

## Corporate Governance

**We at RWE attach great importance to constantly improving our corporate governance practices. In our 2002 annual report, we gave a detailed description of the standards to which we adhere, in order to ensure good, efficient business management. We have since implemented further improvements suggested by the Code. Thus, we have implemented all the recommendations of the German Corporate Governance Code.**

### **Transparent disclosure of Executive and Supervisory Board compensation**

The amendments to the German Corporate Governance Code that came into effect on July 4, 2003 had a major impact on the public debate over corporate governance in the financial year that just ended. The suggestion to provide a breakdown of the Executive and Supervisory Boards' compensation by member was turned into a recommendation. As a result, RWE AG's Executive and Supervisory Boards decided to break down the compensation of Executive and Supervisory Board members by member in this report for the first time. We also disclose fixed and variable remuneration components on an individual basis\*. Furthermore, the May 2003 AGM approved an amendment to the Supervisory Board compensation set forth in the articles of association. This ensured the differentiation between compensation of chairmen and members of Supervisory Board committees, which had already been recommended by an older version of the Code.



### **Decision-making committees more efficient**

In the spirit of the Group's new structure, we are optimizing interaction between the strategic management of the entire Group handled by the Executive Board of RWE AG and the operating responsibility overseen by our divisions. At the same time, we want to establish even more efficient bonds between these two management levels. This is achieved by the new Group Business Committee (GBC). In addition to the members of RWE AG's Executive Board, the GBC includes the CEOs of our operating management companies. The GBC conducts preparatory discussions and consultations for major proposals that are submitted for approval to the Executive Board of RWE AG. This ensures that the most experienced senior managers from our businesses are able to contribute to the strategic management of the Group.

In 2003, the Supervisory Board conducted its first systematic efficiency review. Activities examined included cooperation between the Executive and the Supervisory Board, preparation for meetings, work done in the meetings of the Supervisory Board and its committees, as well as issues of cooperation in the Supervisory Board. All in all, the Supervisory Board's work and efficiency met with strong approval. Suggestions for improvement were debated and implemented by the Supervisory Board.

#### **Other new developments**

- We examined voting right proxy options at the 2003 AGM. Shareholders can now issue and change instructions via the Internet until the end of the debate. Furthermore, the entire AGM, including the debate, was broadcast live on the Web for the first time.
- We issued new insider trading guidelines for all our employees, which set out the circumstances under which RWE securities must not be traded. In addition, the members of our Supervisory Board have agreed to be bound by the same guidelines.

#### **Further compliance with the Code**

RWE's declarations of compliance in December 2002 and March 2003 included a temporary exception from the recommendation to separate the compensation of Supervisory Board committee chairmen from that of their members. Following the aforementioned amendment to the remuneration of the Supervisory Board, RWE issued an updated compliance statement in June 2003, which had no exceptions.

RWE constantly monitors its corporate governance practices, focusing on the recommendation to avoid conflicts of interest between Executive and Supervisory Board members and improve corporate transparency. The monitoring report made the following findings:

- 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.
- There were no conflicts of interest between Executive Board and Supervisory Board members.
- No securities transactions reportable pursuant to Sec. 15 a of the German Securities Trading Act were completed in the fiscal year. Moreover, as of December 31, 2003, none of the Executive or Supervisory Board members held securities subject to disclosure in accordance with Item 6.6 of the Code.

It was ensured that the balance-sheet auditors did not have any conflicts of interest when they were commissioned. Pursuant to Item 7.2 of the Code, the Chairman of the Audit Committee must be informed of any conflicts of interest that are discovered during the audit which the auditors are unable to resolve immediately. The balance-sheet auditor was instructed to inform the Chairman of the Supervisory Board of all findings revealed by the audit that are in contradiction to the company's declaration of compliance with the Code.

Listed Group companies that are obligated to make a compliance statement in accordance with Sec. 161 of the German Stock Corporation Act did so in 2003. They took the special nature of their relationship to the Group and their size into consideration when issuing their declarations of compliance.

#### **Suggestions made by the Code**

Besides following the Code's recommendations, RWE AG largely implements its suggestions. However, we have not yet had an opportunity to implement the suggestion to elect and re-elect Supervisory Board members at different dates and for varying periods of tenure due to the legal framework in which RWE AG operates.

Additional information on RWE's current corporate governance practices can be obtained from our home page at [www.rwe.com](http://www.rwe.com)<sup>\*</sup>.



**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 pursuant to Sec. 161 of the German Stock Corporation Act:

“RWE Aktiengesellschaft complies with all of the recommendations of the German Government Corporate Governance Code Commission issued in the July 4, 2003 version of the Code.

Since the issuance of the last declaration of compliance on June 2, 2003 and until February 23, 2004, RWE Aktiengesellschaft fully complied with the recommendations of the German Government Corporate Governance Code Commission announced on November 26, 2002 and with the version of the Code published on July 4, 2003, with the exception of newly introduced recommendations. These recommendations will be fully complied with from February 24, 2004 onwards. They stipulate that the Supervisory Board’s plenary discuss and regularly review the structure of the Executive Board’s compensation system at the suggestion of the committee responsible for Executive Board contracts (Item 4.2.2, Para. 1). Pursuant to Item 4.2.3, Paras. 3 and 4, the basics of the remuneration system are to be published and illustrated on the company’s website, in its annual report, and at its AGM in clear and understandable language.

Item 4.2.4, Sentence 2 and Item 5.4.5, Para. 2 stipulate that Executive and Supervisory Board compensation be disclosed and broken down by member. The notes to the consolidated financial statements for fiscal 2003 provided us with the first opportunity to comply with this provision.”

Essen, February 24, 2004

RWE Aktiengesellschaft

On behalf of the Supervisory Board

Dr. h.c. Friedel Neuber

On behalf of the Executive Board

Harry Roels

Jan Zilius