful performance of our domestic operations, and it also includes the income generated by the sale of our participation in Bergemann GmbH.

The profit will be transferred in full to our parent company RWE AG. Minority shareholders will receive a guaranteed settlement of € 9.20 per share.

The financial position is affected by the receipt of payment of the purchase price of our share in the Shell & DEA Oil GmbH joint venture. Part of this (€ 1.0 billion) was made available to RWE AG in the form of a long-term loan, with the option of subsequent adjustments to the loan amount. The € 100 million loan granted by RWE AG was prematurely repaid. RWE Dea AG is incorporated in the cash pooling facility of RWE AG.

The asset position of RWE Dea AG was impacted by the sale of our holdings in Bergemann GmbH. In addition, a valuation adjustment was made to our financial commitments in Central Poland. The reduction in financial assets is more than off-set by the long-term investment of liquidity in RWE AG, primarily consisting of the proceeds from the sale of our holdings in Shell & DEA Oil GmbH. Netting the profit transferred to RWE AG in the previous year under "Accounts payable intercompany" against our funding account with RWE AG results in a significant reduction in total assets.

The value of RWE Dea AG's total investments in the year under review amounted to € 157 million. RWE Dea AG investments in fiscal 2002 amounted to € 515 million.

Business expansion by way of additional concessions and successful exploration activities

We further expanded our E+P commitments located in proximity to the European centers of consumption, focusing on gas operations in particular. In addition to our exploration activities, this was achieved through the acquisition of concessions and our successful participation in the government bidding rounds.

As a result of being awarded shares in six blocks in the immediate vicinity of existing RWE Dea operations in the course of the 21st exploration round, we managed to strengthen our position in the British North Sea. In the British North Sea we also acquired stakes of 19% and just under 45% in two blocks. The Devenick gas condensate field, which is set for development, extends into

these two blocks. This acquisition boosted our probable gas reserves by some 800 million m³, with additional potential of approximately 1.6 billion m³.

In the 2002/2003 North Sea bidding round, we acquired stakes of 55% and 45%, respectively, in three blocks in Norway.

In the West Mediterranean concession in Egypt (RWE Dea stake 35%), the series of drilling operations continued with further wells sunk onshore in the Western Desert and offshore from Alexandria. These wells confirmed the results of previous test wells and also showed the presence of a promising gas-bearing deposit. In the adjacent West Mediterranean Deep concession (RWE Dea share 20%) we also recorded substantial gas discoveries that confirmed the potential for additional reserves indicated by previous test wells.

Our North Africa commitments are gradually being upgraded. In early June we ratified an exploration agreement with the Libyan National Oil Company, giving us exclusive rights for exploration and production in six blocks in Libya. Extensive seismic measurements were conducted in the new concessions acquired in Algeria and offshore from the Canary Islands in 2002 .

Oil activities remain an important component of our portfolio. The important role of domestic production from the Mittelplate oil field in the North Sea was further enhanced with the completion of the Dieksand 8 production well in February 2003. The approval for the pipeline link from the production island Mittelplate to the onshore facility at Dieksand is the decisive step that will allow us to exploit the production potentials of the Mittelplate field even better in future.

The start of extraction from the Nini and Cecilie oil fields in August 2003 means that RWE Dea now has its own production facilities in Denmark for the first time.

Risk management

It is our business policy to make optimum use of opportunities and contain risks at the same time. All risks are monitored and controlled by risk management tools in place throughout the RWE Group. Within the scope of this risk management, supported by a documented risk management system, RWE Dea gives appropriate consideration to the risk aspect in all decisions and business processes through ongoing early identification, standardized recording, assessment, control and monitoring.

Being a purely upstream organization, we continue to be exposed to the financial and price risks prevailing in the international markets. The risks in question are analyzed, quantified and reported on a regular basis. A risk management task force meets regularly to discuss the policies to be applied in the face of currency and crude price risks. We use derivative financial instruments to hedge such risks. All hedging transactions serve the exclusive purpose of covering the risk from underlying operational and financial transactions.

As a precaution against the risk of fire, explosion or harm to the environment, we have included responsibility for environment, health and safety in our RWE Dea Mission Statement and introduced the same binding principles throughout our global operations. In addition to obtaining adequate insurance coverage for property losses, we have developed emergency plans that are reviewed and updated on a regular basis. Other risks include the possible misinterpretation of geological structures and the resultant abortive drilling. We contain such risks through state-of-the-art technology and systematic quality assurance.

Judging by what we know at present, there are no risks that may have a significant and sustained negative impact on the asset, financial and earnings position of the RWE Dea Group apart from the risks generally inherent in any business.

Research and development

R&D projects in most cases are conducted together with joint-venture partners, frequently under agreements with universities or outside research institutions.

Our research activities in 2003 continued to focus on the production of tight gas from reservoirs with very low permeability. This research project is now in its final stage, and results are very encouraging as regards the future development of new technologies designed to boost production. Consequently, work is already under way in the consortium to define follow-on projects. A further focus of our forward-looking research efforts concerns the problems affecting production in the final stage of field development, the so-called tail-end production phase. Our research findings provide the basis on which we can develop innovative processes capable of making more efficient use of our reserves, in effect increasing them.

Research activities included work on improving mud treatment to penetrate problem formations. Our geophysicists conducted scientific investigations of new methods for the evaluation of seismic data, and our geologists studied the properties of the *Rotliegendes*, the most important source rock for gas in North Germany.

Events after the balance sheet date

No events subject to compulsory disclosure occurred after the balance sheet date.

Outlook

It is the underlying assumption of our current planning for 2004 that crude prices will remain within the price corridor of US\$ 22 to 28 per barrel aimed at by OPEC, thus remaining below 2003 prices on average. As inventories in the major consumer countries were at record low levels at the end of 2003, it is conceivable that periods of cold weather in the spring of 2004 may force prices up. For the remainder of the year prices will depend largely on the economic climate in the major consumer countries, such as in the high-growth Chinese market and others, and on the security of supplies from the Middle East. Overall, it is highly probable that crude prices – and gas prices along with them – will continue to be volatile.

We therefore took advantage of the relatively high level of oil prices in mid-year to conclude futures transactions. In doing so, we already managed to hedge part of our revenues for 2004. On the currency side as well, the futures transactions already concluded will help protect our revenues from exchange-rate fluctuations and safeguard our targeted earnings figures.

Contractually defined pricing relations will mean that the high crude prices in the second half of 2003 will result in high gas prices in the first half of 2004. A sustained weakness in the US dollar would dampen this effect on our gas sales to some extent, however, as gas is traded in euros.

As new production wells come on line, our gas production is likely to increase further, whereas oil production is set to decline. Overall a satisfactory result is expected for fiscal 2004.

Workforce

The expansion of our upstream position calls for a high level of qualifications and full commitment from our workforce. A targeted recruiting policy and systematic advanced vocational training of our personnel support the successful development of our business, as well as offering our employees exciting career opportunities both in Germany and abroad.





□ Size of workforce

At the end of the 2003 financial year, our company had a workforce of 970 (903 employee equivalents*), 202 of which worked abroad. The number of employees remained steady at the previous year's level.

* Full-time, part-time and temporary labor (excl. Board of Management, managing directors/general managers, apprentices, inactive employment, working students and interns, employees in the passive phase of the old-age part-time scheme) less part-time reductions.

Promoting junior talent

High-quality vocational training provides the basis on which our company ensures the availability of properly qualified young talent. As part of the wage negotiations in the last fiscal year, we agreed on a significant increase in the number of apprentice positions for 2004. Our objective is to bring the proportion of apprentices in our domestic workforce to about 3% by the end of 2006. In creating new apprentice positions RWE Dea also meets an important social obligation. In addition, we give university and college students the chance of applying and deepening their theoretical knowledge by working as interns or writing their theses with the support of RWE Dea. In the year 2003, a total of 28 students took advantage of this opportunity.

Personnel development

Our personnel development concept aims at qualification and enhancement of our employees' performance potential in their present positions, as well as preparing them for more complex tasks in future. We continued to use our corporate personnel development tools jointly developed in the RWE Group, including orientation sessions, assessment of personnel potential, promotion programs for junior talent and job rotation in our organization throughout 2003. Individual development plans are set up for employees showing good potential for career advancement. Regular management seminars and individual development measures were offered to junior talent in preparation for managerial tasks. Other key features of our personnel development concept

are the specific training of employees and management staff in the area of safety at work, as well as the systematic preparation of employees for foreign assignments.

Internationalization

The internationalization of our company proceeded apace during the last financial year. By December 31, 2003, a total of 42 company employees were working outside Germany as part of foreign assignment agreements. A particular focus of our personnel management activities concerned support during the start of our activities in Libya. In addition to filling management positions in our subsidiaries and affiliates outside Germany, growing importance is also seen in the participation of our employees in international project teams involving other companies. Assignment guidelines in line with market requirements, intercultural and language preparation, support for employees and their families during the mission as well as support during the subsequent reintegration period are all essential components contributing to the success of our foreign assignments. During these assignments abroad, our employees consistently demonstrate their mobility and adaptability as well the high level of qualifications they bring to their task.

Collective agreements and employee benefits

In June 2003, RWE Dea AG and the IG Bergbau, Chemie, Energie, the German union for employees in the mining, chemical and energy industries, successfully concluded a new Union/Company Collective Agreement for a period of 13 months. Essential components of the Collective Agreement are a 2.8% increase in collective wages and salaries and in trainee remuneration from September 1, 2003. In addition, the vacation allowance will be boosted to € 2,050 starting in 2004, with a special regulation applying to trainees.

In 2003 RWE Dea again made a voluntary extra payment amounting to two-thirds of a monthly salary to its employees in Germany on account of the company's positive earnings situation. This voluntary payment is an expression of our appreciation of our employees' efforts in contributing to the success of our company, and it is intended to further boost their motivation and commitment in future.

Our old-age part-time scheme continues to meet with good acceptance. At the moment, 68 employees are working under this scheme, with 27 in the active and 41 in the passive phase according to the so-called block model. This means that more than 8% of our workforce in Germany are taking advantage of our old-age part-time work scheme. In the age group of employees over 55 years, almost half have entered into this type of contract.

The conversion of parts of their gross pay into contributions to privately financed old-age pension insurance, as stipulated by the old-age capital formation legislation, has met with a positive response from our workforce. About 23% of employees have taken advantage of this facility.

Once again, our workforce was offered the chance to purchase RWE shares at an attractive price in order to promote the capital formation program among our employees. Some 61% of the entitled employees made use of the option to purchase up to 34 RWE common shares. Just under 500 employees purchased a total of more than 10,600 employee shares. The number of employee shares issued therefore rose by about 44% compared with the previous year.

A modern Company Pension Plan

As part of our efforts to standardize the regulations governing the Company Pension Plan in the RWE Group, we introduced a contribution-based set of pension rules effective as of October 1, 2003. It is applicable for all employees who have joined our company since October 1, 2003, or those who will join our company in future. Through this modern Company Pension Plan, our company acknowledges its social responsibility and will continue to make an essential contribution to the benefits scheme for our employees after their retirement and in the event of early retirement and due to disability.

The existing 1989 Pension Plan has been closed to new employees as of September 30, 2003.

Employee Suggestion Program

During the year 2003, our employees contributed 63 suggestions, thus making good use of the opportunity to contribute new ideas to boost the efficiency of operational procedures, and to improve both safety in the workplace and protection of the environment. We attribute this rise in the number of suggestions over the last year to the successful revision of our employee suggestion program.

Integrated Management System expanded

Our integrated management system CIMS (Company Integrated Management System), which conforms to international standards, has proven itself in the systematic implementation of the objectives relating to health and occupational safety, pollution prevention and quality management enshrined in the RWE Dea Mission Statement. During 2003 we expanded and upgraded the system in line with practical requirements and performed a number of related internal audits in all our German operations and divisions. The measures taken included the integration of existing internal regulations into CIMS, research of environmental aspects and development of procedural instructions for processes of setting objectives and for project management purposes. Work on the further development of CIMS in order to achieve uniformity in terms of quality standards throughout our operations and divisions of our company will continue, not least in view of the certification scheduled for the end of 2004.

Positive action to boost safety in the workplace

Our ongoing effort to improve occupational health and safety is designed to protect the good health both of our internal and external employees. An analysis of the most common types of accidents on a monthly basis allows us to counter the specific causes of these accidents promptly. In 2003 our measures focused on the topic of "Accidents due to falls and tripping".



RWE Dea Norge employees working in brightly lit, friendly rooms in Oslo's Skøyen district.

Employee survey recorded high levels of endorsement

One of the mainstays of our success as a company is the high level of motivation and commitment shown by our employees, and the fact that they identify with the company and its corporate philosophy. To find out more about the opinion of our employees, we commissioned the services of a specialist consulting firm and conducted our first ever employee survey in November 2003. The survey was prepared jointly with representatives of management, the Joint Staff Council and the Executive Staff Committee.

Using an electronic questionnaire, we asked our employees how they felt about "satisfaction with their work", "customer/market orientation", "thinking and acting in the interest of the business", "management and guidance" and "change and integration". The participation rate of 85.9% reflected a high level of acceptance on the part of our employees.

Overall, the survey registered very high levels of satisfaction in the workforce – especially in such areas as identification with and commitment to the company, activities as well as employee and other benefits. All the values

recorded at RWE Dea topped the averages scored in employee surveys conducted in 20 logistics and production companies in the years 2000 to 2003. However, the evaluation of the survey also highlighted areas in need of improvement within our company. By discussing these results and launching follow-up processes, we intend to use these insights in order to make the work we do here at RWE Dea not only more efficient, but also more appealing.

Our thanks to our employees

RWE Dea's performance in the market has been highly successful for years. It is only with employees who strongly identify with their work and who will meet new challenges with great dedication and commitment that such a consistently high level of performance can be sustained. The efforts of our workforce therefore deserve our special appreciation and recognition. Our thanks also go to the Staff Councils and to the Executive Staff Committee. By continuing to work with us in a constructive relationship characterized by mutual trust, they contribute a great deal to the ongoing successful development of our company.



Business Activities

Our upstream position, particularly in the natural gas business, has been strengthened further by new discoveries and successful applications for concessions. The focus of our commitments is on gas activities strategically close to the European centers of consumption.

□ Gas activities

We are strengthening our gas activities in selected key regions close to the European centers of consumption. Our principal fields of activity are the British and the Norwegian North Sea, the Norwegian Sea, as well as the North African region where, in addition to our long-standing commitment in Egypt, we now also have operations in Algeria and Libya, which started up in 2003. The strategy for building up our business relies primarily on organic growth. As in previous years, in 2003 we once again succeeded in increasing our reserves and resources further through new concessions and concession acquisitions. We are planning to expand our reserves further through an intensive program of exploration, and to bring these reserves on stream quickly by stepping up their development.

Optimized exploitation of domestic gas reserves

With just over 11% market share, RWE Dea is one of the biggest gas producers in Germany. Domestic gas production activities also make the principal contribution to our overall gas production. In order to stabilize and further expand domestic gas and oil production, we continue to pursue our program of exploration and production well drilling in North Germany. The prospects for new major breakthroughs in gas exploration in Germany are limited, however. This was also reflected in the fact that our exploration wells Imbrock-Süd Z 1 and Hassel Z 1 in fiscal 2003 unfortunately turned out dry.

We are therefore pioneering innovative methods for optimizing the use of available gas deposits in Germany. One of these methods is a highly sophisticated technology known as frac treatment. In the frac process, high hydraulic pressure produces fractures in the rock which are then stabilized by means of a proppant agent to form artificial flow paths that improve reservoir permeability. The frac treatment was used in the production well Söhlingen Z 15, in which RWE Dea holds a

30% stake, and which was sunk to its final drilling depth during the reporting year. The result was that gas reserves located in particularly dense and impermeable rock formations (tight gas) became available for extraction, which would not have been commercially viable without this technology. Frac treatments were also successfully applied in the existing production wells Völkersen Z 5 and Z 6 as well as in the Hemsbünde Z 6 and Bleckmar Z 1 wells. As this technology (which is state-of-the-art worldwide) advances further it is likely to increase not only the volume but also the lifetime of available reserves.

At the end of June the production well A6-A4 reached its final drilling depth of 3,668 m. The well, in which RWE Dea has a 7.1% share, is located in the so-called 'Duck's Bill' in the German North Sea. The extraction of gas commenced in October 2003, producing a flow rate of 290,000 m³ per day.

In addition to gas exploration and production, our company also has outstanding expertise in the profitable gas storage business. Since the beginning of storage operations in the year 1973, the total gas volume handled at our three high-volume underground gas storage facilities in Bavaria exceeded the 25 billion m³ mark in 2003.

The successful completion of well servicing workovers in six storage wells at the Inzenham gas storage facility in February 2003 served to secure our operational capacity in this business on a sustained basis. Work is proceeding on the planning for the expansion of the natural gas storage facility Wolfersberg. This project will allow us to increase the available volume of working gas to the level agreed with Bayerngas.

Expansion of gas activities in the UK under way

Work is proceeding to bring our as yet undeveloped gas reserves in the British North Sea (in the order of 12 billion m³), on line as soon as possible. The fields already in production are currently producing an RWE Dea share in the UK of 180 million m³ annually. Once the planned developments come on stream, we are aiming at a combined annual peak production of up to 2 billion m³.

We also managed to further increase our presence in the British North Sea in 2003. In the 21st exploration round we were awarded shares in six blocks in the immediate vicinity of existing RWE Dea operations.

During the reporting year we also acquired stakes of 19% and just under 45% in two blocks in the British North Sea from Agip. The Devenick gas condensate field, which is set for development and in which RWE Dea now holds about 5% of shares, extends into these two blocks. This acquisition boosted the volume of gas reserves ready for development by about 800 million m³, with additional potential yet to be ascertained.

Exploration in Poland

In Poland we have a number of gas-prospective concessions south of Lodz, as well a 58.5 % stake in Medusa Oil & Gas (Poland) which holds licenses in the area southeast of Krakow. Poland's existing infrastructure makes it an attractive location for our exploration activities. Should our exploration work be successful, no major investments in infrastructure will be required before the extracted gas can be transported. While the two exploration wells drilled in the foothills of the Carpathian mountains to date did confirm the presence of gas, the test results available at this point do not yet prove the existence of commercially recoverable reserves. Further investigations are under way to establish the size of the gas deposit and the productivity of the stratigraphic sequence drilled so far.

Activities in Norway

Norwegian gas is of outstanding importance for the European continent. In terms of reserves in the existing fields, Norway is the number one in Europe. Even at this early stage Norway contributes 25% of total gas imports to

Germany. The growth potential for Norwegian gas must be considered immense.

While the crude oil extracted in Norway represents the biggest share of the RWE Dea oil production, our gas production there is currently still limited to the extraction of petroleum gas. The acquisition of stakes in existing concessions and successful participation in government bidding rounds have allowed us to strengthen our position in Norway over the last few years on a sustained basis. We stepped up our exploration program in 2003. As part of this effort, we acquired a 25% stake in the PL 195 license from Norsk Hydro. An exploration well sunk in this concession turned up dry, however, and was plugged again. The results of the exploration well in the PL 256 license, in which we hold a 15% share, are still being evaluated. The results obtained to date warrant a more intensive exploration program in this area.

We also succeeded in being awarded new licenses. In the North Sea bidding round 2002/2003, we acquired stakes of 55% and 45%, respectively, in three blocks in Norway. We will continue to participate actively in future licensing rounds.

Exploration activities in Spain and offshore from the Canary Islands

3D seismic surveys have been completed over an area of approx. 3,200 km² across nine blocks located in the ocean east of the Canary Islands of Fuerteventura and Lanzarote. We hold a 20% stake in these blocks. Drilling of the first exploration well is scheduled for the year 2004, following an evaluation of the seismic survey data.

In the spring of 2003, we acquired 25% stakes in each of the two off-shore concessions Calypso Oeste and Calypso Este in the Gulf of Cadiz from the Spanish company Repsol YPF. As part of this transaction, we also received a 25% stake in the Circe concession that is located further west. Two exploration wells were already drilled in the Calypso Oeste and Calypso Este concessions in the first half of 2003. As both wells came up dry, the geological concept is currently under review.

Commitment in Egypt boosted further

We consolidated our strong position in Egypt in 2003 as a result of successful exploration activities and the acquisition of shares.

In the West Mediterranean concession, in which RWE Dea now has a 35% stake, our extensive exploration program continued with further wells drilled onshore in the Western Desert and offshore from Alexandria. In the course of these explorations, the deep-water well Abu Sir-2X not only confirmed the previous gas find; it also encountered a further gas-bearing deposit further down.

The exploration well Ruby 2 in the West Mediterranean Deep concession (RWE Dea stake 20%) also struck gas at a final drilling depth of 2,225 m. A test produced a flow rate of approx. 30,000 m³/hour. This further confirmed a known gas deposit and proved the existence of additional reserves.

In order to bring our extensive gas reserves in Egypt into production without delay, we are already negotiating with our joint-venture partners concerning the development and marketing of our gas reserves in the West Mediterranean and North Idku fields. In the North Idku field we have launched a detailed concept study for the development of the field. In December the operator of the West Mediterranean concession signed a cooperation agreement with the state-owned natural gas company EGAS. The agreement sets out the terms and conditions for the development of the production fields and marketing of the extracted gas. The agreement is scheduled for ratification by the joint-venture partners by March 2004.

To complete our Egypt portfolio, we participated in the bidding consortia for the 2002 licensing round, where we bid for three blocks and were awarded the two concessions for Disouq and East Yidma. The contractual negotiations have meanwhile been concluded. Together with our joint-venture partners, we applied for an additional concession for East Kalabsha in the government bidding round for 2003 as well, and following the award we entered into negotiations on the work program with the Egyptian state-owned company EGPC. All concession agreements are still subject to parliamentary approval.

Seismic surveys in Algeria

In the license area Reggane Nord – a 12,000 km² block with proven total gas reserves in the order of 30 billion m³ in which we hold a 30% stake – we conducted a 3D seismic survey across an area of approx. 950 km² as well as a supplementary 2D survey in 2003, in order to assess the license area for further exploration potential.

At the end of 2003, RWE Dea was awarded four gas exploration and production blocks in the South Algerian Ahnet basin. RWE Dea holds a 30% share in this concession. As in the Reggane Nord license area, our joint-venture partners are Repsol YPF as operator, and Edison Gas with stakes of 45% and 25%, respectively.

RWE Dea now also operating in Libya

At the end of May 2003 we ratified an agreement with the Libyan National Oil Company giving us exclusive rights for the joint exploration for, and production of, hydrocarbons in six blocks in Libya. We are currently in the process of setting up the organizational structure in Libya needed to carry out the work. Operational activities in the form of seismic surveys are scheduled to start in the second half of 2004.

Oil activities

Our oil activities are an important contribution to maintaining a sound balance between the considerable investments needed to develop new discoveries and the corporate cash flow. For this reason, we exploit the potential of our existing oil concessions to the maximum extent possible, to use the opportunity to explore for oil alongside our search for gas at economically favorable conditions and develop newly discovered deposits.

Production from Mittelplate

In February 2003 production commenced at the extended-reach production well Dieksand 8 in the Mittelplate oil field. The well has a final drilling length of 8,672 m and produces a flow rate of about 440 m³ of crude oil per day. With the well coming on stream, our onshore production from the Mittelplate field increased by just under 10%. We also completed the Mittelplate production well A 16 and commenced production which, at about 300 m³/day, exceeded our expectations.



A technical and physical challenge: drilling for gas in the southern British North Sea.

In order to achieve better exploitation of the reserves in the Mittelplate oil field, we lodged an application with the authorities for the construction of a pipeline link from the production island to the Dieksand land station. In mid-October 2003, the State Mining Authority of Clausthal-Zellerfeld approved plans for the pipeline link between the drilling and production island Mittelplate and the Dieksand land station in Friedrichskoog. Upon expiry of the time limits for lodging objections, the approval became effective in December 2003.

We also perceive the favorable outcome as a recognition of our many years of operating in a highly sensitive ecological environment such as the Wadden Sea without causing any damage. It goes without saying that our pipeline project will fully comply with the strict environmental standards in place. Pumping the oil to the mainland will enable production to be increased and will thus shorten the duration of production activities in the sensitive ecosystem of the Schleswig-Holstein Tidelands National Park. At the same time, this will put an end to past practice of transporting oil by barge.

The necessary subsoil tests commenced at the end of November 2003. A team of experts from RWE Dea and from our joint-venture partner Wintershall is undertaking the work of coordinating the collateral clauses of the notice of approval with the planned project, particularly in relation to the technical requirements of the specific method used to lay the pipeline in the Wadden Sea. Construction of the pipeline is scheduled for 2005.

The construction of the two accommodation modules for our drilling and production island Mittelplate was completed on schedule. Following smooth transportation to the site and successful installation, the new living quarters were commissioned at the end of September and are now in use. This means that 96 people – instead of the previous 69 – can now be accommodated on the artificial Mittelplate island. The new living quarters are of a much better standard.

Oil activities outside Germany

Production in our oil operations in Norway was optimized as a result of reservoir engineering measures.

Following the completion of three production wells in August 2003, RWE Dea began to participate in oil production in Denmark for the first time. The wells in the Nini and Cecilie oil fields, in which RWE Dea holds stakes of 30% and 17%, respectively, produce about 5,500 m³ per day. The resulting RWE Dea share is about 1,500 m³ per day.

Wells sunk for the purpose of stabilizing our oil production in the Gulf of Suez encountered a new region of oil-bearing deposits in the Ras Budran field. In the Ras Fanar field in the Gulf of Suez, we sunk the development well RF-A5 which is now producing approx. 200 m³ of crude per day. This allowed us to slightly absorb the significant drop in production caused by rising water cut.

Oil production by the Kazgermunai joint venture in Kazakhstan, in which RWE Dea holds a 25% share, was up considerably from the previous year thanks to optimization measures and the upgrading of existing facilities, as well as improved transportation and marketing conditions. A reservoir simulation based on a 3D seismic survey was completed, which indicates the presence of greater reserves than anticipated.

Environmental protection a corporate policy objective

All our business activities are consistently aimed at a high level of environmental protection. This concern is reflected in the many years of trouble-free operation of our production facilities. We also demonstrate our commitment by returning our former production sites to their natural condition after the end of operations. A relevant example here is the decommissioning of the production platforms Schwedeneck-See in the German Baltic Sea.

We avoid emissions wherever this is possible and commercially viable. In order to reduce noise emissions impacting on residents in the neighborhood to a minimum, our drilling equipment at the Völkersen Z 7 exploration well was fitted with expensive technical noise reduction

equipment and the drilling site was enclosed by a noise protection wall. These combined measures allowed us to not only meet the noise limits approved for the drilling project, but in some cases to remain well below them.

As part of the planning permission hearings for the development of the Völkersen field by the Völkersen Z 8 to Z 10 wells, including the associated gas dehydration plant, an environmental impact study is being compiled. The study will place special emphasis on the options available to eliminate noise and light emissions as well as pollution caused by traffic.

Development of reserves

On December 31, 2003 our proven and probable natural gas and crude oil reserves amounted to 145.2 million m³ oil equivalents (OE), which was just under 5% below the level at the end of 2002. This trend can be attributed to extraction as part of the ongoing production process and to a more conservative valuation of our oil reserves in Germany and Egypt in comparison with the previous year. Recent geological and reservoir-engineering findings also forced a reduction in the estimates for the reserves in the North German gas fields of Söhlingen and Völkersen.

By the end of 2003, natural gas already accounted for just under 60% of our total reserves. This strategic shift in our portfolio from oil to gas shows up even more clearly in the development of our resources, that is, in proven and probable hydrocarbon reservoirs, excluding reserves. Our gas resources went up by almost 30% compared with the level at the end of 2002, and the share of gas now makes up more than 80%. This substantial increase in resources is largely due to the success of our exploration activities in Egypt in recent years.

| RWE Dea reserves | | 2003 | 2002 |
|------------------|---------------------------|-------|-------|
| Natural gas | million m ³ OE | 86.0 | 88.1 |
| Crude oil | million m ³ OE | 59.2 | 64.2 |
| Total | million m ³ OE | 145.2 | 152.3 |

Financial Statements, Major Participations, Supervisory Board, Board of Management



| | |
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Consolidated Income Statement

January 1 through December 31, 2003

| € 000 | (Notes) | 2003 | 2002 |
|------------------------------------------|---------|------------------|------------------|
| Sales revenues | (1) | 1,227,378 | 8,934,240 |
| Mineral oil/natural gas taxes | (2) | - 3,245 | - 2,342,691 |
| | | 1,224,133 | 6,591,549 |
| Changes in inventories | | - 61 | 26,284 |
| Own construction cost capitalized | | 6,584 | 10,625 |
| Other operating income ^{a)} | (3) | 169,208 | 1,315,355 |
| Materials | (4) | - 559,993 | - 5,466,231 |
| Personnel | (5) | - 80,679 | - 220,553 |
| Depreciation/amortization ^{b)} | (6) | - 248,305 | - 300,212 |
| Other operating expenses | (7) | - 123,060 | - 892,105 |
| Income from operating activities | (8) | 387,827 | 1,064,712 |
| Income from participations ^{c)} | (9) | 154,684 | 64,504 |
| Financial income | (10) | - 17,613 | 88,280 |
| Income before taxes | | 524,898 | 1,217,496 |
| Income taxes | (11) | - 175,793 | - 183,656 |
| Income after taxes | | 349,105 | 1,033,840 |
| Minority interests | (12) | 221 | - 306 |
| Net income | | 349,326 | 1,033,534 |
| Earnings per share (€) | (13) | 25,99 | 76,90 |

^{a)} € 936,612,000 thereof profit from the sale of the 50% interest in the Shell & DEA Oil GmbH joint venture in 2002

^{b)} € 16,447,000 (previous year € 11,310,000) thereof amortization of goodwill

^{c)} € 4,190,000 (previous year € 19,888,000) thereof income from financial assets valued in line with the equity method

Consolidated Balance Sheet

as of December 31, 2003

| Assets (€ 000) | (Notes) | 12-31-2003 | 12-31-2002 |
|---------------------------------------|---------|------------------|------------------|
| Fixed assets | (14) | | |
| Intangibles | | 407,998 | 441,468 |
| Property, plant and equipment | | 903,691 | 909,463 |
| Financial assets ^{a)} | | 1,027,729 | 261,879 |
| | | 2,339,418 | 1,612,810 |
| Current assets | | | |
| Inventories | (15) | 18,339 | 30,885 |
| Accounts receivable and other assets | (16) | 405,187 | 2,623,019 |
| Cash and cash equivalents | (17) | 128,488 | 153,959 |
| | | 552,014 | 2,807,863 |
| Deferred taxes | (18) | 3,986 | 136,610 |
| Prepaid expenses and deferred charges | | 1,072 | 3,639 |
| | | 2,896,490 | 4,560,922 |

| Liabilities (€ 000) | (Notes) | 12-31-2003 | 12-31-2002 |
|-----------------------------------------|---------|------------------|------------------|
| Stockholders' equity/minority interests | (19) | | |
| Group interests | | | |
| Share capital | | 344,064 | 344,064 |
| Retained earnings | | 1,189,498 | 1,366,260 |
| | | 1,533,562 | 1,710,324 |
| Minority interests | | - 4,200 | - 3,408 |
| | | 1,529,362 | 1,706,916 |
| Provisions | (20) | 846,658 | 833,394 |
| Liabilities ^{b)} | (21) | 307,620 | 1,701,396 |
| Deferred taxes | (22) | 212,844 | 318,451 |
| Deferred income | | 6 | 765 |
| | | 2,896,490 | 4,560,922 |

^{a)} € 6,170,000 (previous year € 2,884,000) thereof financial assets valued in line with the equity method

^{b)} € 8,069,000 (previous year € 107,248,000) thereof long-term interest-bearing liabilities

Consolidated Cash Flow Statement

January 1 through December 31, 2003

| € 000 | Notes (26) | 2003 | 2002 |
|--------------------------------------------------------------------------------------------------------------------------|------------|--------------------|------------------|
| Income after taxes | | 349,105 | 1,033,840 |
| Depreciation/write-ups | | 250,643 | 300,418 |
| Increase in provisions | | 9,739 | 160,257 |
| Increase/decrease in deferred taxes | | 50,169 | - 4,898 |
| Other non-cash earnings/expenses (essentially retirement of financial assets, prior-year earnings from de-consolidation) | | - 125,268 | - 1,169,109 |
| Changes in net current assets | | 38,747 | 814,192 |
| Changes in other balance sheet items | | 392 | - 238,978 |
| Cash flow from operating activities | | 573,527 | 895,722 |
| Intangibles/property, plant and equipment | | | |
| _ Investments | | - 273,766 | - 353,440 |
| _ Receipts from retirements of fixed assets/disinvestments | | 12,637 | 17,042 |
| Acquisitions, participations and loans to participations | | | |
| _ Investments | | - 12 | - 335,496 |
| _ Receipts from retirements of fixed assets | | 224,251 | 60,465 |
| Change in cash investments | | 448,006 | - 7,054 |
| Cash flow from investment activities | | 411,116 | - 618,483 |
| Profit transfer to RWE AG and distribution to minority interests of subsidiaries | | - 351,585 | - 1,093,075 |
| New financial debt | | 2,054 | 1,192,633 |
| Repayment of financial debt | | - 1,291,689 | - 77,153 |
| Cash flow from financing activities | | - 1,641,220 | 22,405 |
| Net increase in cash and cash equivalents | | - 656,577 | 299,644 |
| Influence of exchange rate and other revaluations on cash and cash equivalents | | - 2,516 | 214 |
| Total change in cash and cash equivalents | | - 659,093 | 299,858 |
| Cash and cash equivalents at beginning of year | | 928,737 | 628,879 |
| Cash and cash equivalents at end of year | | 269,644 | 928,737 |

Changes in Stockholders' Equity and Minority Interests January 1 through December 31, 2003

| € 000 | Share capital RWE Dea AG | Capital reserve | Retained earnings | Foreign currency translation differences | Other compre- hensive income | Group interests | Minority interests | Total |
|----------------------------------------------------------------------------|-----------------------------------|--------------------|----------------------|---------------------------------------------------|---------------------------------------|--------------------|-----------------------|-------------|
| As of 1-1-2002 | 344,064 | 979,841 | 309,907 | 23,368 | 128,344 | 1,785,524 | 70,875 | 1,856,399 |
| Profit transfer | | | - 1,090,175 | | | - 1,090,175 | - 2,900 | - 1,093,075 |
| Fair value of derivative financial instruments without effect on income | | | | | 34,464 | 34,464 | | 34,464 |
| Foreign currency translation | | | | 4,534 | 21 | 4,555 | 433 | 4,988 |
| Income after taxes | | | 1,031,104 | | 2,430 | 1,033,534 | 306 | 1,033,840 |
| Other changes | | | - 50,797 | | - 6,781 | - 57,578 | - 72,122 | - 129,700 |
| As of 12-31-2002/1-1-2003 | 344,064 | 979,841 | 200,039 | 27,902 | 158,478 | 1,710,324 | - 3,408 | 1,706,916 |
| Profit transfer/distribution | | | - 350,130 | | | - 350,130 | - 1,455 | - 351,585 |
| Fair value of derivative financial instruments without effect on income | | | | | - 132,712 | - 132,712 | | - 132,712 |
| Foreign currency translation | | | | - 40,574 | 114 | - 40,460 | 884 | - 39,576 |
| Income after taxes | | | 349,326 | | | 349,326 | - 221 | 349,105 |
| Other changes | | | - 2,786 | | | - 2,786 | | - 2,786 |
| As of 12-31-2003 | 344,064 | 979,841 | 196,449 | - 12,672 | 25,880 | 1,533,562 | - 4,200 | 1,529,362 |

Development of Fixed Assets

January 1 through December 31, 2003

| | Beginning of reporting year | Additions/retirements due to changes in group of consolidated subsidiaries | Additions | Transfers | Foreign currency translation | Retirements | At cost End of reporting year |
|--------------------------------------------------------------------------------------------------|-----------------------------|----------------------------------------------------------------------------|------------------|----------------|------------------------------|----------------|----------------------------------|
| € 000 | | | | | | | |
| Intangibles | | | | | | | |
| 1. Concessions, industrial and similar rights and assets, and licenses in such rights and assets | 1,134,444 | | 81,311 | 6,894 | - 13,591 | 4,616 | 1,204,442 |
| 2. Goodwill from | | | | | | | |
| individual company financial statements | 2,485 | | | | - 193 | | 2,292 |
| capital consolidation | 32,260 | | | | | | 32,260 |
| 3. Advances | 6,894 | | | - 6,894 | | | |
| | 1,176,083 | | 81,311 | | - 13,784 | 4,616 | 1,238,994 |
| Property, plant and equipment | | | | | | | |
| 1. Land, rights equivalent to land, and buildings, including buildings on land not owned | 113,455 | | 454 | 71 | - 4 | 752 | 113,224 |
| 2. Investment property | 64,802 | | | - 31 | | 1,256 | 63,515 |
| 3. Wells | 587,373 | | 29,820 | 268,570 | | 41 | 885,722 |
| 4. Machinery and equipment | 1,638,886 | - 1,776 | 109,179 | - 232,790 | - 139,115 | 18,741 | 1,355,643 |
| 5. Other equipment, fixtures and furniture | 49,628 | | 3,313 | 186 | - 1,132 | 9,318 | 42,677 |
| 6. Advances made, and plant under construction | 79,518 | | 69,541 | - 36,006 | - 4,521 | 8,086 | 100,446 |
| | 2,533,662 | - 1,776 | 212,307 | | - 144,772 | 38,194 | 2,561,227 |
| Financial assets | | | | | | | |
| 1. Participations in subsidiaries and affiliates | 51 | - 50 | 25 | | | | 26 |
| 2. Participations in associated companies valued in line with the equity method | 2,884 | | 4,190 | | - 904 | | 6,170 |
| 3. Participations in non-subsidiaries ¹⁾ | 224,402 | | | | | 224,251 | 151 |
| 4. Loans to subsidiaries and affiliates | | | 1,000,000 | | | | 1,000,000 |
| 5. Loans to non-subsidiaries | 24,767 | | 890 | | | 8,109 | 17,548 |
| 6. Other loans | 10,401 | | 843 | - 2,302 | - 1,014 | 1,130 | 6,798 |
| | 262,505 | - 50 | 1,005,948 | - 2,302 | - 1,918 | 233,490 | 1,030,693 |
| | 3,972,250 | - 1,826 | 1,299,566 | - 2,302 | - 160,474 | 276,300 | 4,830,914 |

¹⁾ Line includes fair value adjustments of non-subsidiaries (IAS 39)

| Beginning of reporting year | Additions/retirements due to changes in group of consolidated subsidiaries | Depreciation/Amortization | | | | | | Book values | |
|-----------------------------|----------------------------------------------------------------------------|-----------------------------|-----------|------------------------------|-------------|-----------|-----------------------|-----------------------|----------------------|
| | | Depreciation reporting year | Transfers | Foreign currency translation | Retirements | Write-ups | End of reporting year | End of reporting year | End of previous year |
| 731,764 | | 84,414 | 28 | - | 267 | 4,591 | 811,348 | 393,094 | 402,680 |
| 413 | | 389 | | - | 39 | | 763 | 1,529 | 2,072 |
| 2,438 | | 16,447 | | | | | 18,885 | 13,375 | 29,822 |
| | | | | | | | | | 6,894 |
| 734,615 | | 101,250 | 28 | - | 306 | 4,591 | 830,996 | 407,998 | 441,468 |
| 54,978 | | 3,048 | 15 | | | 576 | 57,465 | 55,759 | 58,477 |
| 25,585 | | 1,155 | - | 13 | | 275 | 26,452 | 37,063 | 39,217 |
| 400,275 | | 29,605 | 185,884 | | | 4 | 615,760 | 269,962 | 187,098 |
| 1,102,266 | - 1,592 | 110,039 | - 185,914 | - | 91,265 | 10,072 | 923,462 | 432,181 | 536,620 |
| 41,095 | | 3,208 | | - | 786 | 9,120 | 34,397 | 8,280 | 8,533 |
| | | | | | | | | 100,446 | 79,518 |
| 1,624,199 | - 1,592 | 147,055 | - 28 | - | 92,051 | 20,047 | 1,657,536 | 903,691 | 909,463 |
| | | | | | | | | 26 | 51 |
| | | | | | | | | 6,170 | 2,884 |
| | | | | | | | | 151 | 224,402 |
| | | | | | | | | 1,000,000 | |
| | | 2,442 | | | | | 2,442 | 15,106 | 24,767 |
| 626 | | | | | | 104 | 522 | 6,276 | 9,775 |
| 626 | | 2,442 | | | | 104 | 2,964 | 1,027,729 | 261,879 |
| 2,359,440 | - 1,592 | 250,747 | | - | 92,357 | 24,638 | 104 2,491,496 | 2,339,418 | 1,612,810 |

Notes – RWE Dea Group

Statement by the Board of Management

The Board of Management of RWE Dea AG, Ueberseering 40, D-22297 Hamburg, is responsible for the preparation, completeness and accuracy of the Consolidated Financial Statements and the Combined Management Report for the RWE Dea Group.

The Consolidated Financial Statements of the RWE Dea Group as of December 31, 2003 are drawn up pursuant to the International Financial Reporting Standards (IFRS). They are in conformity with the European Union's Accounting Directive (83/349/EEC). All figures for the previous year were determined in conformity with the same principles. On account of the provisions of § 292a of the German Commercial Code (HGB), these Consolidated Financial Statements prepared in accordance with IFRS meet the relevant requirements for exemption. The rules of DRS 1 (German Accounting Standard) were observed.

Internal control systems, the use of uniform directives throughout the Group, and our measures for employee training ensure that the Consolidated Financial Statements and the Combined Management Report for the RWE Dea Group are adequately prepared. Compliance with legal regulations and internal directives as well as the reliability and viability of the control systems are continuously reviewed within the Group.

In line with the requirements of the German Corporate Control and Transparency Act, our risk management system enables the Board of Management to identify potential risks at an early stage and initiate countermeasures, if appropriate.

In line with the resolution of the Annual General Meeting, PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the Consolidated Financial Statements and the Combined Management Report for the RWE Dea Group and gave unqualified certification, as shown in the Independent Auditor's Report on page 65.

The auditors were present during the discussion of the Consolidated Financial Statements, the Combined Management Report for the RWE Dea Group and the Auditor's Report at the Supervisory Board's meeting on the financial statements. The results of the Supervisory Board's examination (pages 6 to 7 of this Annual Report) are included in the Report of the Supervisory Board.

Hamburg, January 30, 2004

The Board of Management

Schöning

Liebau

Wiese

General rules

The International Financial Reporting Standards (IFRS) in place on the balance sheet date are applied to the Consolidated Financial Statements. The IFRS comprise the IFRS issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS), and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the Standing Interpretations Committee (SIC), respectively.

In addition to the Income Statement, the Balance Sheet and the Cash Flow Statement, the financial statements include the Changes in Stockholders' Equity and Minority Interests. The Notes also include segment reporting.

Various items of the Income Statement and the Balance Sheet are combined to improve the transparency of presentation. These items are shown and explained separately in the Notes. The Income Statement is drawn up in line with the total cost method of accounting.

The accounts are denominated in euros (€). All amounts, including prior-year figures, are reported in thousands of euros (€ 000). The foreign-currency accounts of subsidiaries were converted from national currency into euros.

These financial statements cover the 2003 fiscal year on the basis of the reporting period January 1 through December 31.

As a result of substantial changes in the group of consolidated subsidiaries in the previous year, comparability with prior-year figures, especially in the Income Statement, is limited. For selected items of the Income Statement, the prior-year figures are therefore presented by business segments to facilitate a better comparison:

January 1 – December 31, 2002

| € 000 | Upstream ¹⁾ | Downstream ^{1) 2)} | RWE Dea Group |
|----------------------------------|------------------------|-----------------------------|---------------|
| Sales revenues | 1.308,118 | 7,685,230 | 8,934,240 |
| Operating income/expenses | - 156,777 | - 7,771,859 | - 7,869,528 |
| Income from operating activities | 1,151,341 | - 86,629 | 1,064,712 |
| Income from participations | 55,475 | 9,029 | 64,504 |
| Financial income | 79,604 | 8,676 | 88,280 |
| Income before taxes | 1,286,420 | - 68,924 | 1,217,496 |
| Income taxes | - 185,134 | 1,478 | - 183,656 |
| Income after taxes | 1,101,286 | - 67,446 | 1,033,840 |
| Minority interests | - 306 | - | 306 |
| Net income | 1,100,980 | - 67,446 | 1,033,534 |

¹⁾ Before consolidation of overall operating income and expenses

²⁾ For the period January 1 through June 30, 2002

In the previous year the downstream segment had been reported under "Discontinuing operations".

Consolidated subsidiaries

The Consolidated Financial Statements comprise RWE Dea AG and all major domestic and foreign subsidiaries in which RWE Dea AG has the direct or indirect majority of votes. There are 19 consolidated subsidiaries, eight of them foreign. The shares in one associated company are valued in line with the equity method.

Compared with December 31, 2002, there have been minor changes to the group of consolidated subsidiaries. In order to streamline the organization, the Norwegian companies Norske RWE Dea AS and RWE Dea Nord AS were merged into RWE Dea Norge AS as of January 1, 2003. Included in the group of consolidated subsidiaries for the first time were the exploration company RWE Dea North Africa/Middle East GmbH, effective from July 1, 2003, and RWE Dea Kasachstan GmbH, effective from December 1, 2003. As their impacts on the group of consolidated companies as of December 31, 2003 is negligible, they are not reported here.

Consolidation principles

The financial statements of the domestic and foreign companies included in the Consolidated Financial Statements are drawn up in conformity with uniform accounting and valuation methods.

For the purpose of capital consolidation as of the date of acquisition, the book values of participations are netted against the revalued proportionate stockholders' equity of the subsidiaries. In the process, assets and liabilities of the subsidiaries are stated at market value. Any remaining debit compensatory item is capitalized as goodwill and amortized under the straightline method over the expected economic life of up to 15 years with effect on income. In deconsolidation, the residual book values of capitalized goodwill are taken into account in the calculation of the gain or loss on disposal.

Participations in subsidiaries that are of minor importance for the RWE Dea Group are reported in conformity with IAS 39. In aggregate, they account for less than 1% of the consolidated turnover and income as well as of consolidated debt. Subsidiaries with a negative income or negative equity are fully consolidated on principle.

The joint listing of investments of the RWE Dea Group and RWE Dea AG pursuant to Art. 285, no. 11, and Art. 313, sections 2 and 3, German Commercial Code (HGB), at balance sheet date was filed with the Commercial Register of the Hamburg Municipal Court in line with the provisions of Arts. 287 and 313, Section 4, HGB.

Page 66 lists the major subsidiaries included in the Consolidated Financial Statements, the company valued in line with the equity method, as well as other substantial participations.

Accounts receivable and payable, sales revenues, expenses and earnings between the consolidated subsidiaries are eliminated. Intercompany profits or losses are eliminated, unless they are negligible. Depreciation charged in the companies' individual statements on shares in consolidated subsidiaries are reversed on principle.

Corresponding consolidation principles are applied to the associated companies valued in line with the equity method, with goodwill being reported in the valuation of participations and amortization in the income from participations.

Currency translation

In the companies' individual statements, transactions in foreign currencies are valued at the rate of the original booking date, or at balance sheet date rate. Gains and losses from the revaluation of foreign currency assets or liabilities incurred in foreign currency by the balance sheet date are reported with effect on income.

Functional currency translation is applied when converting the currencies of foreign companies' financial statements. In the Consolidated Financial Statements, the balance sheet items of all foreign companies are translated from the respective country's currency into euros at the average exchange rate on the balance

sheet date because the foreign companies conduct their business independently in their national currency. The same procedure is applied when translating the adjusted equity of foreign companies valued in line with the equity method. Differences as against prior-year translations are netted against equity without effect on income. Goodwill is translated at the rate on the balance sheet date as an asset of the commercially independent foreign sub-unit, income and expense items are translated at annual average rates. None of the major companies was headquartered in a high-inflation country during the reporting year or the previous year.

The following exchange rates were applied:

| € | Rate on balance sheet date | | Average rate | |
|---------------------|----------------------------|----------|--------------|-------|
| | 12-31-03 | 12-31-02 | 2003 | 2002 |
| 1 US dollar | 0.79 | 0.96 | 0.88 | 1.06 |
| 1 pound sterling | 1.42 | 1.54 | 1.44 | 1.59 |
| 100 Norwegian krone | 11.88 | 13.75 | 12.45 | 13.37 |
| 100 Polish zloty | 21.27 | 25.00 | 22.52 | 25.88 |

Accounting and valuation methods

Income Statement

Realization of income

Sales revenues are valued at the fair value of counter-performance received or to be received, subject to consideration of possible revenue reductions. Income from the delivery of goods is realized at the time of transfer of control.

Balance Sheet

Assets

Intangibles are reported at amortized cost. Software for commercial or technical applications is depreciated under the straight-line method over three to five years, concessions and other licenses are generally depreciated over a period of up to 20 years or depending on production. Goodwill from capital consolidation or financially acquired goodwill in individual financial statements is capitalized and amortized under the straight-line method over their expected economic lives of normally up to 15 years.

Because of the specific activities of foreign subsidiaries, contractual rights (recoverable cost) resulting from production sharing agreements are also reported as intangibles. Only the recovery rights from investments are reported in the fixed assets. Other immediately recoverable rights not yet accounted are reported as short-time rights under other assets. In line with production sharing agreements, the retirement of long-term rights is reported under depreciation, i.e. the intangibles are reported at cost, reduced by recovery until the balance sheet date.

Property, plant and equipment are valued at amortized cost. The cost of property, plant and equipment includes the estimated cost of demolition and removal and of the reconditioning of the asset under public or private law obligations, to the extent related provisions were set up.

Exploratory wells are posted in line with the successful efforts method. Expenses are capitalized as they are incurred in connection with wells drilled. The charges for geology and seismics are reported as expenses. Dry wells are treated as expenses after their completion.

Finance charges are stated as expenses.

Investment Property held as financial investment is valued at amortized cost less straight-line depreciation. The fair value of investment property is stated in the Notes. Fair value measurement takes place in line with internationally accepted methods, on the basis of the current market prices of comparable property. Investment property includes any property (land or buildings) held to earn rentals or for long-term capital appreciation and not held for production or administrative purposes.

RWE Dea being an upstream organization, own research and development work is not conducted.

Property, plant and equipment are depreciated using the straight-line method, unless they are depreciated on a production-related basis under the unit of production method.

Regular depreciation on our typical facilities is spread over the following economic lives: buildings/investment property 12 to 50 years, gas storage reported under machinery and equipment 33 years, and wells up to 28 years.

Operating leases are in place exclusively, which need not be reported in the Balance Sheet.

The book values of intangibles (incl. goodwill) and property, plant and equipment are regularly reviewed at the end of each fiscal year. Extraordinary depreciation is charged if the realizable value from the asset is smaller than the book value. If the asset is part of a unit that autonomously generates cash or cash equivalents, the depreciation charge is determined on the basis of the realizable value of that unit. Write-ups are made if the reasons for extraordinary depreciation no longer apply.

The participations in non-consolidated subsidiaries and the other Group participations in nonsubsidiaries – all of them included in the **Financial Assets** – are reported at appropriate market value, provided this value can be reliably measured, with first-time valuation taking place on the due date. Unrealized profits from participations available for sale are included in the other comprehensive income without impacting income. Profits from the sale of such participations will have an effect on income. The interests in associated companies valued in line with the equity method are reported at the proportionate stockholders' equity plus goodwill.

Loans granted by the company are valued at amortized cost. Loans granted at usual market interest rates are shown at nominal value, or as a rule at lower present value in the case of non-interest or low-interest loans.

Inventories are valued at cost. An exception are materials and supplies, which as a rule are reported at average cost or at net realizable value. The cost comprises production-related full cost, determined on the basis of normal use of capacities. Specifically, production costs include prorated material and production overheads, including scheduled depreciation in addition to the directly attributable costs. Finance charges are stated as expenses. Reduced usability risks are accounted for by means of adequate value reductions. Lower values as of the balance sheet date due to reduced net realizable values are reported as such. To the extent that the net realizable value

of previously depreciated inventories has risen, the resulting write-back is recorded as a reduction in the cost of materials.

Accounts receivable and **other assets** are valued at amortized cost. Any valuation adjustments necessary are determined by the actual risk of default.

Deferred Taxes are set up to cover temporary differences between the IFRS and tax balance sheets of individual companies and from consolidation. Deferred tax assets as a rule comprise tax credit claims resulting from the expected utilization of loss carryforwards in subsequent years, provided their realization is reasonably certain. Deferred taxes are determined on the basis of expected tax rates applicable or expected in different countries at the time of realization. Deferred taxes in Germany are subject to a tax rate of 39.3%. In addition to the corporate income tax rate of 25.0% and the 5.5% solidarity surcharge on income tax, the average trade income tax rate applicable to the RWE Group was taken into account. Otherwise, the calculation of the deferred taxes was subject to the tax rules in place or resolved at balance sheet date. Deferred tax assets and liabilities for each company/group are netted if the option of statutory offset is available.

Liabilities

The Provision For Employee Pension Plans And Similar Commitments is valued in line with the projected unit credit method. This method of measuring entitlements takes into account not only the pensions known and entitlements vested as of the balance sheet date, but also includes expected future increases in salaries and pensions. Actuarial gains and losses, to the extent that they exceed 10% of the higher amount arising from the total commitment and from the fair value of the plan assets, are stated as income over the workforce's average remaining years of service. Current service cost is reported under personnel, while interest expenses are shown under financial income.

The **Provision For Reconditioning Of Sites And Plugging Of Wells** covers the updated commitments for the reconditioning of sites and the plugging of wells. The estimated cost of provisions set up in Germany reflects empirical data and the cost benchmarks determined by the Association of German Crude Oil and Natural Gas Producers. Provisions for foreign subsidiaries are based on similar assumptions. The provision for reconditioning of sites and plugging of wells is a long-term provision.

The **Other Provisions** make allowance for all commitments apparent on the balance sheet date in relation to transactions or events in the past and which are uncertain in terms of their extent and timing. Provisions are set up only if based on a legal or factual commitment to third parties. The provisions are shown at the obligation amount and not netted against refund claims, using the obligation amount with the highest likelihood of occurrence.

The long-term provisions are stated at the future obligation amount discounted to the balance sheet date. The obligation also includes cost increases to be taken into account as of the balance sheet date. The applicable discount rates are between 4.0% and 5.5%. An exception is the provision for employee pension plans to which different rules apply under IAS 19.

Liabilities are reported at amortized cost; commitments similar to annuities are shown at present value.

Derivative Financial Instruments are used exclusively for hedging purposes. All derivative financial instruments are reported as assets or liabilities. Irrespective of their purpose, all derivative financial instruments are measured at fair value. First-time valuation takes place on the due date.

In the case of a fair value hedge, changes in the fair value of hedge transactions and in the fair value of the related, underlying transactions are reported in the Income Statement. That means, gains and losses from fair value measurement of reported assets and liabilities from operating activities, as well as gains and losses from fair value measurement of hedging transactions are stated under sales revenues or under other income or expenses on which the underlying transaction is based. Gains and losses related to the hedging of financial assets or liabilities are reported under financial income.

In the case of a cash flow hedge, unrealized gains and losses from the hedging transaction are initially included in the other comprehensive income, without effect on income. The gains or losses will be included in the Income Statement only when the hedged underlying transaction has an impact on income. If the gain or loss from a hedging transaction relates to the acquisition of an asset, or to a liability, it will be taken into account in the computation of cost, or in the posting of the liability.

The ineffective part of the hedging relationship is recognized in the Income Statement immediately, with effect on income.

Contingencies are possible or existing obligations which are based on past events, and for which an outflow of resources is not likely. They are not reported in the Balance Sheet. The obligation volumes of contingencies are based on to the liability existing on the balance sheet date.

Notes – Income Statement**(1) Sales Revenues**

Segment reporting shows the breakdown of sales revenues by corporate segments.

(2) Mineral Oil/Natural Gas Taxes

Only the declared mineral oil/natural gas tax portion of the sales revenues in the amount of € 3,245,000 (previous year € 2,342,691) is openly reported. Mineral oil/natural

gas taxes on supplies purchased from third parties in the amount of € 1,578,000 (previous year € 998,879,000) are included in materials.

(3) Other Operating Income

| € 000 | 2003 | 2002 |
|-----------------------------------------------------------------------|----------------|------------------|
| Currency gains and earnings from derivatives | 112,214 | 330,615 |
| Income from cost apportionment/reimbursements | 33,102 | 22,651 |
| Income from the dissolution of provisions | 8,793 | 12,285 |
| Income from rentals and leasing | 5,263 | - |
| Income from the retirement of fixed assets (without financial assets) | 1,405 | 6,064 |
| Income from de-consolidation | - | 936,612 |
| Other operating income | 8,431 | 7,128 |
| | 169,208 | 1,315.355 |

The currency gains compare with currency losses reported under other operating expenses. In the previous year,

income from rentals and leasing amounting to € 4,607,000 was included in sales revenues.

(4) Materials

| € 000 | 2003 | 2002 |
|---------------------------------------------------|----------------|-----------|
| Raw materials, supplies and purchased merchandise | 313,772 | 5,277,192 |
| Services purchased | 246,221 | 189,039 |
| | 559,993 | 5,466,231 |

Materials include mineral oil/natural gas taxes of € 1,578,000 (previous year € 998,879,000) on materials purchased from third parties and the host government

take for a foreign producing operation of € 65,787,000 (previous year € 80,476,000).

(5) Personnel

| € 000 | 2003 | 2002 |
|------------------------------------------------------------------|---------------|----------|
| Wages and salaries | 65,792 | 181,284 |
| Social security and employee pension plans and employee benefits | 14,887 | 39,269 |
| _ thereof employee pension plans | (2,898) | (16,383) |
| | 80,679 | 220,553 |

The breakdown of the total workforce in the RWE Dea Group is as follows:

| Annual average of employee equivalents | 2003 | 2002 |
|-----------------------------------------|------------|-------|
| Salary earners | 779 | 1,403 |
| Wage earners | 129 | 1,223 |
| Total number of salary and wage earners | 908 | 2,626 |
| for information: apprentices (number) | 6 | 5 |

The employee equivalents include employees working full time at the rate of 100%, while employees working part time or under temporary contracts are reported at

their part time quotas or their employment hours as a proportion, pro rata temporis, of the annual number of working hours.

(6) Depreciation/Amortization

The breakdown of depreciation/amortization charges is shown on page 35.

Amortization of goodwill from capital consolidation totals € 16,447,000 (previous year € 11,310,000).

Extraordinary depreciation totaled € 31,201,000 (previous year € 23,937,000). Extraordinary amortization of good-

will according to the principles of IAS 36 in the fiscal year amounted to € 12,041,000 (previous year -€ 000). In addition, extraordinary depreciation was charged on intangibles in the amount of € 19,160,000 (previous year: € 5,722,000) and, in the previous year, on property, plant and equipment in the amount of € 18,215,000.

(7) Other Operating Expenses

| € 000 | 2003 | 2002 |
|--------------------------------------------------------------------------|----------------|----------------|
| Currency losses | 34,907 | 196,677 |
| Rentals and leasing | 9,058 | 45,207 |
| Legal, consultancy and IT expenses | 8,197 | 11,026 |
| Losses from the retirement of fixed assets (without financial assets) | 6,939 | 28,987 |
| Insurance | 4,757 | 6,353 |
| Social plans and other personnel measures | 3,499 | 68,380 |
| Other taxes | 2,035 | 1,709 |
| Adjustment for bad debts | 1,252 | 1,560 |
| Derivative financial instruments | 1,109 | 24,543 |
| Clean-up obligations | 633 | 150,442 |
| Freights out and charter parties | 247 | 47,859 |
| Fees strategic petroleum reserve | - | 55,038 |
| Commissions | - | 112,891 |
| Miscellaneous other items | 50,427 | 141,433 |
| | 123,060 | 892,105 |

The currency losses compare with currency gains reported under other operating income.

The miscellaneous other items include essentially administrative expenses, expenses in the form of public-sector levies and charges, contributions as well as travel expenses.

(8) Income from Operating Activities

The RWE Dea Group uses the operating income as a controlling tool. The reconciliation of income from operating activities with the operating income is explained in segment reporting.

(9) Income from Participations

| € 000 | 2003 | 2002 |
|-----------------------------------------------------------------|----------------|---------------|
| Income from profit transfer agreements _ other | 19 | 492 |
| Loss absorption _ other | - | - 3 |
| Income from participations _ non-consolidated subsidiaries | 12 | 81 |
| _ associated companies valued in line with the equity method | 4,190 | 19,888 |
| _ other | 424 | 12,481 |
| _ thereof corporate income tax credit | (-) | (12) |
| Income from the retirement of participations | 151,357 | 37,398 |
| Depreciation on participations | - | - 8,076 |
| Income from loans to participations | 1,124 | 2,243 |
| Expenses from loans to participations | - 2,442 | - |
| Income from participations | 154,684 | 64,504 |

Income from the retirement of participations include € 126,611,000 in profit from the sale of Bergemann GmbH, Essen, and € 24,746,000 in profit from the sale of CONDEA-HUNTSMAN GmbH & Co. KG, Moers.

(10) Financial Income

The financial income is composed of the three components 'interest income', 'interest from additions to provisions' and 'other financial income'.

| € 000 | 2003 | 2002 |
|-----------------------------------------------------------------------------------------|-----------------|-----------------|
| Interest and similar income | 23,180 | 47,667 |
| _ thereof non-consolidated subsidiaries | (17,048) | (25,502) |
| Interest and similar expenses | - 9,217 | - 37,504 |
| _ thereof non-consolidated subsidiaries | (5,636) | (- 4,223) |
| Interest income | 13,963 | 10,163 |
| Interest from additions to provision for employee pension plans and similar commitments | - 22,087 | - 24,112 |
| Interest from additions to provision for reconditioning of sites and plugging of wells | - 4,918 | 3,750 |
| Interest from additions to other provisions | - 4,482 | - 3,536 |
| Interest from additions to provisions | - 31,487 | - 23,898 |
| Other financial income | 7 | 102,684 |
| Other financial expenses | - 96 | - 669 |
| Other financial income | - 89 | 102,015 |
| Financial income | - 17,613 | 88,280 |

The interest from additions to provisions include annual compounding amounts in connection with the present value adjustments of long-term provisions.

The other financial income includes all other financial earnings and expenses that cannot be allocated to interest

income or interest from additions to provisions. The other financial earnings of the previous year include mainly earnings from changes in the fair value of derivative financial instruments for the hedging of currency risks.

(11) Income Taxes

| € 000 | 2003 | 2002 |
|----------------------|----------------|----------------|
| Current income taxes | | |
| _ domestic | - 11,347 | 94,777 |
| _ foreign | 136,971 | 93,777 |
| Deferred taxes | 50,169 | - 4,898 |
| | 175,793 | 183,656 |

Under the Enterprise Agreement with the controlling enterprise RWE AG, € 16,497,000 was refunded to RWE Dea AG (previous year: € 107,566,000 refund to RWE AG).

| € 000 | 2003 | 2002 |
|--------------------------------------------|----------------|----------------|
| Income taxes of the current period | 211,955 | 102,696 |
| Income taxes on sale of Downstream segment | - | 98,522 |
| Dissolution of provisions for taxes | - 319 | - 339 |
| Refunds and payments for prior years | - 86,012 | - 24 |
| Deferred taxes | 50,169 | - 17,199 |
| | 175,793 | 183,656 |

The income taxes actually incurred are reduced by € 4,091,000 as a result of tax loss carryforwards not posted in previous years (preceding year: € 5,944,000).

income tax rate in Germany, the solidarity surcharge on corporate income tax, and average RWE Group trade income tax, is applied to the income before taxes:

Taxes on income are based on the theoretical tax expenses. An unchanged tax rate of 39.3%, based on the corporate

| € 000 | 2003 | 2002 |
|-----------------------------------------------------------------|----------------|----------------|
| Income before taxes | 524,898 | 1,217,496 |
| Theoretical tax expenses 39.3% (previous year 39.3%) | 206,285 | 478,476 |
| Changes in theoretical tax expenses due to: | | |
| Differences versus foreign tax rates | 60,080 | 47,407 |
| Taxes relating to a different accounting period | - 33,900 | - 362 |
| Tax effects on | | |
| tax-exempt earnings from the sale of participations | - 58,954 | - 13,464 |
| other tax-exempt earnings | - 821 | - 6,094 |
| non-deductible expenses | 1,780 | 836 |
| effects of the sale of the 50% interest in Shell & DEA Oil GmbH | - | - 338,842 |
| other intercompany transactions | 2,745 | - 316 |
| changes in tax loss carryforwards | 781 | 33 |
| effects of changes in foreign tax rates on deferred taxes | - 399 | 16,706 |
| other | - 1,804 | - 724 |
| Effective tax expenses | 175,793 | 183,656 |
| Effective tax rate in % | 33.5 | 15.1 |

(12) Minority Interests

Of the minority interests in the amount of -€ 221,000 (previous year € 306,000), € 2,185,000 (previous year € 3,089,000) are gains and € 2,406,000 (previous year € 2,783,000) are losses.

(13) Earnings per Share

The basic earnings per share are determined as the ratio of net income to the average number of shares outstanding during the fiscal year. The dilution of this parameter

may be caused by potential shares (mainly stock options and convertible bonds). That was not the case in the past fiscal years.

| | | 2003 | 2002 |
|------------------------------------|-------------|---------|-----------|
| Net income | € 000 | 349,326 | 1,033,534 |
| Number of common shares | (thousands) | 13,440 | 13,440 |
| Basic earnings | per share € | 25.99 | 76.90 |
| — thereof discontinuing operations | per share € | - | 72.30 |

For better assessment of the earnings situation, earnings per share before goodwill amortization are stated in addition. Goodwill amortization of € 1.22

per share (previous year € 0.84 per share) is added to the earnings per share. This results in an adjusted value of € 27.21 (previous year € 77.74).

Notes – Balance Sheet

Assets

(14) Fixed Assets

The development of fixed assets during the reporting period is shown on pages 34 and 35.

No expenditures were incurred for Research & Development during the reporting year.

Investment property is valued at amortized cost. The fair value of investment property amounts to € 67,385,000 (previous year € 70,216,000). The rental income from investment property is € 3,546,000 (previous year € 1,788,000). The direct operating expenses for leased and unleased investment property amounted to € 3,734,000 (previous year € 2,627,000).

The additions to intangibles relate to the capitalization of cost recovery claims from our activities in Egypt and the acquisition of a concession by RWE Dea UK.

The additions to property, plant and equipment of RWE Dea AG comprise mainly wells and production equipment in Denmark and in Germany. Major capital expenditures also went into production equipment of RWE Dea Norge AS.

Property, plant and equipment in an amount of € 400,000 (previous year € 554,000) is subject to restraints on disposal in the form of assignments for security and mortgages.

The retirements of participations relate to the sale of our holdings in Bergemann GmbH. The retirements also reflect fair value measurement of € 126,611,000.

Intercompany loans include investments of cash and cash equivalents with RWE AG at interest rates in line with those prevailing on the market.

The unexpired terms for the loans are shown in the table below:

| € 000 | UT*) ≤ 1 yr | UT*) > 1 yr ≤ 5 yr | UT*) > 5 yr |
|--------------------------------------|-------------|--------------------|-------------|
| Loans to subsidiaries and affiliates | - | - | 1,000,000 |
| Loans to non-subsidiaries | - | 14,418 | 689 |
| Other loans | 11 | 425 | 5,839 |

* UT = unexpired term

(15) Inventories

| € 000 | 12-31-2003 | 12-31-2002 |
|--------------------------------|---------------|---------------|
| Raw materials and supplies | 18,133 | 18,413 |
| Work in process | 112 | 12,373 |
| Finished goods and merchandise | 94 | 99 |
| | 18,339 | 30,885 |

There are no restraints on disposal of inventories, and there are no other bonds or charges.

(16) Accounts Receivable and Other Assets

| € 000 | 12-31-2003 | thereof UT*) > 1 yr | 12-31-2002 | thereof UT*) > 1 yr |
|-------------------------------------------|----------------|------------------------|------------------|------------------------|
| Accounts receivable trade | 131,820 | - | 135,783 | - |
| Accounts receivable intercompany | 141,760 | - | 804,063 | - |
| Accounts receivable from non-subsidiaries | 25,970 | - | 32,792 | - |
| Other assets | 105,637 | 2,548 | 1,650,381 | - |
| | 405,187 | 2,548 | 2,623,019 | - |

* UT = unexpired term

The accounts receivable intercompany essentially include short-term investments of cash and cash equivalents at market interest with RWE AG.

The other assets include tax refund claims in the amount of € 2,287,000 (previous year € 7,236,000), derivative financial instruments in the amount of € 63,127,000

(previous year € 267,071,000) and advances paid in the amount of € 7,420,000 (previous year € 14,580,000).

Accounts receivable and other assets, with the exception of derivative financial instruments, are reported at amortized cost, which corresponds to their fair value. The derivative financial instruments are measured at fair value.

(17) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and in banks with maturities of up to three months.

(18) Deferred Taxes

The total amount of deferred tax assets of € 3,986,000 (previous year € 136,610,000) essentially relates to valuation differences versus tax balance sheets.

The deferred tax assets are allocable to the following balance sheet items:

| € 000 | 12-31-2003 | 12-31-2002 |
|-------------------------------------------------------------|---------------|----------------|
| Intangibles | - | 1,848 |
| Property, plant and equipment | 3,962 | 21,405 |
| Financial assets | 2,280 | 2,720 |
| Current assets/prepaid expenses and deferred charges | - | 709 |
| Provision for employee pension plans | 48,832 | 49,068 |
| Provision for reconditioning of sites and plugging of wells | 1,152 | 366 |
| Other provisions | 1,923 | 57,335 |
| Liabilities/deferred income | 6,980 | 1,951 |
| | 65,129 | 135,402 |
| Loss carryforwards | - | 1,208 |
| Gross | 65,129 | 136,610 |
| Netting | - 61,143 | - |
| Net amount | 3,986 | 136,610 |

Deferred tax assets and liabilities for each company/group are netted.

€ 4,313,000 from the fair value of derivative financial instruments (previous year € 2,080,000) and -€ 2,181,000 from currency translation of foreign companies' financial statements (previous year -€ 5,000) were netted against equity without effect on income.

The amount of loss carryforwards not covered by deferred tax claims totals € 36,899,000 (previous year € 101,300,000).

Deferred taxes for all major deductible temporary differences are capitalized, as it is likely that taxable income for the realization of deferred tax assets will be available in future.

Liabilities

(19) Stockholders' Equity/Minority Interests

The share capital of RWE Dea AG as of the balance sheet date is unchanged from the previous year at € 344,064,000, entered in the Commercial Register and divided into 13,440,000 voting shares. RWE AG owns more than 99% of the capital.

Equity capital includes changes to the fair value of cash flow hedges under the head of other comprehensive income, and revenue reserves include currency translation differences relating to foreign financial statements.

In the reporting year, a net gain in the amount of € 142,350,000 (previous year € 2,430,000), comprising a net gain from the fair value of participations of € 126,611,000 (previous year € 36,080,000) and a net gain from the realization of derivative financial instruments in the amount of € 15,729,000 (previous year:

loss of € 33,650,000), was reclassified from the other comprehensive income to the Income Statement. An amount of € 9,638,000 from the fair value of derivative financial instruments was allocated to other comprehensive income.

The RWE Consolidated Financial Statements comprise the Financial Statements of the RWE Dea Group as of December 31, 2003. The Annual Report is available from RWE Aktiengesellschaft, Opernplatz 1, D-45128 Essen.

The minority interests relate to shares in Speicher Breitbrunn/Eggstätt RWE Dea & Mobil and in Medusa Oil & Gas (Poland) Sp. z o.o.

The development of stockholders' equity and of minority interests is shown on page 33.

(20) Provisions

| € 000 | as of 1-1-03 | Addition | Disso- lution | Interest com- ponent ¹⁾ | Other changes ²⁾ | Utili- zation | as of 12-31-03 |
|---------------------------------------------------------------|-----------------|---------------|------------------|------------------------------------------|--------------------------------|------------------|-------------------|
| Provisions for employee pension plans and similar commitments | 470,385 | 2,458 | - | 22,087 | 54 | 31,399 | 463,585 |
| Provision for reconditioning of sites and plugging of wells | 105,359 | 29,671 | 4,745 | 4,918 | - 3,613 | 2,041 | 129,549 |
| Provision for taxes | 41,025 | 17,823 | 319 | - | 263 | 30,465 | 28,327 |
| Other provisions | 216,625 | 28,289 | 4,304 | 4,482 | - 16 | 19,879 | 225,197 |
| | 833,394 | 78,241 | 9,368 | 31,487 | - 3,312 | 83,784 | 846,658 |

¹⁾ Interest included in additions

²⁾ Changes in group of consolidated subsidiaries, currency translation adjustment, reclassifications

Provisions for employee pension plans and similar commitments

Provisions are set up to cover vested entitlements of employees in active service and current benefits to former employees or their dependents.

As a rule, company pension plans are defined benefit plans.

The amount of the provision was determined on the basis of actuarial methods on the following underlying assumptions:

| | 12-31-2003 | 12-31-2002 |
|----------------|------------|------------|
| Rate of return | 5.50% | 6.0% |
| Salary trend | 2.75% | 3.0% |
| Pension trend | 1.75% | 2.0% |

The assumptions apply to the workforce in Germany to which the main portion of the pension commitments relates.

The provision for employee pension plans is derived as follows:

| € 000 | 12-31-2003 | 12-31-2002 |
|--------------------------------------------------------------------|------------|------------|
| Present value of non-fund-financed retirement benefit entitlements | 411,106 | 401,867 |
| Unrecognized actuarial gains/losses | 52,479 | 68,518 |
| Provision for employee pension plans | 463,585 | 470,385 |

The unrecognized gain/loss adjustments are due primarily to actuarial gains/losses in connection with changes in existing retirement benefit entitlements and differences between actual salary trends and underlying assump-

tions. Pursuant to IAS 19, the amount, if it exceeds 10% of the total commitment, is stated as income over the workforce's average remaining years of service.

The expenses stated in the Income Statement for additions to the provision for employee pension plans break down as follows:

| € 000 | 2003 | 2002 |
|------------------------------------------------------------------------------|--------|---------|
| Expenses for retirement benefit entitlements added during the reporting year | 3,645 | 18,288 |
| Interest on vested retirement benefit entitlements | 22,087 | 24,112 |
| Recognized actuarial gains/losses | - 747 | - 1,905 |
| Retirement benefit expenses | 24,985 | 40,495 |

Provision for reconditioning of sites and plugging of wells

These accruals are set up under legal commitments for the reconditioning of sites and the plugging of wells of domestic and foreign companies within the RWE Dea Group.

Increases in the volume of commitments are added at present value.

Other provisions

The other provisions include mainly clean-up commitments in the amount of € 156,368,000 (previous year € 153,331,000), personnel-related commitments in the amount of € 25,678,000 (previous year € 23,068,000) as well as commitments for environmental protection and pollution clean-up in the amount of € 22,827,000 (previous year € 7,680,000). Of the other provisions, an amount of € 178,680,000 (previous year € 161,909,000) is due after more than one year.

On the basis of a resolution of the RWE AG Supervisory Board, a Long-Term Incentive Plan (LTIP) was launched in fiscal 2002 for members of the Board of Management and for other executive staff in Germany and abroad, under which Stock Appreciation Rights (SAR) are issued. The SAR units are subject to a waiting period of two years and a term of five years after issuance.

SARs may be exercised only if the stock market price of the RWE common share has gone up at least 10% (absolute performance) by the time of exercise, and on ten consecutive days during that period outperformed the Dow Jones STOXX-Utility price index (relative performance). The relative performance limit is not applicable if the stock market price of the RWE common share has gone up by 20% or more.

If the outlined conditions are met, SARs may be exercised daily after the waiting period, except for short blocking periods prior to the announcement of business data. The number of exercisable SARs is determined by the increase in the price of the RWE common share over the exercise price determined when the SARs were issued. If the increase is 20%, all SARs may be exercised; if the increase is 15%, the rate is 60%, and if the increase

is 10%, the rate is 25%. After the SARs have been exercised, the organization concerned in the individual case will pay the difference between the current stock market price and the exercise price, that amount being limited to 50% of the exercise price.

The LTIP provides that when exercising the SARs, RWE common shares may be delivered in lieu of payment. If the entitled persons are not staff members of RWE AG, the expenses related to the exercise of SARs will be borne by the respective member company of the RWE Group.

Under the RWE stock option plan, entitled employees hold up to three non-transferable options for one common share of RWE AG per share they purchased at a reduced price. Stock options have so far been issued for a term of three years. They may be exercised when the stock market price of the common share has gone up to at least 110% of the defined strike price. Employees are then entitled to either purchase outstanding common shares at a reduced price or have the balance disbursed to them. The benefit is limited to 20% of the strike price.

Commitments under the stock option plans and the LTIP are accrued over time. The commitments under the stock option plans are reported in the amount of the intrinsic value at the balance sheet date, discounts for fluctuations being taken into account. The commitments under the LTIP are reported in the amount of the proportionate fair value at the balance sheet date.

At the balance sheet date, a provision was set up for commitments under the stock option plans in the amount of € 3,219,000 (previous year € 3,076,000) and for LTIP in the amount of € 1,542,000 (previous year: € 297,000).

(21) Liabilities

| € 000 | 12-31-2003 | thereof UT ^{*)} | | 12-31-2002 | thereof UT ^{*)} | |
|-------------------------------------|----------------|--------------------------|--------------|------------------|--------------------------|---------------|
| | | ≤ 1 yr | > 5 yr | | ≤ 1 yr | > 5 yr |
| Liabilities to banks | 8,469 | 2,560 | 5,909 | 8,826 | 2,917 | 5,909 |
| Accounts payable trade | 113,225 | 107,856 | - | 212,788 | 212,665 | - |
| Accounts payable intercompany | 66,315 | 66,315 | - | 1,172,926 | 1,072,926 | - |
| Other liabilities | 119,611 | 111,452 | - | 306,856 | 299,505 | 7,248 |
| thereof taxes | (75,722) | (75,722) | - | (59,031) | (59,031) | - |
| thereof social welfare and security | (2,348) | (2,348) | - | (2,673) | (2,673) | - |
| | 307,620 | 288,183 | 5,909 | 1,701,396 | 1,588,013 | 13,157 |

*) UT = unexpired term

Book values are equivalent to fair values.

All liabilities to banks are non-interest-bearing at the balance sheet date.

Of the accounts payable intercompany, € 62,906,000 (previous year € 1,071,218,000) relates to profit transfer and taxes due to RWE AG. Interest on the clearing account with RWE AG is charged at market rates. Accounts payable intercompany amounted to € 3,409,000 (previous year € 1,708,000).

The € 100 million interest-bearing loan granted by RWE AG was prematurely repaid.

Other liabilities include the financial derivatives in the amount of € 16,118,000 (previous year € 39,149,000) and the purchase price for the acquisition of Highland Energy Holdings Ltd. in the preceding year.

€ 40,000 (previous year € 42,000) of the liabilities relating to one life annuity is secured by mortgages.

(22) Deferred Taxes

The total amount of deferred tax liabilities of € 212,844,000 (previous year € 318,451,000) essentially relates to valuation differences versus tax balance sheets.

The deferred tax liabilities are allocable to the following balance sheet items:

| € 000 | 12-31-2003 | 12-31-2002 |
|-------------------------------------------------------------|----------------|----------------|
| Intangibles | 93,974 | 89,879 |
| Property, plant and equipment | 108,530 | 161,605 |
| Financial assets | 14,496 | 89 |
| Current assets/prepaid expenses and deferred charges | 25,112 | 24,829 |
| Special items | 25,612 | 29,255 |
| Provision for reconditioning of sites and plugging of wells | 5,378 | 8,761 |
| Other provisions | 878 | 3,840 |
| Liabilities/deferred income | 7 | 193 |
| Gross | 273,987 | 318,451 |
| Netting | - 61,143 | - |
| Net amount | 212,844 | 318,451 |

€ 270,000 (previous year € 21,404,000) in deferred taxes from the fair value without effect on income of derivative financial instruments and -€ 21,276,000 from currency

translation of foreign companies' financial statements (previous year € 8,920,000) were netted against equity without effect on income.

(23) Contingencies and Other Financial Commitments

| € 000 | 12-31-2003 | 12-31-2002 |
|------------------------------|---------------|---------------|
| From guarantees | 48,140 | 8,372 |
| From warranty deeds | 6,400 | 31,902 |
| From back-to-back guarantees | - 6,400 | - 9,800 |
| | 48,140 | 30,474 |

As of December 31, 2003, the commitments based on rental, lease and similar commitments exclusively relate

to operating leases, primarily for offices and license commitments of RWE Dea UK Ltd.

| Minimum lease payments (nominal values) € 000 | 12-31-2003 | 12-31-2002 |
|-----------------------------------------------|---------------|---------------|
| Due within 1 year | 5,269 | 7,339 |
| Due within 1 - 5 years | 17,777 | 21,684 |
| Due after more than 5 years | 23,439 | 7,951 |
| | 46,485 | 36,974 |

The commitments from firm contracts for property, plant and equipment total € 20,188,000 (previous year € 24,376,000) and those from the acquisition of concessions € 20,310,000 (previous year € 47,714,000).

In connection with the sale of the chemical and downstream activities, we have undertaken commitments to the purchasers for warranties and contingencies. Part of the commitments is covered by provisions.

(24) Reporting on Financial Instruments

The financial instruments comprise both primary and derivative financial instruments.

The primary financial instruments on the assets side primarily include cash and cash equivalents, receivables and other assets. On the liabilities side, they are largely identical with liabilities valued at cost. The primary financial instruments are stated in the Balance Sheet, with the amount of financial assets reflecting the maximum risk of default. Wherever default risks are apparent in the financial assets, they are covered by valuation adjustments.

In its operating business, the RWE Dea Group is exposed e.g. to currency and price fluctuation risks. These risks are also covered by hedging transactions.

Derivative financial instruments are only used to hedge the following risks: currency and price risks from operating business (future production and payments received on future sales revenues) and from financing transactions. Instruments used include primarily currency forwards, currency options, and commodity-price swaps. The RWE Dea Group has established corporate policies on the scope of action, authorities, and internal controls. Derivative financial instruments are used exclusively to hedge the risk related to underlying operating and financial transactions, but never for speculation.

The currency risk of foreign participations is hedged by derivative and non-derivative financial instruments.

Under the RWE AG cash clearance system, secondary liability exists for borrowing caused by RWE Dea AG.

In regard to participations in various joint ownerships we are subject to the statutory liability.

In the course of their regular activities, Group companies are involved in litigation. Irrespective of the outcome of such lawsuits, we do not expect any significant negative effects on the economic and financial position of the Group.

In line with international banking practice, we use the value-at-risk method in the assessment of the market risk involved in the use of currency hedges. The maximum loss potential inherent in changing market prices is calculated and continuously monitored on the basis of historical fluctuations of value, applying a confidence interval of 95% and a holding period of 10 days. We also use the earnings-at-risk method to calculate the loss potential until final maturity of the derivatives and the underlying transactions, on the basis of historical fluctuations of value and also applying a confidence interval of 95%.

In the interpretation of positive or negative fair values care is therefore taken that they are compensated by offsetting transactions. All derivative financial instruments are reported as assets or liabilities. Irrespective of their purpose, all derivative financial instruments are measured at fair value. The fair values are in line with the market rates and are determined on the basis of accepted valuation standards.

Derivative financial instruments for a maximum term of 12 months were in place on December 31, 2003 to hedge the currency and price risks of future transactions.

The stated nominal amounts of the following hedging transactions are not netted. They represent the sum total of all purchases and sales underlying the transactions. The nominal amounts allow conclusions on the extent to which derivatives are used, but do not reflect the risks the RWE Dea Group incurs from their use.

Currency risks may exist in regard to financial assets and foreign-currency debt, which are covered by derivatives.

| Currency hedges | Nominal amounts | | Unexpired term > 1 year | | Fair value ^{*)} | |
|-----------------------------|-----------------|------------|-------------------------|------------|--------------------------|------------|
| | 12-31-2003 | 12-31-2002 | 12-31-2003 | 12-31-2002 | 12-31-2003 | 12-31-2002 |
| € 000 | | | | | | |
| Currency forwards | 510,776 | 1,794,178 | - | - | 63,127 | 211,331 |
| __ thereof cash flow hedges | 442,537 | 645,186 | - | - | 55,177 | 32,437 |

^{*)} Difference between fair value and nominal amounts

Moreover, derivatives are used on a limited scale to hedge prices. Only cash flow hedges are used for this purpose,

| Price hedges | Nominal amounts | | Unexpired term > 1 year | | Fair value ^{*)} | |
|-----------------------|-----------------|------------|-------------------------|------------|--------------------------|------------|
| | 12-31-2003 | 12-31-2002 | 12-31-2003 | 12-31-2002 | 12-31-2003 | 12-31-2002 |
| € 000 | | | | | | |
| Commodity-price swaps | 126,480 | 145,100 | - | 5,219 | - 16,118 | - 5,211 |

^{*)} Difference between fair value and nominal amounts

The derivatives are exposed to default risks in the amount of their positive fair values. That risk is minimized because deals are made only with partners of the highest credit standing. The default risks in the reporting year and the previous year were insignificant. In addition, because of

the nature of deals, the market risks resulting from changes in the value of financial instruments on the basis of market fluctuations are of no relevance for the evaluation of the asset, financial and earnings situation.

(25) Segment Reporting

The different operations of the RWE Dea Group are the primary reporting units. The information on corporate segments is based on internal reporting.

The segment **Germany** comprises the search for and production of natural gas and crude oil as well as the operation of three gas storage facilities within Germany.

The segment **Europe/CIS** comprises the search for and production of natural gas and crude oil in Norway, the United Kingdom, Denmark, Kazakhstan and Poland.

The segment **North Africa/Middle East** represents the search for and production of natural gas and crude oil in Egypt, Dubai, Algeria, Libya and Spain.

Other/consolidation includes the management of the RWE Dea Group and the properties division as well as consolidation processes.

The segment **Downstream** included in last year's report comprised the processing of crude oil and semi-refined feedstocks into petroleum products and petrochemicals and the marketing of these products. Motor fuels were sold through the service stations of the Shell & DEA Oil GmbH joint venture, home heating fuel and other refined products through sales organizations in the field. The segment was sold effective July 1, 2002.

The segment information is presented in conformity with the accounting and valuation methods used in drawing up and presenting the Consolidated Financial Statements.

| Segments € 000 | External net sales | | Internal net sales | | Sales of the segments | |
|--------------------------|--------------------|------------------|--------------------|---------------|-----------------------|------------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Germany | 624,503 | 593,145 | 310 | 58,838 | 624,813 | 651,983 |
| Europe/CIS | 355,410 | 342,506 | - | - | 355,410 | 342,506 |
| North Africa/Middle East | 246,266 | 307,486 | - | - | 246,266 | 307,486 |
| Other/consolidation | 1,199 | 5,873 | - | 270 | 1,199 | 6,143 |
| Downstream | - | 7,685,230 | - | - | - | 7,685,230 |
| | 1,227,378 | 8,934,240 | 310 | 59,108 | 1,227,688 | 8,993,348 |

| Segments € 000 | Operating income | | Income from operating activities | | Income from participations in associated companies | |
|--------------------------|------------------|----------------|----------------------------------|------------------|----------------------------------------------------|---------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Germany | 318,382 | 303,802 | 317,939 | 303,372 | - | - |
| Europe/CIS | 152,819 | 72,791 | 149,742 | 77,997 | 4,190 | 3,174 |
| North Africa/Middle East | - 49,291 | 4,933 | - 65,532 | - 7,547 | - | - |
| Other/consolidation | - 32,637 | 4,065 | - 14,322 | 777,519 | - | - |
| Downstream | - | - 6,200 | - | - 86,629 | - | 16,714 |
| | 389,273 | 379,391 | 387,827 | 1,064,712 | 4,190 | 19,888 |

| Segments | Depreciation | | Extraordinary depreciation | | Investments | |
|--------------------------|----------------|---------|----------------------------|--------|----------------|---------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Germany | 47,479 | 54,415 | - | 9,849 | 41,084 | 71,634 |
| Europe/CIS | 91,484 | 87,165 | - | 3,249 | 179,165 | 359,048 |
| North Africa/Middle East | 102,335 | 75,049 | 31,201 | 5,721 | 71,180 | 200,959 |
| Other/consolidation | 7,007 | 7,388 | - | - | 3,104 | 4,084 |
| Downstream | - | 76,195 | - | 5,118 | - | 29,447 |
| | 248,305 | 300,212 | 31,201 | 23,937 | 294,533 | 665,172 |

| Segments | Assets by segment | | Liabilities by segment | |
|--------------------------|-------------------|------------|------------------------|------------|
| | 12-31-2003 | 12-31-2002 | 12-31-2003 | 12-31-2002 |
| Germany | 403,357 | 417,357 | 137,640 | 129,410 |
| Europe/CIS | 722,780 | 734,808 | 81,309 | 88,908 |
| North Africa/Middle East | 323,667 | 386,958 | 64,398 | 76,427 |
| Other/consolidation | 269,098 | 327,473 | 750,236 | 850,642 |
| Downstream | - | - | - | - |
| | 1,718,902 | 1,866,596 | 1,033,583 | 1,145,387 |

Notes to segment information:

- The amount of **internal net sales** reflects the sales between segments. Internal net sales are accounted for like sales among third parties. The sum total of **external net sales** and internal net sales is equivalent to the **sales of the segments**.
- **Depreciation** shown relates to intangibles and property, plant and equipment. No substantial write-ups were made to fixed assets, with the exception of financial assets.
- The **book values** of shares in companies valued in line with the equity method total € 6,170,000 (previous year € 2,884,000).
- **Investments** (including acquisitions) comprise the additions to fixed assets, without other loans, less equity valuation.

Reconciliation of assets by segment and liabilities by segment with gross assets and gross liabilities is as follows:

| € 000 | 12-31-2003 | 12-31-2002 |
|-----------------------------------------|------------------|-------------|
| Gross assets according to balance sheet | 2,896,490 | 4,560,922 |
| = Financial assets | - 1,027,729 | - 261,879 |
| = Financial receivables | - 143,586 | - 2,288,601 |
| = Tax receivables | - 2,287 | - 7,236 |
| = Deferred tax assets | - 3,986 | - 136,610 |
| = Assets by segment | 1,718,902 | 1,866,596 |

| € 000 | 12-31-2003 | 12-31-2002 |
|----------------------------------------------|------------------|-------------|
| Gross liabilities according to balance sheet | 1,367,128 | 2,854,006 |
| – Provision for taxes | – 28,327 | – 41,025 |
| – Financial liabilities | – 16,652 | – 1,290,112 |
| – Tax liabilities | – 75,722 | – 59,031 |
| – Deferred tax liabilities | – 212,844 | – 318,451 |
| = Liabilities by segment | 1,033,583 | 1,145,387 |

The RWE Dea Group operating income is determined as a business control tool; it is different from the income from

operating activities. Income from operating activities is reconciled with operating income is as follows:

| € 000 | 2003 | 2002 |
|----------------------------------|----------------|-----------|
| Income from operating activities | 387,827 | 1,064,712 |
| + income from participations | 154,684 | 64,504 |
| ‘/, non-operating income | 153,238 | 749,825 |
| Operating income | 389,273 | 379,391 |

The reconciliation with the operating income relates to the following items:

Income from participations includes all expenses and income arising in connection with operating participations.

Income and expenses that are unusual under business aspects or attributable to special transactions complicate

the evaluation of current business. They are reclassified to non-operating income. In line with international practice, goodwill amortization from capital consolidation is posted here. In addition, the non-operating income for the reporting period includes the profit from the sale the participations in Bergemann GmbH and CONDEA-HUNTSMAN GmbH & Co. KG (previous year: Shell & DEA Oil GmbH and STEAG AG).

(26) Notes – Cash Flow Statement

The Cash Flow Statement classifies cash flows by operating, investment and financing activities. Cash flows from the acquisition and sale of consolidated subsidiaries are included in the cash flow from investment activities. The effects of exchange rate fluctuations are reported separately. Cash and cash equivalents include the deposit with RWE AG in the amount of € 141,155,000 (previous year € 774,778,000).

The repayment of financial debt as of December 31, 2003 includes that portion of the profit transfer to RWE AG for which a cash payout was not yet made as well as the early settlement of the loan from RWE AG.

The cash flow from operating activities includes e.g. interest income in the amount of € 23,151,000 (previous year € 28,227,000), and interest expenses of € 9,217,000

(previous year € 28,728,000). Income tax payments total € 155,109,000 (previous year € 80,056,000); refunds total € 5,212,000 (previous year € 1,834,000). Dividends received totaled € 46,931,000 (previous year € 106,179,000). In the reporting year € 1,455,000 (previous year € 2,900,000) was distributed to minority interests.

Changes to cash and cash equivalents resulting from changes in the group of consolidated subsidiaries in the amount of € 13,000 (previous year -€ 23,765) are reported in the cash flow from investment activities.

There are no restraints on disposal of cash and cash equivalents.

In total, there are the following net financial asset positions:

| € 000 | 12-31-2003 | 12-31-2002 |
|--------------------------------------------------------|------------------|------------------|
| Cash and cash equivalents | 128,488 | 153,959 |
| Account receivable from the sale of downstream segment | - | 1,310,294 |
| Short-term accounts receivable from RWE AG | 141,155 | 774,778 |
| Loan to RWE AG | 1,000,000 | - |
| Other loans | 6,276 | 10,400 |
| Financial assets | 1,275,919 | 2,249,431 |
| Loan from RWE AG | - | 100,000 |
| Short-term liabilities to RWE AG | - | 991,532 |
| Liabilities from the acquisition of RWE Dea UK | - | 148,753 |
| Other financial debt | 16,652 | 16,144 |
| Financial liabilities | 16,652 | 1,256,429 |
| Net financial assets | 1,259,267 | 993,002 |

The other financial debts comprise liabilities to banks and other financial liabilities.

(27) Transactions with Affiliated Companies

RWE AG holds an equity interest of more than 99% in our company. The transactions with RWE AG and RWE Trading GmbH, Essen, are financial transactions on the basis of market rates in the banking sector.

as well as delivery and service relationships are also in place with associated companies of the RWE Group valued in line with the equity method. All transactions are subject to market terms and conditions.

The deliveries and services received from subsidiaries and affiliates amount to € 5,163,000 (previous year € 837,038,000). The intercompany deliveries total € 33,369,000 (previous year € 356,561,000). Financing

No business relations exist with members of the Board of Management and of the Supervisory Board or individuals close to them.

(28) Special Notes pursuant to Art. 292a of the German Commercial Code (HGB)

The accounting, valuation and consolidation principles applied in accordance with IFRS differ from the provisions of the German Commercial Code mainly in the following accounting points:

Intangible assets

According to IFRS, self-created intangibles are required to be carried as assets if the requirements for this apply. Pursuant to the German Commercial Code, they may not be carried as assets.

Derivative financial instruments

According to IFRS, derivative financial instruments not part of a hedge relationship are to be shown at their fair value, impacting on profit and loss. According to HGB, derivative financial instruments not part of a hedge relationship are valued subject to imparity. The IFRS criteria for balance sheet related hedges differ from those of the German Commercial Code.

Inventories

Unlike the provisions of the German Commercial Code, according to IFRS a lower valuation can generally only apply to the sales market.

Special items

Special items (partly including reserves in the sense of appropriated surplus) and special items for depreciation under tax law are not reported according to IFRS because they are tax-related.

Deferred taxes

Pursuant to IFRS, deferred tax is determined for all temporary differences between values shown in the consolidated balance sheet and the tax-based values. Unlike HGB, deferred taxes must be set up for quasi-permanent differences and tax loss carryforwards.

According to HGB, the so-called timing concept is to be used to determine all temporary differences in income between the balance sheet and the relevant tax values.

Provisions for employee pension plans and similar commitments

According to IFRS, provisions for pensions are valued according to the projected unit credit method. In addition to the accrued pension amounts and vested entitlements, increases anticipated in the future are also taken into account.

Other long-term provisions

According to IFRS, provisions are applied if the likelihood of an event occurring exceeds 50%. Provisions are measured at the amount of settlement. In the case of long-term provisions, future events that may affect the amount of settlement need to be taken into consideration. Long-term provisions are to be discounted at an adequate interest rate for the term, adjusted for the risk in question.

According to HGB, provisions are to be made in an amount considered necessary as at the balance sheet date in line with a prudent business assessment. Discounting may only be effected if the underlying liability contains an interest component.

Capital consolidation

According to IFRS, irrespective of the acquisition costs, a proportional revaluation based on the participation (benchmark method) or a full revaluation (alternative method permissible) must be made.

According to HGB, the "book value method" and the "revaluation method" are permissible. The revalued equity capital may not be stated at an amount that exceeds the cost of acquisition.

Foreign currency translation

According to IFRS, monetary items in foreign currency are translated at the balance sheet date. According to IFRS, currency translation differences are stated with an impact on income. Pursuant to HGB, monetary items in foreign currency are valued at the lower or higher exchange rate as of the balance sheet date in line with the imparity principle.

(29) Other Information

The information on the members of the Board of Management and of the Supervisory Board pursuant to Art. 285, no. 10, HGB, is provided on pages 83 to 84.

In accordance with the By-Laws, the members of the Supervisory Board of RWE Dea AG received a total amount of € 207,073.26 for the fiscal year.

The remunerations paid to the Board of Management of RWE Dea AG for the fiscal year totaled € 1,399,817.86, including variable remunerations of € 758,001.36. Total payments to former members of the Board of Management or their surviving dependents were € 2,572,441.48, including a variable amount of € 320,673.85.

The pension provisions for former members of the Board of Management or their surviving dependents amount to € 18,433,096.00.

Under the RWE AG stock option plan, the current and former members of the Board of Management of RWE Dea AG hold non-transferable subscription rights for 510,000 common shares of RWE AG, as well as 220,000 SAR units as part of the LTIP.

The statement required by Art. 161, German Stock Corporation Act, was submitted for RWE Dea AG and made available to the shareholders on the Internet.

(30) Events after the Balance Sheet Date

No events subject to compulsory disclosure occurred after the balance sheet date.

Forward-looking statements and forecasts

The report contains forward-looking statements and forecasts on the business development of the RWE Dea Group and its member companies. The forecasts reflect estimates on the basis of all information available at this

time. Should the underlying assumptions prove to be incorrect, or the risks – e.g. those stated in the report – in fact arise, actual results may be different from our forecast. We do not undertake to update the forecast.

Independent Auditor's Report

We have audited the consolidated financial statements of RWE Dea AG, Hamburg, for the fiscal year from January 1 through December 31, 2003, which comprise the balance sheet, statement of income, changes in stockholders' equity, statement of cash flows and the notes to the financial statements. The preparation and content of the consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) are the responsibility of the Board of Management of RWE Dea AG. Our responsibility is to express an opinion, based upon our audit, as to whether these consolidated financial statements comply with IFRS.

We conducted our audit of the consolidated financial statements in accordance with German auditing standards, including the principles laid down by the German Institute of Auditors (*Institut der Wirtschaftsprüfer – IDW*) and, by way of supplementation, pursuant to the International Standards on Auditing (ISA). Accordingly, an audit is to be planned and performed in order to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. The audit gives due consideration to the information on the business activities and on the economic and legal environment in which the RWE Dea Group operates, and to expected potential errors. In conjunction with an audit, the supporting evidence for the valuation and disclosures in the consolidated financial statements is examined on a test basis. An audit includes assessing the account-

ing principles utilized and the significant estimates of the Board of Management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements in accordance with IFRS give a true and fair view of the net worth, financial position and results of the Group as well as the cash flows of the fiscal year.

Our audit, which under German auditing standards also covered the combined management report prepared by the Board of Management for RWE Dea AG and the RWE Dea Group for the fiscal year from January 1 through December 31, 2003 did not give rise to objections.

In our opinion, the combined management report as a whole, along with the remaining information in the consolidated financial statements, gives a fair understanding of the RWE Dea Group's position and appropriately states the risks inherent in future development. We also confirm that the consolidated financial statements and the combined management report for the fiscal year from January 1 through December 31, 2003 meet the requirements for RWE Dea AG, Hamburg, to be exempted from the obligation to prepare consolidated financial statements and a group management report in accordance with German law.

Essen, February 2, 2004

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(P. Albrecht)
Auditor

(R.-P. Ebbing)
Auditor

Major Participations

| | Share | Stock- holders' equity for the previous fiscal year € 000 | Net income (loss) for the previous fiscal year € 000 | Sales revenues for the previous fiscal year € 000,000 | Em- ployees ³⁾ Number |
|-----------------------------------------------------------------------------|-------|--------------------------------------------------------------------------------|---------------------------------------------------------------------------|-------------------------------------------------------------------------|--------------------------------------------|
| | % | | | | |
| Major consolidated subsidiaries and affiliates | | | | | |
| RWE Dea AG, Hamburg | | 1,323,905 | - ¹⁾ | 740 | 742 |
| RWE Dea International GmbH, Hamburg | 100.0 | 290,741 | - ¹⁾ | | |
| RWE Dea UK Holdings Ltd., Aberdeen/United Kingdom ²⁾ | 100.0 | 45,990 | 1,756 | 21 | 12 |
| RWE Dea Suez GmbH, Hamburg | 100.0 | 87,226 | - ¹⁾ | 109 | 85 |
| RWE Dea Norge AS, Oslo/Norway | 100.0 | 151,327 | 47,061 | 313 | 63 |
| Speicher Breitbrunn/Eggstätt RWE Dea & Mobil, Hamburg | 80.3 | | 7,380 | 28 | 5 |
| Major associated companies valued in line with the equity method | | | | | |
| Kazgermunai, Kyzyl-Orda/Kazakhstan | 25.0 | 24,616 | 16,760 | | |
| Major other participations in non-subsidiaries | | | | | |
| Erdgas Verkaufs-Gesellschaft mbH, Münster | 4.9 | 3,068 | 23,737 | | |

¹⁾ Profit and loss transfer agreement

²⁾ Pre-consolidated financial statements

³⁾ Average employee equivalents

Financial Statements RWE Dea AG

Balance Sheet

Income Statement

Development of Fixed Assets

Notes

Independent Auditor's Report

Balance Sheet

as of December 31, 2003

| Assets (€ 000) | (Notes) | 12-31-2003 | 12-31-2002 |
|---------------------------------------|---------|------------------|------------------|
| Fixed assets | (1) | | |
| Intangibles | | 78,132 | 107,395 |
| Property, plant and equipment | | 346,649 | 299,378 |
| Financial assets | | 2,122,574 | 1,239,609 |
| | | 2,547,355 | 1,646,382 |
| Current assets | | | |
| Inventories | (2) | 12,053 | 22,829 |
| Accounts receivable and other assets | (3) | 216,017 | 2,477,524 |
| Cash and cash equivalents | (4) | 973 | 4,399 |
| | | 229,043 | 2,504,752 |
| Prepaid expenses and deferred charges | | 568 | 3,073 |
| | | 2,776,966 | 4,154,207 |

| Liabilities (€ 000) | (Notes) | 12-31-2003 | 12-31-2002 |
|----------------------|---------|------------------|------------------|
| Stockholders' equity | (5) | | |
| Share capital | | 344,064 | 344,064 |
| Capital reserve | | 979,841 | 979,841 |
| | | 1,323,905 | 1,323,905 |
| Special items | (6) | 63,130 | 71,888 |
| Provisions | (7) | 682,342 | 670,065 |
| Liabilities | (8) | 707,583 | 2,087,584 |
| Deferred income | | 6 | 765 |
| | | 2,776,966 | 4,154,207 |

Income Statement

January 1 through December 31, 2003

| € 000 | (Notes) | 2003 | 2002 |
|------------------------------------------|---------|----------------|------------------|
| Sales revenues | (11) | 740,056 | 785,475 |
| Mineral oil/natural gas taxes | (12) | - 3,245 | - 2,104 |
| | | 736,811 | 783,371 |
| Changes in inventories | | - 40 | 106 |
| Own construction cost capitalized | | 4,622 | 8,586 |
| Other operating income | (13) | 310,330 | 1,543,440 |
| Materials | (14) | - 418,326 | - 479,746 |
| Personnel | (15) | - 91,007 | - 95,244 |
| Depreciation | (16) | - 108,346 | - 100,113 |
| Other operating expenses | (17) | - 109,909 | - 475,016 |
| Financial income | (18) | 21,655 | 36,790 |
| Interest income | (19) | - 10,490 | - 22,729 |
| Income from ordinary activities | | 335,300 | 1,199,445 |
| Income taxes | (20) | 14,830 | - 109,270 |
| Net income before profit transfer | (21) | 350,130 | 1,090,175 |
| Profit transfer to RWE AG | | - 350,130 | - 1,090,175 |
| Net income for the year | | - | - |

Development of Fixed Assets

January 1, 2003 through December 31, 2003

At cost

| € 000 | Beginning of reporting year | Additions | Transfers | Retirements | End of reporting year |
|-----------------------------------------------------------------------------------------------------|--------------------------------|------------------|-----------|----------------|--------------------------|
| Intangibles | | | | | |
| 1. Concessions, industrial and similar rights and assets, and licenses in such rights and assets | 153,732 | 19,494 | 6,894 | 4,613 | 175,507 |
| 2. Advances | 6,894 | | - 6,894 | | |
| | 160,626 | 19,494 | - | 4,613 | 175,507 |
| Property, plant and equipment | | | | | |
| 1. Land, rights equivalent to land and buildings, including buildings on land not owned | 153,240 | 292 | 40 | 1,454 | 152,118 |
| 2. Wells | 584,022 | 26,910 | 8,282 | 41 | 619,173 |
| 3. Machinery and equipment | 429,602 | 55,259 | 27,684 | 2,350 | 510,195 |
| 4. Other equipment, fixtures and furniture | 40,279 | 2,158 | 117 | 9,315 | 33,239 |
| 5. Advances made and plant under construction | 40,955 | 25,596 | - 36,123 | 1,889 | 28,539 |
| | 1,248,098 | 110,215 | - | 15,049 | 1,343,264 |
| Financial assets | | | | | |
| 1. Investments in subsidiaries and affiliates | 1,288,661 | 25 | | | 1,288,686 |
| 2. Loans to subsidiaries and affiliates | 58,594 | 1,026,203 | | | 1,084,797 |
| 3. Participations in non-subsidiaries | 98,011 | | | 97,640 | 371 |
| 4. Loans to non-subsidiaries | 24,478 | 890 | | 8,108 | 17,260 |
| 5. Other loans | 2,103 | 27 | | 318 | 1,812 |
| | 1,471,847 | 1,027,145 | | 106,066 | 2,392,926 |
| | 2,880,571 | 1,156,854 | | 125,728 | 3,911,697 |

| Accumulated depreciation | | Book values | | Depreciation | Write-ups |
|--------------------------|-----------------------|----------------------|----------------|----------------|----------------|
| End of reporting year | End of reporting year | End of previous year | Reporting year | Reporting year | Reporting year |
| 97,375 | 78,132 | 100,501 | 48,734 | | |
| | | 6,894 | | | |
| 97,375 | 78,132 | 107,395 | 48,734 | | |
| 76,556 | 75,562 | 80,045 | 3,810 | | |
| 490,259 | 128,914 | 124,809 | 31,054 | | |
| 401,048 | 109,147 | 48,890 | 22,471 | | |
| 28,752 | 4,487 | 4,679 | 2,277 | | |
| | 28,539 | 40,955 | | | |
| 996,615 | 346,649 | 299,378 | 59,612 | | |
| 232,960 | 1,055,726 | 1,057,021 | 1,320 | | |
| 36,904 | 1,047,893 | 58,594 | 36,904 | | |
| | 371 | 98,011 | | | |
| | 17,260 | 24,478 | | | |
| 488 | 1,324 | 1,505 | | | 110 |
| 270,352 | 2,122,574 | 1,239,609 | 38,224 | | 110 |
| 1,364,342 | 2,547,355 | 1,646,382 | 146,570 | | 110 |

Notes

The Annual Financial Statements of RWE Dea AG are drawn up in accordance with the provisions of the German Commercial Code (HGB) on large companies and of the Stock Corporation Act.

The Financial Statements show the figures in thousands of euros (€ 000).

Accounting and Valuation Methods

Assets

The fixed assets are valued at cost. The cost reported for own constructions includes adequate provision for proportionate overhead. Depreciation on property, plant and equipment is charged under the declining-balance method with systematic changeover to the straight-line method when that generates higher depreciation charges. Where that method is not permitted by tax law, depreciation on property, plant and equipment and on intangibles is charged under the straight-line method.

Regular depreciation is charged in conformity with the depreciation tables, decrees and letters issued by the Federal Finance Minister.

In a simplified procedure applied for the last time, depreciation on the movable fixed assets is charged at the full rate on additions during the first half of the fiscal year, and at 50% of that rate on additions during the second half of the year. Buildings and intangibles are

depreciated pro rata temporis in the year of acquisition, while low-value assets are fully written off.

Extraordinary depreciation under tax law on property, plant and equipment is reported under special items, on the basis of the option allowed by Art. 281, section 1, HGB; depreciation on tax-favored investments is charged under the straight-line method.

Investments in subsidiaries and affiliates and participations in non-subsidiaries are reported at cost or, in individual cases, at appropriate lower values.

The listing of investments pursuant to Art. 285, no. 11, HGB, at the balance sheet date has been filed with the Commercial Register of the Hamburg Municipal Court in line with the provisions of Art. 287, HGB. The listing includes mainly:

Participations

| | Share pursuant to Art. 16, Stock Corporation Act % | Stockholders' equity as of previous fiscal year € 000 | Net income (loss) for the previous fiscal year € 000 |
|------------------------------------------------------------------|----------------------------------------------------|-------------------------------------------------------|------------------------------------------------------|
| RWE Dea International GmbH, Hamburg ¹⁾ | 100.0 | 290,741 | - |
| RWE Dea UK Holdings Ltd., Aberdeen, United Kingdom ²⁾ | 100.0 | 45,990 | 1,756 |
| Speicher Breitbrunn/Eggstätt RWE Dea & Mobil, Hamburg | 80.3 | - | 7,380 |

¹⁾ Profit and loss transfer agreement

²⁾ Pre-consolidated financial statements

Loans are shown at nominal value, or at lower present value in the case of non-interest or low-interest loans. Housing loans to employees are stated at nominal value.

Inventories are valued at cost. Materials and supplies as a rule are reported at average cost. Adequate deductions are made to allow for risks resulting from prolonged storage or from reduced usability.

Liabilities

Reserves under tax law are reported as special items. Extraordinary depreciation under tax law on the fixed assets, including transfers under Art. 6b, Income Tax Act, is also shown under special items. These special items are dissolved in line with the depreciation schedules applicable to the assets concerned.

The provision for employee pension plans and similar commitments is actuarially determined under the entry age method, on the basis of the 1998 Dr. K. Heubeck Standard Charts and applying a 6% rate of return. Current pensions are stated at present value. For the pension commitments relative to current pensions and vested entitlements, in practice transferred to Texaco Deutschland GmbH, but legally retained by RWE Dea AG under Art. 4, section 1, Act on the Improvement of Company Pensions, the compensation claims against Texaco Deutschland GmbH in the amount of € 1,358,000 were netted against the pension provision.

Currency Translation

Transactions in foreign currencies are valued at the rate of the original book date, or at the rate on the balance sheet date. Changes in exchange rate are reported with effect on income.

Adequate lump-sum provisions for bad debts cover the general credit risk included in the accounts receivable and other assets. Allowance for individual risks is made by adequate individual provisions.

In regard to fixed assets and current assets, extraordinary depreciation and write-downs charged in previous years are retained where the circumstances reducing the value persist.

The provision for estimated damage from drilling and production operations covers the updated commitments for the plugging of wells and the reconditioning of sites.

In the other provisions, adequate provision is made for all imminent risks and contingent liabilities.

As a rule, liabilities are reported at their repayment amounts; commitments similar to annuities are shown at present value.

Contingencies are valued in line with the extent of liability on the balance sheet date.

Notes – Balance Sheet**Assets****(1) Fixed Assets**

The development of fixed assets is shown on pages 70 and 71.

The additions to intangibles relate mainly to operations in Egypt and to concession acquisitions in Spain.

The additions to property, plant and equipment comprise mainly wells and production equipment in Denmark and Germany.

The additions to participations in subsidiaries and affiliates comprise the newly established RWE Dea Kasachstan GmbH.

Depreciation on participations in subsidiaries and affiliates relate to RWE Dea Polska Sp. z o.o. exclusively.

The shares in Bergemann GmbH were sold effective February 11, 2003.

The additions to loans to subsidiaries and affiliates relate to the loan granted to RWE AG. RWE Dea makes the liquidity not required for current operations available to RWE AG in the form of a loan at market rates. A negative effect arose essentially from an extraordinary depreciation on the loan granted to RWE Dea Polska Sp. z o.o.

The loans to non-subsidiaries relate essentially to loans granted to and repaid by Kazgermunai (a company founded according to the laws of Kazakhstan).

Pursuant to Art. 280, section 1, HGB, write-ups totaling € 110,000 were made in other loans (previous year: € 121,000).

(2) Inventories

| € 000 | 12-31-2003 | 12-31-2002 |
|--------------------------------|---------------|------------|
| Raw materials and supplies | 11,924 | 10,455 |
| Work in process | - | 12,205 |
| Finished goods and merchandise | 129 | 169 |
| | 12,053 | 22,829 |

(3) Accounts Receivable and Other Assets

| € 000 | 12-31-2003 | 12-31-2002 |
|-----------------------------------------|----------------|------------------|
| Accounts receivable trade | 55,476 | 50,825 |
| Accounts receivable intercompany | 121,892 | 838,707 |
| Accounts receivable from non-subsiaries | 25,970 | 32,791 |
| Other assets | 12,679 | 1,555,201 |
| | 216,017 | 2,477,524 |

The accounts receivable intercompany comprise, among other things, the investment of funds with RWE AG of

€ 141,155,000 netted against the accounts payable to RWE AG of € 62,906,000.

(4) Cash and Cash Equivalents

Cash and cash equivalents essentially consist of cash in banks.

Liabilities

(5) Stockholders' Equity

The share capital of RWE Dea AG as of the balance sheet date is unchanged from the previous year at € 344,064,000 and divided into 13,440,000 no-par shares. RWE AG owns more than 99% of the capital.

The RWE Group Annual Report for fiscal 2003 comprises the Financial Statements of the RWE Group and includes the Financial Statements of RWE Dea AG through the Financial Statements of the RWE Dea Group as of December 31, 2003. The Annual Report is available from RWE Aktiengesellschaft, Opernplatz 1, D-45128 Essen.

(6) Special Items

| € 000 | 12-31-2003 | 12-31-2002 |
|------------------------------------|---------------|---------------|
| Reserves under tax law | 14,697 | 18,361 |
| Special depreciation under tax law | 48,433 | 53,527 |
| | 63,130 | 71,888 |

The special items include reserves under tax law primarily pursuant to Art. 6b, Income Tax Act. Special depreciation

under tax law is due mainly to transfers under Art. 6b, Income Tax Act.

(7) Provisions

| € 000 | 12-31-2003 | 12-31-2002 |
|------------------------------------------------------------------------|----------------|----------------|
| Provision for employee pension plans and similar commitments | 320,934 | 326,996 |
| Provision for taxes | 9,762 | 11,926 |
| Provision for estimated damage from drilling and production operations | 114,467 | 103,453 |
| Other provisions | 237,179 | 227,690 |
| | 682,342 | 670,065 |

The other provisions relate essentially to clean-up commitments and personnel expenses.

(8) Liabilities

| € 000 | 12-31-2003 | thereof due within one year | 12-31-2002 | thereof due within one year |
|---------------------------------------|----------------|-----------------------------|------------------|-----------------------------|
| Accounts payable to banks | - | - | 357 | 357 |
| Accounts payable trade | 73,928 | 73,928 | 142,170 | 142,170 |
| Accounts payable intercompany | 609,803 | 609,803 | 1,705,285 | 1,605,285 |
| Other liabilities | 23,852 | 23,762 | 239,772 | 239,669 |
| _ thereof taxes | (6,167) | (6,167) | (8,959) | (8,959) |
| _ thereof social welfare and security | (2,211) | (2,211) | (2,462) | (2,462) |
| | 707,583 | 707,493 | 2,087,584 | 1,987,481 |
| _ thereof secured by mortgages | (40) | | (42) | |

Liabilities due after more than five years do not exist.

(9) Contingencies and Other Financial Commitments

| € 000 | 12-31-2003 | 12-31-2002 |
|-------------------------------------------------------|------------|------------|
| Contingencies | | |
| From guarantees | 53,269 | 13,409 |
| From warranty deeds | 6,400 | 31,902 |
| From back-to-back guarantees | - 6,400 | - 9,800 |
| Other financial commitments | | |
| From rental, lease and similar agreements | 1,695 | 2,532 |
| From firm contracts for property, plant and equipment | 20,148 | 24,194 |
| From concession acquisitions | 20,310 | 28,524 |

The financial commitments from rental, lease and similar agreements relate mainly to charter parties for marine vessels.

In regard to participations in various joint ownerships we are subject to the statutory liability.

In connection with the sale of the chemical and downstream activities, we have undertaken commitments to the purchasers for warranties and contingencies. Part of the commitments is covered by provisions.

Under the RWE AG cash clearance system, secondary liability exists for borrowing caused by RWE Dea AG.

(10) Foreign Exchange and Interest Rate Hedging

Forward currency transactions and the occasional use of derivative financial instruments serve to hedge the risk of market related fluctuations of currency exchange and interest rates. Deals are made with banks of the highest credit standing. The instruments are employed according to uniform policies and are subject to strict internal controls. Their use is restricted to the hedging of the

operating business. As of December 31, 2003, the nominal amount of forward currency transactions for the hedging of loan and export receivables is € 571,346,000 (previous year € 1,701,407,000), their net fair value € 584,550,000 (previous year € 1,911,787,000). All of these transactions are closed positions that will not produce losses.

Notes – Income Statement**(11) Sales Revenues**

RWE Dea AG's sales revenues are as follows:

| € 000 | 2003 | 2002 |
|-------------|----------------|----------------|
| Crude oil | 390,959 | 406,786 |
| Natural gas | 252,601 | 257,423 |
| Other | 96,496 | 121,266 |
| | 740,056 | 785,475 |

RWE Dea AG's sales revenues were generated in the following regions:

| € 000 | 2003 | 2002 |
|----------------------|----------------|----------------|
| Germany | 571,093 | 604,279 |
| Europe excl. Germany | 80,044 | 110,674 |
| Asia and Africa | 88,919 | 70,522 |
| | 740,056 | 785,475 |

(12) Mineral Oil/Natural Gas Taxes

Only the declared mineral oil/natural gas tax portion of the sales revenues in the amount of € 3,245,000 (previous year € 2,104,000) is openly reported. Mineral oil/natural gas taxes purchased from third parties are included in materials.

(13) Other Operating Income

The other operating income includes income from the dissolution of special items (partly including reserves in the sense of appropriated surplus) in the amount of € 10,369,000 (previous year € 2,955,000).

(14) Materials

| € 000 | 2003 | 2002 |
|---------------------------------------------------|----------------|----------------|
| Raw materials, supplies and purchased merchandise | 287,129 | 343,220 |
| Services purchased | 131,197 | 136,526 |
| | 418,326 | 479,746 |

Mineral oil/natural gas taxes relating to purchases from third parties and host government take for a foreign producing operation of € 65,787,000 (previous year

€ 80,476,000) are reported under raw materials, supplies and purchased merchandise.

(15) Personnel

| € 000 | 2003 | 2002 |
|-------------------------------------------------------------------------|---------------|---------------|
| Wages and salaries | 56,939 | 56,096 |
| Social security insurance, employee pension plans and employee benefits | 34,068 | 39,148 |
| — thereof employee pension plans | (23,697) | (29,052) |
| | 91,007 | 95,244 |

Social security, employee pension plans and employee benefits were reduced in the fiscal year as a result of

changes to statutory social security insurance (pension fund contribution threshold).

| Average number of employees | 2003 | 2002 |
|--------------------------------------------|------------|------------|
| Salary earners | 616 | 607 |
| Wage earners | 126 | 126 |
| | 742 | 733 |
| for information only: apprentices (number) | 6 | 5 |

The number of employees, with the exception of apprentices, is stated in employee equivalents.

(16) Depreciation

The breakdown of depreciation charges is shown on page 71. They include extraordinary depreciation of € 46,948,000 (previous year € 38,542,000) for intangibles.

(17) Other Operating Expenses

Other operating expenses include transfers to special items (partly including reserves in the sense of appropriated surplus) in an amount of € 1,611,000 (previous year € 4,695,000) and other taxes totaling € 2,013,000 (previous year € 308,000).

(18) Financial Income

| € 000 | 2003 | 2002 |
|----------------------------------------|-----------------|-----------------|
| Income from profit transfer agreements | | |
| _subsidaries and affiliates | 31,570 | 58,119 |
| _other | 19 | 431 |
| | 31,589 | 58,550 |
| Income from participations | | |
| _subsidaries and affiliates | 15,989 | 35,677 |
| _other | 424 | 11,953 |
| | 16,413 | 47,630 |
| Expenses for loss absorption | | |
| _subsidaries and affiliates | - 1,071 | - 73,327 |
| _other | - | - 2 |
| | - 1,071 | - 73,329 |
| Income from participations | 46,931 | 32,851 |
| Income from investments in loans | | |
| _subsidaries and affiliates | 11,823 | 1,470 |
| _other | 1,125 | 2,469 |
| | 12,948 | 3,939 |
| Depreciation on financial assets of | | |
| _subsidaries and affiliates | - 38,224 | - |
| | - 38,224 | - |
| Financial income | 21,655 | 36,790 |

(19) Interest Income

| € 000 | 2003 | 2002 |
|--------------------------------------|-----------------|-----------------|
| Interest and similar income | 13,129 | 26,700 |
| _thereof subsidiaries and affiliates | (8,694) | (24,686) |
| Interest and similar expenses | - 23,619 | - 49,429 |
| _thereof subsidiaries and affiliates | (- 21,434) | (- 32,440) |
| | - 10,490 | - 22,729 |

(20) Income Taxes

€ 16,497,000 of the income taxes was refunded by the controlling enterprise RWE AG (previous year: € 107,566,000 refunded to the controlling enterprise).

(21) Net Income Before Profit Transfer

The net income before profit transfer was impacted in an amount of € +5,204,000, or 1.49%, by depreciation dissolved under Art. 254, HGB, and special items set up

or dissolved pursuant to Art. 273, HGB. The reported special items (partly including reserves in the sense of appropriated surplus) total € 63,130,000.

Other Information

The information on the members of the Supervisory Board and of the Board of Management pursuant to Art. 285, no. 10, HGB, is provided on pages 83 and 84.

The pension provisions for former members of the Board of Management or their surviving dependents amount to € 18,433,096.00.

In accordance with the By-Laws, the members of the Supervisory Board of RWE Dea AG received a total amount of € 207,073.26 for the fiscal year.

Under the RWE AG stock option plan, the current and former members of the Board of Management hold non-transferable subscription rights for 510,000 common shares of RWE AG, as well as 220,000 SAR units as part of the LTIP.

The remunerations paid to the Board of Management of RWE Dea AG for the 2003 fiscal year totaled € 1,399,817.86, including variable remunerations of € 758,001.36. Total payments to former members of the Board of Management or their surviving dependents were € 2,572,441.48, including a variable amount of € 320,673.85.

The statement required by Art. 161, German Stock Corporation Act, was submitted for RWE Dea AG and made available to the shareholders on the Internet.

Hamburg, January 30, 2004

The Board of Management

Schöning

Liebau

Wiese

Independent Auditor's Report

We have audited the financial statements, including the accounting and the management report for RWE Dea AG, Hamburg, which is combined with the management report for the RWE Dea Group, for the fiscal year from January 1 through December 31, 2003. The accounting and the preparation of annual financial statements and management report in conformity with the provisions of German commercial law and the company's by-laws are the responsibility of management. Our responsibility is to express an opinion, based upon our audit, on the annual financial statements including the accounting and the management report.

We conducted our audit pursuant to Art. 317, HGB, in accordance with German auditing standards. Accordingly, an audit is to be planned and performed in order to have reasonable assurance that misrepresentations or violations with major impacts on the presentation of net worth, financial position and result in the financial statements and management report are identified. The audit gives due consideration to the information on the business

Essen, February 2, 2004

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(P. Albrecht)
Auditor

(R.-P. Ebbing)
Auditor

activities and on the economic and legal environment in which the company operates, and to expected potential errors. It examines the effectiveness of the internal accounting control system and the supporting evidence for the disclosures in the accounting, financial statements and management report on a test basis. The audit includes assessing the accounting standards utilized and the significant estimates of management, as well as evaluating the overall presentation of financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to objections.

In our opinion, the financial statements give a true and fair view of the company's net worth, financial position and results. The combined management report as a whole gives a fair understanding of the company's position and appropriately states the risks inherent in future development.

Supervisory Board, Board of Management

Supervisory Board

Dr. Gert Maichel, Essen (Chairman)
Member of the Board of Management, RWE AG

Klaus-Dieter Südhofer, Hanover (Vice Chairman)
Vice Chairman, Union of Mining, Chemical and Energy
Industry Employees

Hans-Jürgen Andersen, Halstenbek
Vice President Human Resources Management
RWE Dea AG

Rolf Behnke, Müden/Aller
Chairman of the Staff Council,
Lower Saxony Production District
RWE Dea AG

Berthold Bonekamp,
Grevenbroich (since November 1, 2003)
Chairman of the Board of Management, RWE Power AG,
Essen and Cologne

Dr. Dieter Dräger, Rellingen
Former Chairman of the Boards of Management
RWE-DEA Aktiengesellschaft für Mineraloel und Chemie
and DEA Mineraloel AG

Jürgen Dralle, Achim
Member of the Staff Council,
Lower Saxony Production District
RWE Dea AG

Dr. Andreas Georgi, Frankfurt, Main
Member of the Board of Management, Dresdner Bank AG

Jürgen Hielscher, Hamburg
Union Secretary, Union of Mining, Chemical and Energy
Industry Employees

Prof. Øystein Noreng, Sandvika
Professor of Petroleum Studies at BI Business College,
Sandvika, Norway

Dr. Klaus Sturany, Essen (until October 31, 2003)
Member of the Board of Management, RWE AG

Sylvia Törsleff, Hamburg
Chairwoman of the Staff Council,
RWE Dea Hamburg Headquarters
RWE Dea AG

Wilhelm Werhahn, Neuss
General partner of Wilh. Werhahn KG

Board of Management

Dr. Georg Schöning,
responsible for Operations (Chairman)

Lutz-Michael Liebau,
responsible for Finance and Administration

Dr. Rolf Wiese,
responsible for Human Resources and Legal Affairs

Memberships of Other Supervisory Boards and Bodies Members of the Supervisory Board^{*)}

Berthold Bonekamp

CONSOL Energy Inc.,
Harpen AG (Chairman),
MATRA Matrái Erőmű Részvénytársaság (Chairman),
RWE Innogy Holdings plc,
Société Electrique de l'Our S.A.,
STOEN S.A.
TCP Petcoke Corporation

Dr. Dieter Dräger

Gesellschaft für Abfallwirtschaft und Abfallbehandlung
des Kreises Pinneberg mbH
Wirtschaftsförderung-, Entwicklungs- und Planungsgesell-
schaft der Kreise Pinneberg und Segeberg mbH

Dr. Andreas Georgi

Allianz Dresdner Asset Management Deutschland GmbH,
Allianz Dresdner Bauspar AG (Chairman),
Asea Brown Boveri Aktiengesellschaft,
Deutsche Schiffsbank AG (Chairman),
DEUTSCHER INVESTMENT-TRUST Gesellschaft für
Wertpapieranlagen mbH,
Dresdner Bank Luxembourg S.A.,
Dresdner Bank (Schweiz) AG (President),
Eurohypo Aktiengesellschaft,
Felix Schoeller Holding GmbH & Co. KG,
Oldenburgische Landesbank AG (Chairman),
Reuschel & CO. Kommanditgesellschaft,
Rheinmetall AG

Jürgen Hielscher

Shell & DEA Oil GmbH

Dr. Gert Maichel

RAG Aktiengesellschaft,
RWE Energy AG,
RWE Gas AG (Chairman),
RWE Innogy Holdings plc (Chairman),
RWE Power AG (Chairman),
RWE Trading GmbH (Chairman),
TÜV Rheinland Holding AG

Dr. Klaus Sturany

Commerzbank AG,
Hannover Rückversicherungs-AG,
Heidelberger Druckmaschinen AG,
HOCHTIEF Aktiengesellschaft,
RAG Aktiengesellschaft,
RWE Energy AG,
RWE Innogy Holdings plc,
RWE Power AG,
RWE Trading GmbH,
RWE Thames Water plc,
RWE Umwelt AG

Klaus-Dieter Südhofer

BGAG Beteiligungsgesellschaft der Gewerkschaften AG,
Wohnungsbaugesellschaft
für das Rheinische Braunkohlenrevier GMBH/GSG,
Wohnungsbau Braunkohle GmbH,
Harpen AG,
RAG Aktiengesellschaft,
RAG Immobilien AG,
RWE Power AG,
RWE AG

Wilhelm Werhahn

Gesellschaft für Buchdruckerei AG (Chairman),
Neusser Zeitungsverlag GmbH (Chairman),
Wilh. Werhahn KG

Members of the Board of Management^{*)}

Dr. Georg Schöning

TÜV Nord Gruppe/TÜV Nord e.V. (Chairman)

Lutz-Michael Liebau

Erdgas-Verkaufs-Gesellschaft mbH

Dr. Rolf Wiese

Stiftung „Cor Unum“, Neuss

^{*)} For active Supervisory Board and Board of Management members status 12-31-03. For former Supervisory Board members status date of resignation

Imprint

| | |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| RWE Dea AG | Überseering 40 D-22297 Hamburg |
| Telephone | +49 (0)40/6375-0 |
| Telefax | +49 (0)40/6375-3496 |
| Corporate Communications | |
| Telephone | +49 (0)40/6375-2715 |
| Telefax | +49 (0)40/6375-3162 |
| E-Mail | info@rwedea.com |
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