

One Group, One Beat The Long-Term Incentive Plan 2005



Beat: one group, one long-term incentive plan

As a leading European utility business, combining growth and profitability with stability for sustainable shareholder value and consolidating the organization to be competitive in the market are some of our strategic objectives. We recognize, however, that we are operating in a particularly challenging market. But we also know that the opportunities open to well-positioned companies are very attractive. To exploit these opportunities we need to act as one group – wherever we are in the world.

This is why we offer Beat – RWE’s new global long-term incentive plan for executives. The name Beat describes our desire to perform successfully together as one integrated team – one Group, one Rhythm, one Beat. It is a key element of the plan to offer a common compensation framework and build a Group culture.

Beat is designed to:

- Replace the local LTI arrangements by offering a single, corporate plan: One Group – one Beat
- Reward your contribution to RWE’s sustained performance compared to that of our relevant competitors
- Offer you a plan that does not only concentrate on RWE’s stock performance but also considers industry conditions.

This document describes Beat in brief. For more detailed information, please go to: <http://intranet.rwe.com>. Please note that only the plan rules are legally binding.

Grant and performance shares

Beat is an attractive element of the Executive total reward package provided at RWE. It is a "discretionary plan" and management decides annually on plan participation. It rewards our executives for their contribution to RWE's business success. In the first quarter of each year, eligible executives receive a conditional number of performance shares. The final number of performance shares that actually pay out will be determined at the end of the three-year performance period.

What is a performance share?

A "conditional" right to receive a payout at the end of a three-year performance period.

The value of one performance share depends on RWE's share price.

During the performance period, you cannot sell the shares, you receive no dividends and do not have voting rights. The number of shares actually received at the end of the performance period depends on RWE's relative ranking within a peer group.

The payout will be in cash.

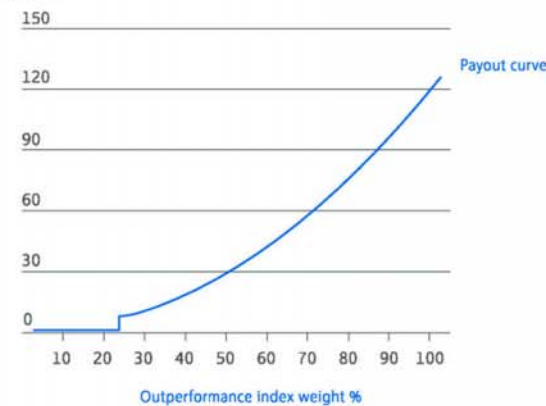


Let's take an example...

- You receive a Beat 2005 grant for a conditional number of 1 000 performance shares
- At the end of 2007, the TSR ranking test is carried out and RWE has outperformed 75% of the index weight
 - RWE outperforms more than 25% of the index weight -> payout possible
- Formula to calculate payout factor (see also payout curve): $(75\% \text{ of the index weight})^2 \times 1.25 = 70.31\%$
- Final number of performance shares: 1 000 conditional performance shares $\times 70.31\% = 703$ performance shares
- If the final share price is €51 you will receive a payout of €35,853 (703 performance shares \times €51)

Measuring performance

Number of shares that pay out %



Measuring RWE's performance

At the end of the performance period, the number of performance shares that will actually pay out is determined by RWE's performance. This is measured using the **Total Shareholder Return (TSR)** – the rate of return for the investor, including the movement in the share price as well as reinvested dividends. RWE's TSR is ranked against that of other companies within the DJ Stoxx Utilities Index to determine a payout factor.

The factor does not only measure RWE's rank with the list but takes also into account which competitors were outperformed. Each company has a weighting according to its free float market capitalization (the total value of its shares on the stock market). The payout factor therefore depends on RWE's position within this list and the sum of the index weight of the outperformed companies.

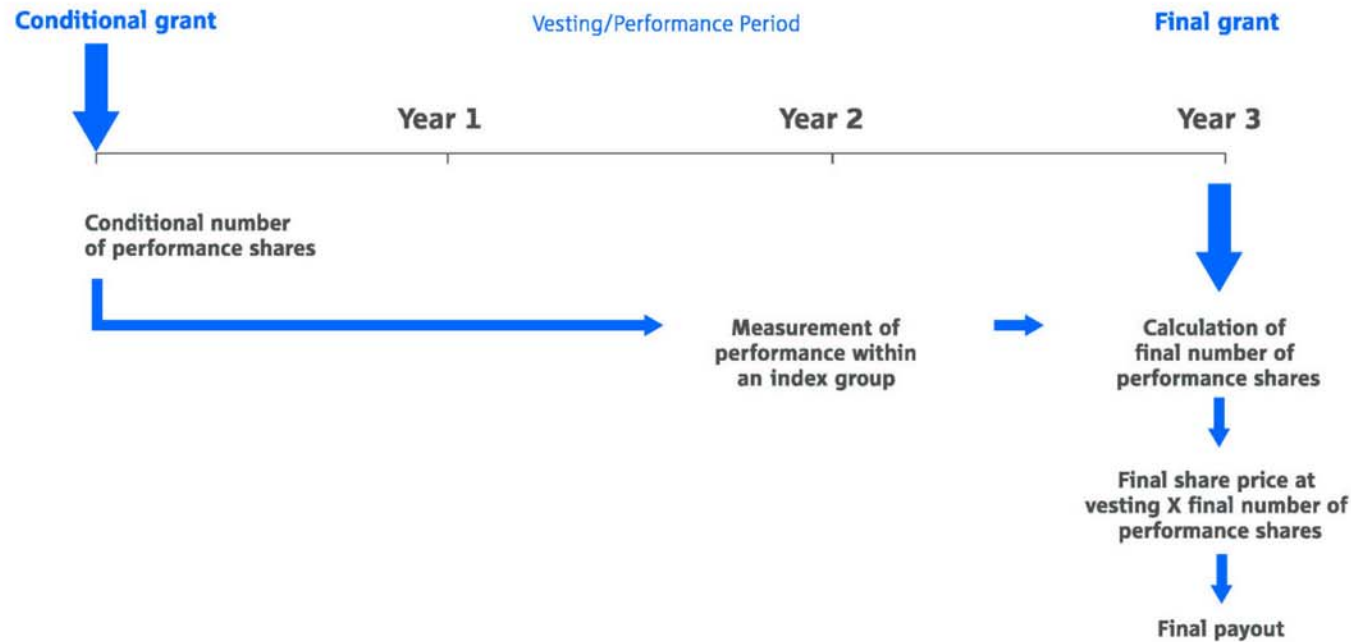
In order to receive a payout at all, RWE must perform better than at least 25% of the index weighting.

What is the DJ Stoxx Utilities Index?

The DJ Stoxx Utilities Index currently consists of the top 29 European utilities companies – including RWE and its main competitors.



Plan overview



- The participants receive a conditional grant of performance shares.
- The performance shares are kept for three years. The rationale for this vesting period is that performance shares are designed to reward sustained value creation.
- The final number of performance shares granted is determined depending on RWE's performance compared with its competitors at the end of the performance period.
- Your potential gain equals the final number of performance shares awarded multiplied by the RWE share price at the end of the performance period.

Beat payout

The final payout you receive at the end of the vesting period is calculated using the final share price, the number of performance shares in the conditional grant and the payout factor.

Final payout



$$\begin{array}{l} \text{Final share price} \\ \times \\ \text{Conditional number} \\ \text{of performance} \\ \text{shares} \\ \times \\ \text{Payout factor} \\ = \\ \text{Final payout} \end{array}$$

The maximum payout will be three times the "grant value" which is communicated in your grant letter.

Remember this means that for superior performance, Beat rewards will be very attractive. On the other hand, if RWE does not outperform at least 25% of the index weight, no payout will be made.

What is the final share price?

The final price is the average of the last 20 trading days before 31.12. of the last year of the vesting period.

