

2.2 Corporate Governance

We accord high importance to good corporate governance. It fosters the trust of investors, customers and employees in our company management. The latest version of the German Corporate Governance Code, which was introduced in 2002, is our guiding principle. We have complied with the Code's recommendations unconditionally for five years.

Comprehensive implementation of the Code. The German Corporate Governance Code Government Commission adopted a number of amendments to the Code on June 14, 2007. Since then, it has recommended that provisions governing responsibilities within the Executive Board and majorities required to pass resolutions be included in the Rules of Procedure of the Executive Board. Another new recommendation proposes the establishment of a "nomination committee." It is to be staffed exclusively with shareholder representatives and suggest candidates to the Supervisory Board for candidate proposals made to the Annual General Meeting. Furthermore, the Code suggests that a cap be placed on severance payments made to exiting Executive Board members. Last, but not least, the Code addresses the issue of "compliance" and determines who within the company is responsible for compliance.

In its meeting on December 11, 2007, the Supervisory Board adopted the resolutions required to implement the Code's recommendations. The issue of compliance was assigned to the Audit Committee. This Committee has dealt with compliance in the past as well. Furthermore, the recommended nomination committee was formed. The Committee will monitor the national and international environments to identify available individuals and propose suitable successor candidates from this circle of people to the Supervisory Board. The Nomination Committee is composed of the Chairman of the Supervisory Board and the Human Resources Committee's shareholder representatives. No action was needed concerning the Code's recommendation to amend the Rules of Procedure of the Executive Board. RWE had already determined the responsibilities and the majorities required to pass resolutions.

We thus continue to put into practice all of the recommendations and—with just a few exceptions—the suggestions included in the current version of the Code. In February 2008, RWE issued an unqualified statement of compliance for the sixth straight time. Our listed Group company, Lechwerke AG, is putting the Code into practice, taking account of the specifics of its inclusion in the Group. Deviations have been disclosed in the statement of compliance.

The issue of compliance that is now addressed by the Code has long been a top priority at RWE. Besides the Code of Conduct, which was introduced in 2005, we also have an extensive set of rules. The Executive Board commissioned a renowned international law firm to review the RWE Group's compliance structures as part of a compliance audit that was conducted at the end of 2007. Based on the audit, the RWE Group's compliance structures meet high standards, which

comply with applicable statutory regulations and generally accepted requirements in every respect. Recommendations were developed to improve compliance concerning certain details. We will analyze them and implement them in a suitable manner. In its meeting on February 19, 2008, the Supervisory Board's Audit Committee concerned itself with the results of the compliance audit and approvingly took notice of them.

Transparency is a core element of good corporate governance. It is necessary, inter alia, in cases where transactions concluded by the Executive Board may lead to conflicts of interest. The following issues are noteworthy as regards RWE:

- In fiscal 2007, no material transactions were concluded between RWE or a Group company and an Executive Board member or related party. Furthermore, no contracts were concluded between RWE AG and members of the Supervisory Board. Executive Board and Supervisory Board members had no conflicts of interest.
- Executive Board members again purchased RWE common shares (ISIN DE 007037129). No sales occurred in the year under review. We reported the securities dealings in accordance with Sec. 15a of the German Stock Corporation Act (WpHG) and distributed this information throughout Europe in compliance with statutory regulations. The following is a breakdown of the transactions:

Transaction date	Name	Reason for mandatory disclosure/function	Type of financial instrument	Transaction (purchase/sale)	Price per share/€	Number of shares	Total volume €
03/30/2007	Harry Roels	Member of the Executive Board	RWE common share	Purchase	77.1079	1,919	147,970.06
03/30/2007	Berthold Bonekamp	Member of the Executive Board	RWE common share	Purchase	77.1079	1,440	111,035.38
03/30/2007	Alwin Fitting	Member of the Executive Board	RWE common share	Purchase	77.1079	1,440	111,035.38
03/30/2007	Dr. Ulrich Jobs	Member of the Executive Board	RWE common share	Purchase	77.1079	1,440	111,035.38
03/30/2007	Dr. Rolf Pohlig	Member of the Executive Board	RWE common share	Purchase	77.1079	240	18,505.90
03/30/2007	Dr. Klaus Sturany	Member of the Executive Board	RWE common share	Purchase	77.1079	540	41,638.27
03/30/2007	Jan Zilius	Member of the Executive Board	RWE common share	Purchase	77.1079	600	46,264.74
11/16/2007	Dr. Jürgen Großmann	Member of the Executive Board	RWE common share	Purchase	87.0900	20,000	1,741,800.00

- The number of shares in the company and related financial instruments directly or indirectly held by members of the Executive and Supervisory Boards is below 1% of the shares issued by RWE (Item 6.6 of the Code).

Compensation report (part of the Review of Operations). RWE has been publishing the compensation of its Executive and Supervisory Boards by individual since 2003. In fiscal 2006, this was done in a separate compensation report as part of the corporate governance report for the first time. The 2007 Compensation Report takes into account the provisions of the version of the

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German Commercial Code that was amended as a result of the German Board of Management Compensation Disclosure Act (VorstOG) and the German Adoption Directive Implementation Act and fully complies with the recommendations of the German Corporate Governance Code. The Compensation Report is part of the Combined Review of Operations.

Executive Board Compensation:

Compensation structure. The compensation of the Executive Board members and the structure of such are established by the Human Resources Committee of the Supervisory Board and reviewed on a regular basis. The existing compensation system ensures that the Executive Board members are compensated in a manner commensurate with their activities and responsibilities. Besides their personal performance, this takes into account the company's business situation as well as its performance and prospects for the future.

Short-term compensation components. The total cash compensation consists of a non-performance-based, fixed component and a variable, performance-related component. The total cash compensation breaks down into roughly 40% for the fixed component and 60% for the variable component. The variable component consists of a company bonus, accounting for 70%, and an individual bonus, accounting for 30%. Through the 2006 fiscal year, the company bonus was based equally on the Group's budgeted figures for value added and free cash flow. Since 2007, we have exclusively used the Group's budgeted value added as a basis for determining the company bonus. If the figures budgeted for the fiscal year in question are achieved, the degree to which the target has been achieved is 100%. The degree to which the target has been achieved as regards the company bonus can amount to between 50% and a maximum of 150%. The personal bonus depends on the achievement of the goals agreed between the Chairman of the Supervisory Board and each Executive Board member at the beginning of the financial year. The maximum degree to which this target can be achieved is 120%.

Above and beyond this, Executive Board members receive non-cash compensation and other compensation, consisting primarily of sums reflecting the use of company cars according to German fiscal guidelines and accident insurance premiums.

Compensation also includes payment for exercising Supervisory Board mandates held by Executive Board members at affiliates. Compensation for mandates is credited to the variable compensation.

Furthermore, on taking office, Dr. Rolf Pohlig received a lump sum payment of €480,000 as compensation for benefits from his former employer, to which he is no longer entitled since he joined RWE.

The short-term compensation components paid to members of the Executive Board for fiscal 2007 is as follows:

Short term Executive Board compensation in 2007	Non-performance-based compensation		Performance-based compensation		Non-cash and other remuneration		Payment for exercise of mandates ¹		One-time bonuses		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Dr. Jürgen Großmann (as of October 1, 2007)	675	-	959	-	11	-	23	-	0	-	1,668	-
Harry Roels (until September 30, 2007)	1,050	1,400	1,739	2,354	24	24	124	120	0	0	2,937	3,898
Berthold Bonekamp	680	680	1,058	1,087	68	52	85	93	0	0	1,891	1,912
Alwin Fitting	587	450	925	728	17	15	61	32	0	0	1,590	1,225
Dr. Ulrich Jobs (as of April 1, 2007)	300	-	487	-	14	-	17	-	0	-	818	-
Dr. Rolf Pohlig	700	-	1,155	-	29	-	35	-	480	-	2,399	-
Dr. Klaus Sturany (until April 30, 2007)	333	1,000	462	1,305	24	37	11	80	0	0	830	2,422
Jan Zilius (until April 30, 2007)	227	680	374	1,111	27	54	21	69	0	0	649	1,914
Total	4,552	4,210	7,159	6,585	214	182	377	394	480	0	12,782	11,371

1 Income from the exercise of mandates is added to variable compensation.

The short-term compensation components include a total of €1,900,000, which was paid for the exercise of management board mandates at subsidiaries. These sums were paid through the respective subsidiaries.

Long-term incentive compensation. In addition—with the exception of the Chairman of the Executive Board, Dr. Jürgen Großmann—performance shares were awarded to members of the Executive Board as part of the Beat 2005 long-term incentive plan (“Beat” for short). A condition for the granting of performance shares to the Executive Board members is an investment by the Board members in RWE shares. This investment is equal to one-third of the value of the performance shares granted after taxes. The shares must be held for the respective Beat tranche’s entire three-year waiting period. Any necessary notifications of directors’ dealings in relation to this were submitted and published.

The “Beat” programme supplements the compensation system with a long-term incentive component by rewarding the sustainable contribution made by executives to the company’s success. The company’s performance is measured using Total Shareholder Return (TSR) of RWE shares, which covers both the development of the share price and reinvested dividends. The payout factor is determined by comparing RWE’s TSR with the TSR of other companies in the Dow Jones STOXX Utilities Index.

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Executives entitled to participate in Beat receive a conditional allocation of performance shares every year. A performance share consists of the conditional right to receive a pay-out in cash following a waiting period of three years. However, a payout only takes place if, on conclusion of the waiting period, the RWE share's performance exceeds the performance of 25% of the companies in the peer group, measured in terms of their index weighting as of the inception of the programme. In consequence, the decisive factor is not only RWE's position among the companies in the peer group, but also which of the companies RWE outperforms.

Payment corresponds to the average RWE share price during the last 20 trading days prior to expiration of the programme, the number of conditionally allocated performance shares, and the pay-out factor. Payment under the 2005 tranche is limited to three times the value of the performance shares as of the grant date and, under the 2006 and 2007 tranches, to double (for Executive Board members one-and-a-half times) the value of the performance shares as of the grant date.

Performance shares granted under Beat in the year under review break down as follows:

Long term incentive share-based payment	Beat: 2007 tranche	
	No.	Fair value upon grant € '000
Dr. Jürgen Großmann (as of October 1, 2007)	0	0
Harry Roels (until September 30, 2007)	40,016	1,000
Berthold Bonekamp	30,012	750
Alwin Fitting	30,012	750
Dr. Ulrich Jobs (as of April 1, 2007)	30,012	750
Dr. Rolf Pohlrig	30,012	750
Dr. Klaus Sturany (until April 30, 2007)	11,255	281
Jan Zilius (until April 30, 2007)	12,505	313
Total	183,824	4,594

Prior-year allocations. In the year under review, the Executive Board members held performance shares from the Beat programme's 2005 and 2006 tranches. These allocations are not part of total compensation for the 2007 financial year. Instead, they are part of total compensation for fiscal 2005 and 2006 and as such are presented in the compensations reports for these two prior years. The following overview of these allocations is voluntary and aims to convey a complete picture of the compensation history.

Long term incentive share-based payment	Beat: 2005 tranche	
	No.	Fair value upon grant € '000
Harry Roels	161,100	3,000
Berthold Bonekamp	53,700	1,000
Alwin Fitting	10,000	186
Dr. Klaus Sturany	80,600	1,501
Jan Zilius	53,700	1,000
Total	359,100	6,687

Long term incentive share-based payment	Beat: 2006 tranche	
	No.	Fair value upon grant € '000
Harry Roels ¹	114,416	2,000
Berthold Bonekamp	57,208	1,000
Alwin Fitting	57,208	1,000
Dr. Klaus Sturany	57,208	1,000
Jan Zilius	38,158	667
Total	324,198	5,667

1 €1,000,000 of the €3,000,000 originally granted expired in fiscal 2007 since the grant prerequisites were not met.

Total compensation. In total, the Executive Board received €12,782,000 in short-term compensation components in fiscal 2007. In addition to this, long-term compensation components from the 2007 tranche of the Beat programme amounting to €4,594,000 were allocated. Total compensation of the Executive Board for fiscal 2007 thus amounts to €17,376,000. As planned, in fiscal 2007, no payments were made based on performance shares allocated in the preceding year.

Employment termination benefits:

Pension commitments. The members of the Executive Board—with the exception of its Chairman, Dr. Jürgen Großmann—received pension commitments (direct commitments), which grant them entitlement to a life-long pension and surviving dependants' benefits. These benefits are due in the event of retirement upon reaching the age limit, permanent disability, death and early termination or non-extension of the employment contract occasioned by the company. The amount of qualifying income and the level of benefits determined based on the duration of service is taken as a basis for each member's individual pension and surviving dependants' benefits. Profit participation and other fringe benefits are not factored into the pension. The ceiling for pension

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benefits for members of the Executive Board is 60% of the last qualifying income on the day before they reach the age limit. The widow's pension amounts to 60% of her husband's pension, the orphan's pension amounts to 20% of the widow's pension. Vested old-age pension benefits do not expire. The amount of the old-age pension and the surviving dependants' benefits are reviewed every three years, taking account of all major circumstances, with due regard to the development of the cost of living. Due to earlier provisions, there are some differences in the pension commitments in terms of the calculation of the level of benefits, the crediting of other pensions and benefits, and the adjustment mode selected for pensions and surviving dependants' benefits.

In the event of an early termination or non-extension of an employment contract, Executive Board members shall only receive payment if the termination or non-extension was occasioned by the company and effected without due cause. In such cases, Executive Board members start receiving pension payments when they leave the company, but no earlier than on completion of their 57th year of age.

The service cost and past service cost of pension commitments in fiscal 2007 totalled €1,913,000. As of the end of the year under review, the present value of the defined benefit obligation was €9,104,000. The following is a breakdown of service costs and the present value of pension benefits, taking into account both age and service life.

Pensions	Age	Predicted annual pension on reaching the company age limit (60 years) ¹		Current service cost		Past service cost ²		Defined benefit obligation	
		€ '000		€ '000		€ '000		€ '000	
		2007	2006	2007	2006	2007	2006	2007	2006
Berthold Bonekamp	57	324	324	152	161	0	0	3,218	3,646
Alwin Fitting	54	283	220	134	220	0	0	2,658	2,443
Dr. Ulrich Jobs (as of April 1, 2007)	54	156	-	116	-	0	-	1,717	-
Dr. Rolf Pohlig	55	252	-	73	-	1,438	-	1,511	-
				475	381	1,438	0	9,104	6,089

1 Based on compensation qualifying for pensions as of December 31, 2007.

2 Figures shown as past service costs reflect years of service for prior employers.

As regards Executive Board members, vested pension benefits from earlier employment relationships and years of service for previous employers which have been recognized are credited to the company's pension payments by contractual arrangement.

Instead of a pension commitment, Dr. Jürgen Großmann will receive an annual €2,000,000 in pension capital for use at his discretion. It will be paid for the first time one year after his taking office.

Change of Control. Before the last amendment to the German Corporate Governance Code, the Chairman of the Executive Board, Dr. Jürgen Großmann, was granted a special right of termination in the event of a change of control. A change of control occurs when more than 30% of the voting rights in a company are controlled by a shareholder or a group of shareholders acting jointly, who do not represent the majority ownership of an entity under public law. On exercise of the special right of termination, Dr. Jürgen Großmann shall receive a one-time payment that covers all of the remuneration due until the agreed expiry of his employment contract, including the contractually agreed pension capital.

In the event of a change of control, all the performance shares granted to the Executive Board and entitled executives shall expire. Instead, a compensatory payment shall be made, which shall be determined when the takeover offer is made. The amount shall be in line with the price paid for RWE shares at the time of the takeover. This shall then be multiplied by the final number of performance shares. Performance shares shall also expire in the event of a merger with another company. In this case, the compensatory payment shall be calculated based on the expected value of the performance shares at the time of the merger. This expected value shall be multiplied by the number of granted performance shares that corresponds to the ratio of time during the waiting period until the merger to the waiting period for the performance shares.

Other commitments. By mutual agreement, Harry Roels ended his mandate as Chairman of the Executive Board early as of September 30, 2007. As contractually agreed, Harry Roels will receive all the payments and benefits due to him from his employment contract, which ended on January 31, 2008, consisting of the fixed compensation as well as the bonus and company car benefits. The payment required on this basis of calculation in order to fulfil the employment contract, which was originally concluded with a date of expiry of January 31, 2008, amounts to €467,000. The bonus for the period from January 1 to January 31, 2008, which has already been established, amounts to €828,000. With effect from February 1, 2008, Harry Roels is entitled to a company pension in accordance with the contractual arrangement. The performance shares granted until the agreed exit date shall remain valid, in line with the plan conditions.

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Supervisory Board compensation. The compensation of the Supervisory Board is set forth in the bylaws and is determined by the Annual General Meeting. Supervisory Board members receive a fixed compensation of €40,000 per fiscal year for their services at 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.

The Chairperson of the Supervisory Board receives three times and the Deputy Chairperson receives twice the aforementioned amount. If a committee has been active at least once in a fiscal year, committee members receive one-and-a-half times the total compensation and the committee chairperson receives twice the total compensation. If a member of the Supervisory Board holds several offices on the Supervisory Board of RWE AG concurrently, he or she receives compensation only for the highest-paid position. Out-of-pocket expenses are refunded.

Supervisory Board compensation € '000	2007 base compensation		2007 committee compensation		Total	
	Fixed	Variable	Fixed	Variable	2007	2006
Dr. Thomas R. Fischer, Chairman	120	206	0	0	326	350
Frank Bsirske, Deputy Chairman	80	137	0	0	217	233
Dr. Paul Achleitner	40	69	20	34	163	175
Sven Bergelin (until August 15, 2007)	25	43	0	0	68	84
Werner Bischoff	40	69	20	34	163	126
Carl-Ludwig von Boehm-Bezing	40	69	40	69	218	233
Heinz Büchel	40	69	20	34	163	126
Dieter Faust	40	69	20	34	163	175
Simone Haupt	40	69	20	34	163	159
Heinz-Eberhard Holl	40	69	20	34	163	175
Dr. Gerhard Langemeyer	40	69	20	34	163	175
Dagmar Mühlenfeld	40	69	6	10	125	116
Erich Reichertz	40	69	0	0	109	84
Dr. Wolfgang Reiniger	40	69	10	17	136	175
Günter Reppien	40	69	20	34	163	175
Karl-Heinz Römer (since October 2, 2007)	10	17	0	0	27	0
Dagmar Schmeer	40	69	0	0	109	46
Dr. Manfred Schneider	40	69	20	34	163	175
Dr.-Ing. Ekkehard D. Schulz	40	69	20	34	163	126
Uwe Tigges	40	69	20	34	163	175
Prof. Karel Van Miert	40	69	0	0	109	116
Total	915	1,576	276	470	3,237	3,199¹

1 Figure adjusted; Supervisory Board members who retired from office as of January 1, 2007, are not included.

In total, the emoluments of the Supervisory Board amounted to €3,237,000. in fiscal 2007. Additionally, certain Supervisory Board members were paid compensation totalling €268,000 for exercising mandates at subsidiaries.

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, 2007, version of the Code. Likewise, from the last statement of compliance on February 21, 2007, to July 20, 2007, RWE Aktiengesellschaft has complied with all of the recommendations of the version of the Code issued on July 24, 2006, and since July 21, 2007, has complied with all of the recommendations of the July 20, 2007, version of the Code.

Essen, February 20, 2008
RWE Aktiengesellschaft

On behalf of the Supervisory Board

Dr. Thomas R. Fischer

On behalf of the Executive Board

Dr. Jürgen Großmann

Dr. Rolf Pohlig