

# Corporate Governance

***Steady progress determines our corporate governance practices. This often keeps us a step ahead of adjustments made to the German Code. The ambitious standards that we impose on the transparency of corporate governance and the behaviour of our employees is set forth in the new RWE Code of Conduct.***

We continue to fully comply with the German Corporate Governance Code's recommendations.



***Unqualified statement of compliance.*** Several amendments to the Code passed by the German Government Corporate Governance Code Commission entered into force on July 20, 2005. They are primarily designed to strengthen the independence of supervisory board members. RWE fully complies with all of the recommendations of the new version of the Code. As in prior years, we can thus issue an unqualified declaration of compliance for 2005. In addition, RWE complies with the suggestions for voluntary action included in the Code with one exception. We do not envision electing or re-electing supervisory board members at different dates or for varying periods of tenure. Our current and past statements of compliance as well as past corporate governance reports can be found on the RWE website\*. Information on the activities of RWE's Executive Board, Supervisory Board and other RWE AG committees as well as on the RWE Annual General Meeting are also included on this site.

***Other aspects of Code compliance.*** During our constant monitoring of corporate governance practices, we paid special attention to the relations between the Supervisory Board, the Executive Board and the company, even before the Code was amended. The following is a list of noteworthy issues in 2005:

- In the period under review, no material transactions were concluded between RWE AG or a Group company and an Executive Board member or related party. Furthermore, no contracts were concluded between the company and members of the Supervisory Board. Executive Board and Supervisory Board members had no conflicts of interest.
- In the year under review, the Supervisory Board of RWE AG debated the structure of the Executive Board compensation system in accordance with Item 4.2.2 of the Code.
- In 2005 the Supervisory Board performed another efficiency check pursuant to Item 5.6 of the Code. This examination looks, among other things, into the cooperation between the Executive Board and the Supervisory Board committees as well as the Supervisory Board itself and scrutinizes the work done during their meetings.
- All listed companies affiliated with the Group which are obliged to issue a statement of compliance again fulfilled this obligation in 2005. Details of the companies' affiliation with the Group and company size were taken into account.



- Securities dealings by Executive Board members reportable under Sec. 15a of the German Securities Trading Act were reported in an orderly fashion and published on RWE's website\*. Obligatory stock purchases within the scope of the new BEAT long-term incentive plan introduced in 2005 are shown in the following table:

Transaction date	Name	Position	Financial instrument	ISIN	Purchase/Sale	Price per share in €	Number of shares
05/27/2005	Roels, Harry	CEO	RWE common share	DE 0007037129	Purchase	47.26	12,415
05/27/2005	Bonekamp, Berthold A.	EVP	RWE common share	DE 0007037129	Purchase	47.26	4,138
05/27/2005	Dr. Sturany, Klaus	EVP	RWE common share	DE 0007037129	Purchase	47.26	4,211
05/27/2005	Zilius, Jan	EVP	RWE common share	DE 0007037129	Purchase	47.26	4,138
07/26/2005	Roels, Harry	CEO	RWE common share	DE 0007037129	Purchase	55.58	4,600
07/26/2005	Bonekamp, Berthold A.	EVP	RWE common share	DE 0007037129	Purchase	55.58	475
07/26/2005	Dr. Sturany, Klaus	EVP	RWE common share	DE 0007037129	Purchase	55.58	2,150
07/26/2005	Zilius, Jan	EVP	RWE common share	DE 0007037129	Purchase	55.58	1,200

None of the board members held securities with a combined value high enough to fall under mandatory disclosure pursuant to Item 6.6 of the Code as of the balance-sheet date.

**Service for our shareholders.** Our capital market communications abide by the principle of informing investors as comprehensively and punctually as possible of the Group's developments at any given time. We have published our annual report in February for the third straight year, and thus continue to rank among the "fastest" DAX companies. Moreover, we have a long-standing practice of providing live webcasts of our analyst conferences, keeping them posted as recordings for three months after the event. By publishing our financial calendar in our financial reports and on the Internet early on, placing financial advertisements and posting far-reaching content on our website, we afford our shareholders the opportunity to stay abreast of all major events and news relating to RWE. Good AGM turnouts are also of importance to us. In 2005, 56.52 % of the company's voting stock and voting rights was represented. For several years, we have been providing our shareholders the option of voting by proxy in order to increase AGM turnout even more. Anyone who issues instructions via the Internet using our online proxy system can make changes until the end of the debate. As set forth in the new law on corporate integrity and modernization of the right of contestation (UMAG), we adapted and simplified the registration and verification process for the Annual General Meeting by passing an amendment to the company's articles of association at last year's AGM. This should encourage shareholders—especially foreign investors—to participate in the AGM and exercise their voting rights.

**Breakdown of Supervisory Board compensation.** RWE has already complied with the German corporate governance requirement to publish Executive Board remuneration by member for three years. The same applies to the compensation of the Supervisory Board. Pursuant to Sec. 12 of the bylaws, Supervisory Board members receive a fixed compensation of €40,000 for their services after the end of each



fiscal year. The compensation increases by €225 for every €0.01 by which the dividend exceeds €0.10 per common share. Anyone who takes additional office on the Supervisory Board or any of its committees\* receives one-and-a-half to three times the aforementioned sums, in accordance with the recommendations included in the Code. The following table shows how this affects the total compensation of each member.

<b>Supervisory Board compensation in 2005</b> € '000	Fixed component	Variable component	<b>Total</b>
Dr. Thomas R. Fischer, Chairman	120	111	231
Frank Bsirske, Deputy Chairman	80	74	154
Dr. Paul Achleitner	60	56	116
Carl-Ludwig von Boehm-Bezing	80	74	154
Wilfried Donisch	40	37	77
Dieter Faust (as of August 1, 2005)	23	21	44
Simone Haupt (as of April 11, 2005)	29	27	56
Ralf Hiltenkamp (until April 10, 2005)	16	15	31
Heinz-Eberhard Holl	60	56	116
Berthold Huber	40	37	77
Dr. Dietmar Kuhnt	60	56	116
Dr. Gerhard Langemeyer	60	56	116
Dagmar Mühlenfeld (as of January 4, 2005)	40	36	76
Dr. Wolfgang Reiniger	57	53	110
Günter Reppien	60	56	116
Bernhard von Rothkirch	60	56	116
Dr. Manfred Schneider	60	56	116
Klaus-Dieter Südhofer	60	56	116
Uwe Tigges	60	56	116
Prof. Karel Van Miert	40	37	77
Jürgen Wefers	40	37	77
Erwin Winkel (until July 31, 2005)	35	32	67
<b>Total</b>	<b>1,180</b>	<b>1,095</b>	<b>2,275</b>



**Executive Board compensation components.\*** The remuneration of RWE Executive Board members largely consists of a fixed and variable components. The fixed portion accounts for about 40 % of total cash compensation, with the performance-linked variable component accounting for the remaining 60 %. The variable portion consists of a company bonus (70 %) and an individual bonus (30 %). The amount of the company bonus depends on the development of value added and free cash flow. The amount of the individual bonus depends on the degree to which the goals agreed by the Chairman of the Supervisory Board and the Executive Board member at the beginning of the financial year have been met. In addition, in common with 1,000 other managers in the RWE Group, Executive Board members participate in a long-term incentive plan that rewards them based on performance over extended periods of time. In the fiscal year, we created a new programme called BEAT 2005, harmonized it throughout the Group, and adapted it to the more stringent corporate governance requirements. Exercise hurdles were raised once again. The waiting period was extended to three years

and the redemption of the 2005 tranche was limited to three times the original value theoretically realizable at grant. For the 2006 tranche, the limit is double the original allocation value theoretically achievable on the capital market. Moreover, the BEAT Programme, which is based on virtual shares, requires Executive Board members to invest their own money in RWE shares to cover one third of the post-tax value at grant. These shares must be held for the entire waiting period of each respective BEAT tranche. The predecessor programmes had also adhered to the principle of rewarding sustained success in comparison to competitors in the company's peer group. The following provides an overview of the older programmes.



- 2002 LTIP: This plan was initiated in 2002 pursuant to a Supervisory Board resolution for Executive Board members and about 1,050 additional managers through the issuance of stock appreciation rights\* (SARs). The SARs issued in three tranches between September 20, 2002, and May 25, 2004, have a waiting period of two years and a total term to maturity of five years.
- 1999 AOP-F: The Executive Board of RWE AG was authorized to issue non-transferable subscription rights to members of the Executive Board and other managers in the RWE Group within the scope of AOP-F until March 8, 2004. A total of four tranches were initially issued. They have since been exercised by members of RWE AG's Executive Board or have been forfeited.

Our new Code of Conduct lays down the rules of behaviour for internal cooperation and external dealings.

**Code of conduct for RWE employees.** The Code of Conduct adopted in the autumn of 2005 establishes rules of behaviour in compliance with the principles of corporate governance for RWE staff throughout the Group. This set of rules ensures that employees behave within a pre-defined framework both when cooperating within the organization as well as in dealing with customers, shareholders, suppliers and consultants. In light of the public debate on the consulting activities of professional politicians, we decided to lay down some clear rules in this area as well. RWE welcomes its employees' occupying honorary political positions and becoming involved in social volunteering. However, anyone who holds a public office full-time or exercises a political mandate, is not eligible for employment with RWE as a staff member or consultant.

**Statement of compliance in accordance with Sec. 161 of the German Stock Corporation Act.** Following an orderly audit, the Executive and Supervisory Boards of RWE AG issued the following declaration of compliance: RWE Aktiengesellschaft complies with all of the recommendations of the German Government Corporate Governance Code Commission issued in the July 20, 2005, version of the Code. Likewise, from the last statement of compliance on February 22, 2005, to July 20, 2005, RWE Aktiengesellschaft has complied with all of the recommendations of the version of the Code issued on July 4, 2003, and has complied with all of the recommendations of the July 20, 2005, version of the Code since July 21, 2005.

Essen, February 21, 2006  
RWE Aktiengesellschaft

On behalf of the Supervisory Board  
Dr. Thomas R. Fischer

On behalf of the Executive Board  
Harry Roels      Alwin Fitting