

## Corporate Governance

**Responsible, transparent corporate governance oriented towards creating added value sustainably has always been extremely important to RWE. This is why we continue to comply with all of the recommendations of the current version of the German Corporate Governance Code.**

As in previous years, we comply with all of the recommendations of the German Corporate Governance Code.

**Comprehensive implementation of the Code.** In 2006, the German Government Corporate Governance Code Commission decided to make further amendments to the Code. They were occasioned by the law on the disclosure of executive board compensation (VorstOG), which entered into force in August 2005, and the law on corporate integrity and modernization of the right of contestation (UMAG), which was enacted in September 2005. The adjustments to the Code became effective on July 24, 2006. RWE had already largely complied with the legal requirement to publish executive board remuneration a year earlier. This conformity was voluntary, as the requirements were not yet mandatory for the 2005 financial statements. Therefore, hardly any adjustments needed to be made for this year's compensation report. RWE thus continues to put into practice all of the recommendations and—with just a few exceptions—the suggestions for voluntary action included in the Code. We are therefore issuing another unqualified statement of compliance this reporting year (see page 108).

The following is a list of noteworthy issues regarding our corporate governance practice:

- In fiscal 2006, 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.
- Executive Board members purchased RWE shares again in 2006. As in the previous year, they were acquired to satisfy the requirement for RWE Executive Board members to invest their own money in shares to participate in the 2005 long-term incentive plan (Beat). The following is a breakdown of the transactions:

Transaction date	Name	Reason for mandatory disclosure/position	Type of financial instrument	ISIN	Transaction type (purchase/sale)	Price per share/€	Number of shares
03/29/2006	Harry Roels	Member of the Executive Board	RWE common share	DE 0007037129	Purchase	70.5052	873
03/29/2006	Berthold Bonekamp	Member of the Executive Board	RWE common share	DE 0007037129	Purchase	70.5052	2,262
03/29/2006	Alwin Fitting	Member of the Executive Board	RWE common share	DE 0007037129	Purchase	70.5052	2,737
03/29/2006	Dr. Klaus Sturany	Member of the Executive Board	RWE common share	DE 0007037129	Purchase	70.5052	587
03/29/2006	Jan Zilius	Member of the Executive Board	RWE common share	DE 0007037129	Purchase	70.5052	625

The securities dealings were reported in accordance with Sec. 15a of the German Securities Trading Act and published on RWE's website.

- 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).



For further information on our corporate governance practices, please turn to our website\*. It contains information on the tasks of the Executive Board and Supervisory Board of RWE AG as well as their cooperation, the Group Business Committee (GBC), which was introduced in 2003 to advise the Executive Board, and the Annual General Meeting of RWE AG. Our current and past statements of compliance as well as past corporate governance reports can also be found on the RWE website.

**Compensation report.** Publishing Executive and Supervisory Board member remuneration has been one of RWE's corporate governance standards since the 2003 financial year. Pursuant to the Code's new recommendations under Items 4.2.5, Para. 1 and 5.4.7, Para. 3, we did this in a separate compensation report as part of the corporate governance report in fiscal 2006 for the first time. Since statements to this effect must also be made in the notes to the annual financial statements and in the review of operations, to avoid repetition, parts of the following compensation report are part of the review of operations.

**Compensation model for the Executive and Supervisory Boards (part of the Review of Operations).** 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 objective is to ensure that the Executive Board members are compensated in a manner commensurate with their activities and responsibilities, taking into account their personal performance and the company's business situation, as well as its performance and prospects for the future. The Executive Board members' total cash compensation consists of a fixed component and a variable, performance-related component. Their total cash compensation breaks down into roughly 40% for the fixed component and 60% for the variable, performance-related component. The variable component consists of a company bonus, accounting for 70%, and an individual bonus, accounting for 30%. In the 2006 fiscal year, the company bonus was based equally on the Group's budgeted figures for value added and free cash flow. If the figures budgeted for the fiscal year in question are achieved, the degree to which the target has been achieved is 100%. The company bonus can amount to a maximum of 150%. The personal bonus depends on the achievement of the goals agreed between the Chairman of the Supervisory Board and the 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 at affiliates, which is accounted for as variable compensation in accordance with contractual provisions.

The compensation paid to members of the Executive Board for fiscal 2006 is as follows:

Executive Board compensation in 2006	Short-term compensation				Total
	Fixed compensation	Variable compensation	Non-cash and other remuneration	Payment for exercise of mandates <sup>1</sup>	
€ '000					
Harry Roels	1,400	2,354	24	120	3,898
Berthold Bonekamp	680	1,087	52	93	1,912
Alwin Fitting	450	728	15	32	1,225
Dr. Klaus Sturany	1,000	1,305	37	80	2,422
Jan Zilius	680	1,111	54	69	1,914
<b>Total</b>	<b>4,210</b>	<b>6,585</b>	<b>182</b>	<b>394</b>	<b>11,371</b>

1 Income from the exercise of mandates on supervisory boards of affiliated companies is added to variable compensation.

In addition, members of the Executive Board received long-term compensation by exercising stock appreciation rights granted in 2004 as part of the 2002 Long-Term Incentive Plan (LTIP). The individual amounts break down as follows:

Payments from the exercise of stock appreciation rights	Long-term compensation
	LTIP Tranche 2004 (Grant date: 05/25/2004)
€ '000	
Harry Roels	8,363
Berthold Bonekamp	2,787
Alwin Fitting	709
Dr. Klaus Sturany	4,181
Jan Zilius	2,787
<b>Total</b>	<b>18,827</b>

In addition, as a long-term incentive, members of the Executive Board received variable compensation in the form of performance shares, as part of the 2005 long-term incentive plan (Beat). A condition for the granting of performance shares is an investment by the Board members in the form of RWE shares. This investment is equal to one-third of the value of the performance shares granted after taxes. Any necessary notifications of directors' dealings in relation to this were submitted and published.

As of January 1, 2005, the Beat programme replaced the 2002 Long-Term Incentive Plan (LTIP). The Beat programme recognizes the lasting contributions made by executives to the company's success. The company's performance is measured using Total Shareholder Return (TSR)—which covers both the development of the share price and reinvested dividends—in comparison to the TSR of other companies included in the Dow Jones STOXX Utilities Index. 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. If the performance of the RWE share on conclusion of the waiting period does not exceed that of 25% of the Dow Jones STOXX Utilities Index peer group, measured in terms of their index weighting as of the inception of the programme, nothing is paid out. Payment corresponds to the average RWE share price during the last 20 stock market trading days prior to expiration of the programme, the number of conditionally allocated performance shares, and the pay-out factor. The pay-out factor is determined based on the weighting of RWE's TSR compared to Europe's major utilities included in the Dow Jones STOXX Utilities Index. Here, the position occupied by RWE in this comparison is relevant, as are the positions of the other companies. 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 tranche, to double (for Executive Board members one-and-a-half times) the value of the performance shares as of the grant date.

If during the waiting period there is a change in corporate control, a compensation payment amounting to the product of the price paid during acquisition of the RWE shares and the final number of performance shares shall be granted. The latter shall be determined as per the regulations of the scheme with regard to the time when the bid for corporate control was submitted. In the event of a merger with another company, compensation shall be calculated on the basis of the expected value of the performance shares at the time of the merger, multiplied by the prorated number of performance shares corresponding to the ratio of the total waiting period to the waiting period until the merger takes place.

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

Long-term incentive share-based payment	Beat: 2006 tranche	
	No.	Fair value <sup>1</sup> upon grant € '000
Harry Roels	171,624	3,000
Berthold Bonekamp	57,208	1,000
Alwin Fitting	57,208	1,000
Dr. Klaus Sturany	57,208	1,000
Jan Zilius	38,158	667
<b>Total</b>	<b>381,406</b>	<b>6,667</b>

1 Waiting period not yet expired.

Executive Board members still hold performance shares from the Beat programme's 2005 tranche from the previous year.

Long-term incentive share-based payment	Beat: 2005 tranche	
	No.	Fair value <sup>1</sup> 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
<b>Total</b>	<b>359,100</b>	<b>6,687</b>

<sup>1</sup> Waiting period not yet expired.

€ 1,900,000 of the Executive Board's compensation was paid by subsidiaries for mandates exercised on their management boards in fiscal 2006.

In total, the Executive Board received €11,371,000 in short-term compensation components in fiscal 2006. In addition to this, long-term compensation components from the 2006 tranche of the Beat programme amounting to €6,667,000 were allocated. Total compensation of the Executive Board for fiscal 2006 thus amounts to €18,038,000. This sum does not include €18,827,000 in stock appreciation rights granted in 2004 and paid in 2006.

Furthermore, members of the Executive Board received pension commitments (direct commitments), which grant them entitlement to a life-long pension and surviving dependants' benefits. 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. The ceiling for pension benefits for members of the Executive Board is 60% of the last qualifying income on the day before they turn 61. 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.

The service cost\* of pension commitments in the year under review totalled €1,954,000. As of December 31, 2006, the present value of the defined benefit obligation\* was €19,744,000. 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	Expected annual pension benefit at 60 <sup>1</sup> € '000	Service cost € '000	Defined benefit obligation € '000
Harry Roels	58	400	1,302	4,653
Berthold Bonekamp	56	324	161	3,646
Alwin Fitting	53	220	80	2,443
Dr. Klaus Sturany	60	269	245	4,146
Jan Zilius	60	302	166	4,856
			<b>1,954</b>	<b>19,744</b>

1 Based on compensation qualifying for pensions as of December 31, 2006.

Until December 31, 2004, Executive Board members had the option to convert parts of their variable compensation into a benefit commitment backed by reinsurance coverage. Dr. Klaus Sturany is entitled at the age of 65 to a payment and surviving dependants' benefits currently amounting to €932,000. This entitlement stems from the conversion of variable compensation components which were reported in the previous years' annual reports.

Individually arranged exit agreements were reached with Dr. Klaus Sturany and Jan Zilius with respect to the early end of their mandates on the Executive Board effective April 30, 2007. The agreements contain the following compensation and benefit commitments as redemption for their existing contractual rights. Depending on the remaining terms of their employment contracts, the two gentlemen shall receive individually agreed compensatory payments, determined on the basis of their fixed pay and the redemption of existing contractual rights to bonuses and company cars. Payment for both gentlemen shall be made at the end of April 2007. Performance shares granted until the agreed exit date shall retain their validity, in accordance with plan conditions.

The compensatory payment calculated on this basis owed to Dr. Klaus Sturany as redemption for his employment contract, which has an original term ending on September 19, 2007, amounts to € 943,733. The prorated bonus for the period from January 1, 2007, to April 30, 2007, already determined amounts to € 473,400. As of September 20, 2007, Dr. Klaus Sturany was entitled to a company pension in accordance with contractual arrangements. The compensatory payment for Mr. Jan Zilius for redemption of his employment contract, which has an original term ending on March 31, 2008, amounts to € 1,732,271. The prorated bonus for the period from January 1, 2007, to April 30, 2007, already determined amounts to € 395,250. As of April 1, 2008, Mr. Jan Zilius was entitled to a company pension in accordance with contractual arrangements.

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 for their services at the end of each fiscal year. The sum 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 the total compensation paid to ordinary members, and the Deputy Chairperson receives twice these amounts. 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 concurrently, he or she receives compensation only for the highest-paid position. Out-of-pocket expenses are refunded.

Supervisory Board compensation in 2006 € '000	Fixed compensation	Variable compensation	Total
Dr. Thomas R. Fischer, Chairman	120	230	350
Frank Bsirske, Deputy Chairman	80	153	233
Dr. Paul Achleitner	60	115	175
Sven Bergelin (since April 13, 2006)	29	55	84
Werner Bischoff (since April 13, 2006)	43	83	126
Carl-Ludwig von Boehm-Bezing	80	153	233
Heinz Büchel (since April 13, 2006)	43	83	126
Wilfried Donisch (until August 8, 2006)	24	46	70
Dieter Faust	60	115	175
Simone Haupt	55	104	159
Heinz-Eberhard Holl	60	115	175
Berthold Huber (until April 13, 2006)	11	21	32
Dr. Dietmar Kuhnt (until April 13, 2006)	17	32	49
Dr. Gerhard Langemeyer	60	115	175
Dagmar Mühlenfeld	40	76	116
Erich Reichertz (since April 13, 2006)	29	55	84
Dr. Wolfgang Reiniger	60	115	175
Günter Reppien	60	115	175
Bernhard von Rothkirch (until April 13, 2006)	17	32	49
Dagmar Schmeer (since August 9, 2006)	16	30	46
Dr. Manfred Schneider	60	115	175
Prof. Dr. Ekkehard D. Schulz (since April 13, 2006)	43	83	126
Klaus-Dieter Südhofer (until April 13, 2006)	17	32	49
Uwe Tigges	60	115	175
Prof. Karel Van Miert	40	76	116
Jürgen Wefers (until April 13, 2006)	11	22	33
<b>Total</b>	<b>1,195</b>	<b>2,286</b>	<b>3,481</b>

In total, the emoluments of the Supervisory Board amounted to € 3,481,000 in fiscal 2006. Additionally, certain Supervisory Board members were paid compensation of € 194,000 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 24, 2006, version of the Code. Likewise, from the last statement of compliance on February 21, 2006, to July 24, 2006, RWE Aktiengesellschaft has complied with all of the recommendations of the version of the Code issued on July 20, 2005, and since July 25, 2006, has complied with all of the recommendations of the July 24, 2006, version of the Code.

Essen, February 21, 2007  
RWE Aktiengesellschaft

On behalf of the Supervisory Board

On behalf of the Executive Board

Dr. Thomas R. Fischer

Harry Roels

Dr. Klaus Sturany