

**BUSINESS STRATEGY, TRADING AND RISK MANAGEMENT**  
**Dr Klaus Grellmann, Head of Strategic Planning, RWE AG**

Business strategy and risk management is a pivotal nexus which has become increasingly important since the liberalisation and integration of energy markets gained pace in the 1990s. In fact, competition in an integrated European market is an ever demanding challenge for RWE and it offers substantial opportunities today and for the years to come.

**RWE tackles competitive challenges to ensure sustainable growth**



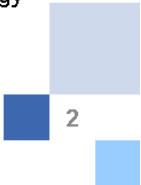
**Germany**



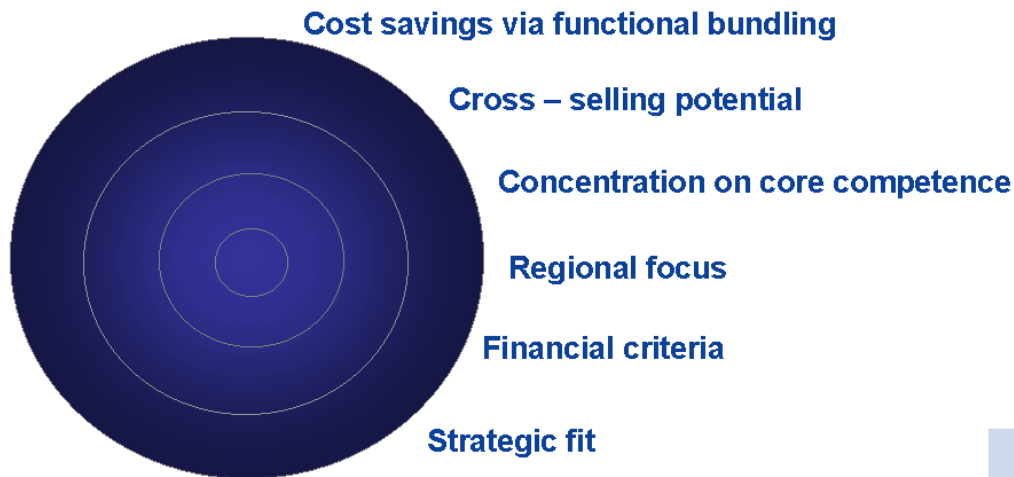
**Europe**



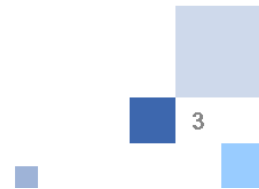
- Future prospects for additional value creation are limited in Germany.
- RWE is faced with demanding competitive challenges ever since the German energy market was liberalised.
- Integrated European electricity and gas markets offer chances for growth. At the same time, they enhance scope and intensity of competition.



## RWE's answer to competitive challenges in open markets: Multi Utility and focussed internationalisation



RWE Konzern • 4/5/04

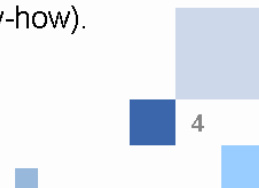


## Leading Position in Energy and Water



RWE Konzern • 4/5/04

- Risk-averse and focused portfolio: producing stability and growth.
- Cost leadership.
- Focus on high-value customers (domestic, SME, profitable industrial customers) and regulated business.
- Vertical integration (“natural hedges”).
- Synergies (costs and know-how).
- Cross-selling, if profitable.

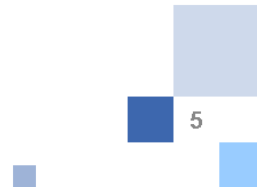


## RWE - Leading Position in Four Markets

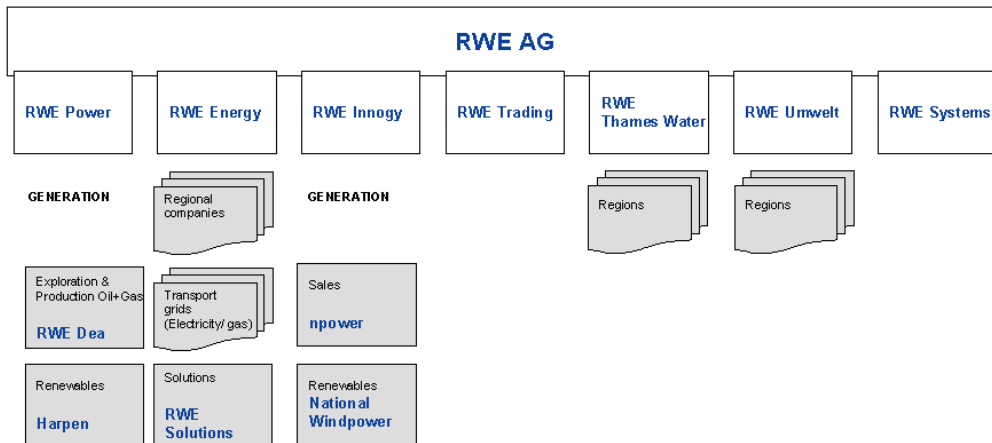


- Strong regional presence based on critical mass in specific utilities.
- Realisation of regional synergies.
- Focus on high-quality markets instead of choosing a wide-spread portfolio.

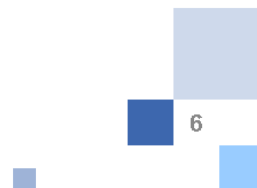
RWE Konzern • 4/5/04



## New group structure as of 1st October 2003



RWE Konzern • 4/5/04



## Guidelines for organisational structuring – key condition for addressing value potential



**Energy and Water**  
fundamentals for the  
structural evolution  
of the RWE Group

- Reduce number of operating companies from 13 to 7 (core business)
- Improve interfaces (generation, sales)
- Reduce amount of necessary coordination
- Improve regional entrepreneurship
- Flexibility and focus on business, no general organisational paradigm

RWE Konzern • 4/5/04

7

## Strict financial criteria



- All core business activities must deliver a positive contribution to corporate value in the medium-term.

### DCF-Criterion on yield

DCF-yield 6.5 % + 1 % value proposition + country specific agio

### Return on Capital Employed (ROCE)

ROCE > capital cost

### Contribution to corporate value

Positive return per share during first year of full consolidation (prior to goodwill)

RWE Konzern • 4/5/04

8

## Streamlining the Core Business

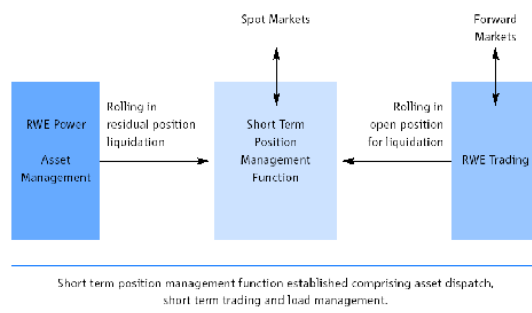


Stake/company disposed of	closing	proceeds
3.5% of Ruhrgas	Q1/2003	€ 224 m
34.9% of STE (Czech Republic)	Q2/2003	€ 73 m
Various activities of RWE Umwelt	2003	none
Non operational real estate (overall program: € 1 bn; achieved: € 810 m)	2003	€ 270 m
40% of Stadtwerke Leipzig	Q3/2003	€ 199 m
74% of CONSOL (exit completed)	2003/2004	€ 873 m
20% of Stadtwerke Düsseldorf	H1/2004	n.a.
46.5% of HOCHTIEF	Q1/2004	€ 750 m
9.6% of HOCHTIEF via exchangeable bond	2007	[€ 200 m]
... and there is more to come		

RWE Konzern • 4/5/04

9

## RWE Power & RWE Trading: Managing Generation Assets more efficiently



RWE Konzern • 4/5/04

10

- RWE Trading is the managing company for all wholesale trading activities in the RWE Group.
- Trades physical and derivatives in electricity, gas, coal and oil as a means of hedging against price risks and proprietary trading. Also trades Green Certificates and maintains a weather desk.
- Concentrates on the UK and continental European markets.
- Focuses only on the wholesale market.

## German Network Regulation: Our Current View



- The German Federal Ministry of Economics proposes lean regulation as a general guideline. This implies:
  - reliable determination of the methodology to calculate grid tariffs defined by law which will be binding for the REGTP
  - ex post control by REGTP to avoid overlap with cartel authorities

### Electricity

- Explicit incentive elements will probably be introduced later.

### Gas

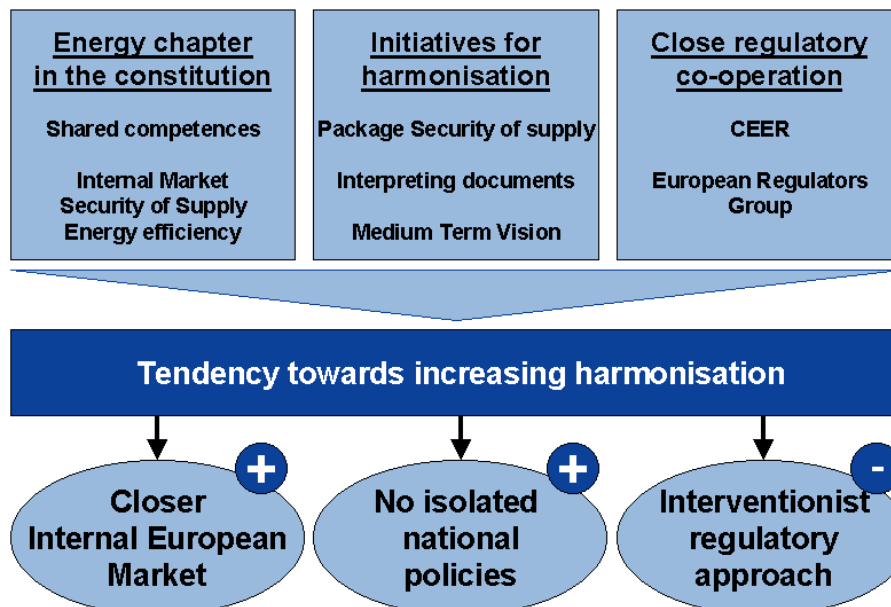
- Grid access for gas will be based on the model devised by the association of the German gas industry (BGW)

Regulation should be lean!

RWE Konzern • 4/5/04

11

## Europeanisation of Energy Policy



RWE Konzern • 4/5/04

12

## Considerable differences in efforts to meet EU timetable for NAPs

UK, DE, NL, SE	➔	Preparation in time
DK, FR	➔	Advanced state
ES, IT, PT, GR	➔	Up to now no structured action visible
Accession countries	➔	No clear picture, in some cases (e.g. Poland) higher priority for SO <sub>2</sub> legislation



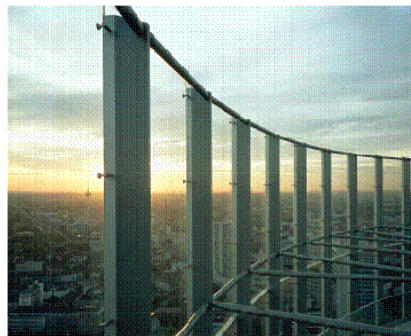
This will lead to a less liquid market and higher prices for CO<sub>2</sub> allowances (RWE estimate today: 10 €/t of CO<sub>2</sub> in first commitment period)

RWE Konzern • 4/5/04

13

## Conclusion

- RWE' strategic guideline comprises a customer oriented multi-utility approach and focussed internationalisation.
- New group structure is key to face competitive challenges successfully.
- RWE Trading plays a central role for wholesale trading and risk mitigation.
- Functioning of competitive markets depends on non-interventionist regulatory approaches and creation of level-playing-field in the European Energy sector.



RWE Konzern • 4/5/04

14