

# Setting the Course

The New 2002 RWE AG

Long Term Incentive Plan





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Dr. Dietmar Kuhnt  
Chief Executive Officer

The central emphasis of the RWE Group's strategic development lies in focusing on the core businesses of electricity, natural gas, water and environmental services. We will continue to develop these areas and increase our profitability. This will require the effort of all our employees.

In order to create the required incentives, particularly for national and international executives, the Executive Board of RWE AG has decided to launch a Long Term Incentive Plan (LTIP) by issuing stock appreciation rights. This new program differs significantly from our previous stock option plan. The LTIP is characterized by maximum transparency, clearly defined performance goals and an expanded circle of eligible participants.

The Supervisory Board and the Executive Board are confident that this step will provide effective support for RWE Group's orientation toward the ambitious plans for growth in our core businesses, while simultaneously engaging senior management more closely in the

long-term profitability of the company. The goal is, therefore, to achieve long-term, attractive and stable stock performance, which will also increase shareholder value, by expanding and achieving market leadership in all segments relevant to RWE and our affiliates. The LTIP will enable senior management and performance leaders to participate in the future success and growth of the value of RWE AG.

I am counting on your complete commitment and wish us all much continued success in our endeavors.

Dr. Dietmar Kuhnt  
Chief Executive Officer



# 1. The New 2002 RWE AG Long Term Incentive Plan

The most important asset of a globally active company aspiring to market leadership is its employees, particularly its senior executives – only with your performance, business ideas and actions can we overcome continuing challenges and assure our long-term success. The new 2002 Long Term Incentive Plan is intended to address this concept. The plan supplements the existing senior management compensation package with a value-oriented and attractive component intended to promote continual commitment and personal accountability among performance leaders.

In order to be an attractive employer to senior executives in the future, the RWE Group has opted for a new Long Term Incentive Plan. In developing the new LTIP, we endeavored to make both the performance goals and the means of exercising SARs simple and transparent.

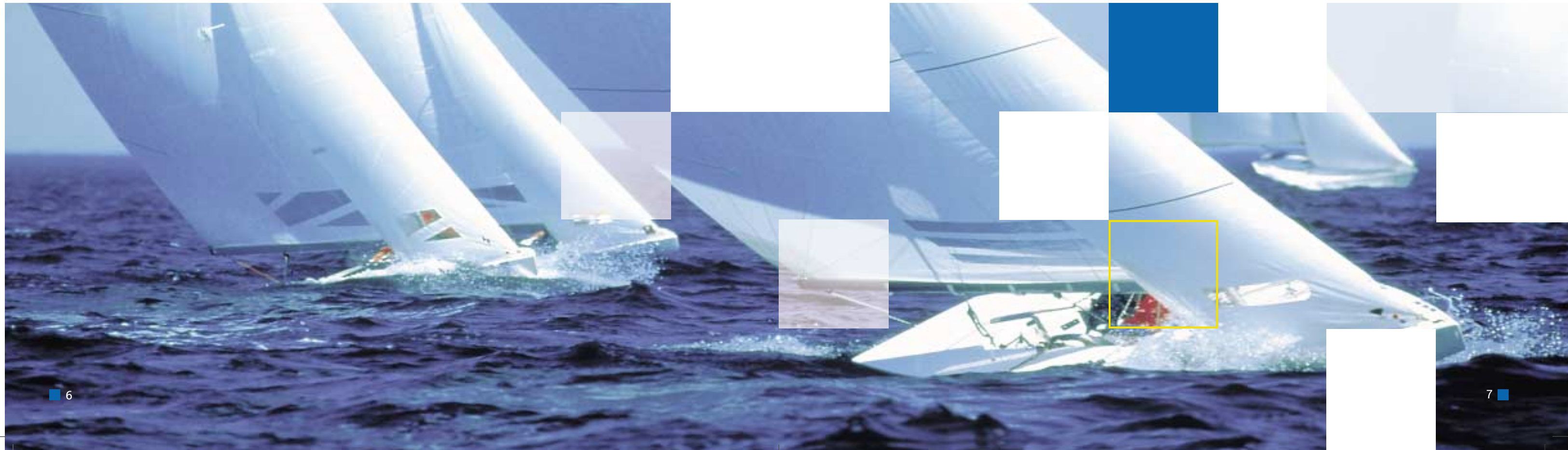
On the following pages, you will learn how you can participate in the new LTIP and what the individual plan details look like. This information will also be available on the RWE Intranet at a future date.

# 2. Stock Appreciation Rights – How They Work

Long Term Incentive Plans are often based on stock options. Stock options give an individual the right to acquire a certain number of shares within a defined period of time and at a predetermined price. The profit results from the difference between the exercise price at the time the stocks are acquired and the current stock exchange price at the time the stocks are sold.

Stock appreciation rights (SARs), as they are used in our new LTIP, do not differ fundamentally from stock options. For that reason,

they are commonly referred to as virtual, and occasionally as artificial, options. In contrast to stock options, SARs provide the right to take advantage of future stock price increases of RWE without having to acquire the stock directly. When an SAR is exercised, the return is paid out directly in cash.





### 3. Participants in the New LTIP

Whereas the RWE stock option plan, which has been in place since 1999, had participants only in Germany, the goal of the new LTIP is to include as many eligible senior executives as possible in newly-affiliated companies in other countries. The new LTIP is, therefore, also an important element in the further integration and internationalization of RWE AG.

The circle of participants company-wide is defined in such a way that senior executives at levels one to three in RWE AG and affiliates are eligible to participate in the new LTIP. In principle, however, each affiliate makes the decision on its own, based on its own business performance, whether it will make the new LTIP available to its senior executives.

### 4. How Are SARs Allocated?

The plan is to have one award per year. The date of issue will be in the middle of each year, timed to coincide with the date of the regular RWE AG Annual Shareholders Meeting. Only the first award of the new Long Term Incentive Plan will deviate from this schedule, having a date of issue of September 20, 2002.

The total volume of SARs issued will be proportionate to RWE AG's profitability and the

business performance of our affiliates; the individual SARs will be determined by leadership level status and individual performance. You will be notified of the SARs issued to you personally in writing by your company. An additional personal investment is not required.

### 5. Exercise Price and Base Price

The exercise price of SARs is pivotal to measuring success; the base price serves to compare the performance of RWE common stock with the movement of the Dow Jones STOXX Utility Price Index after the date of issue.

The exercise price is determined by the average value of the stock exchange price for RWE common stock in the closing auction of XETRA Trading at the Frankfurt Stock Exchange during the 10 trading days immediately prior to the day the SARs are issued. This value is

the point of reference for the performance goals to be achieved and thereby serves as the basis for gains subsequently made by exercising SARs. Of course, this exercise price is valid for as long as the LTIP remains in place.

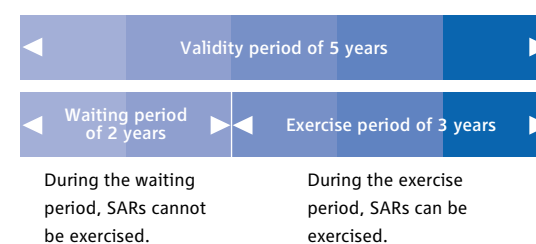
The base price of the Dow Jones STOXX Utility Price Index is calculated as an average value of the daily closing price for the same period used in determining the exercise price.

## 6. Period of Validity and Time Phases of the New LTIP

The new LTIP progresses through a time cycle that consists of distinct phases. The validity period of the SARs begins on the date of issue and ends after five years. At the end of the validity period, SARs expire and cannot be replaced if they were not exercised or could not be exercised. The validity period is divided into a waiting period of two years with a three-year exercise period immediately following the waiting period. Therefore, the end of the SAR validity period coincides with the end of the exercise period.

During the exercise period, the SARs may be exercised at any time with the exception of generally short exercise blackout periods. These occur in connection with RWE AG's requirements for reporting to shareholders, analysts and the general public on business

performance. With the exception of the waiting period and the few blackout periods, one can, in principle, exercise the SARs on a continuing basis.



## 7. Generating Positive Stock Performance: Performance Goals

The SARs represent a part of the total compensation package for eligible senior executives in the RWE Group. They should therefore be profitable for eligible participants. What is ultimately decisive for stock options and SARs is individual performance, which, together with the contributions from all eligible participants,

is reflected in the value of the company. The value of RWE AG can be obtained on any trading day by looking up the price of RWE stock.

SARs are geared toward the long term. Short-term fluctuations in the value of RWE AG therefore do not play an appreciable role. The new LTIP concentrates much more on the sustained increase in the value of the company. For this reason, the validity period of each individual award lasts five years, of which, as stated previously, the first two years will serve as a waiting period during which time, in principle, SARs cannot be exercised. Only after the waiting period expires will the continuous three-year exercise period begin; during which time it will be possible to exercise SARs on almost any trading day.

The precondition for exercising SARs is meeting or exceeding the performance goals established for the new LTIP. These goals serve to bring into line the interests of all parties participating directly or indirectly in the plan (i.e., RWE itself, its shareholders and potential investors, and participating senior executives).

The performance goals of the new LTIP were established by these three interests. An absolute goal and a relative goal were defined that have to be achieved in order to exercise the SARs.

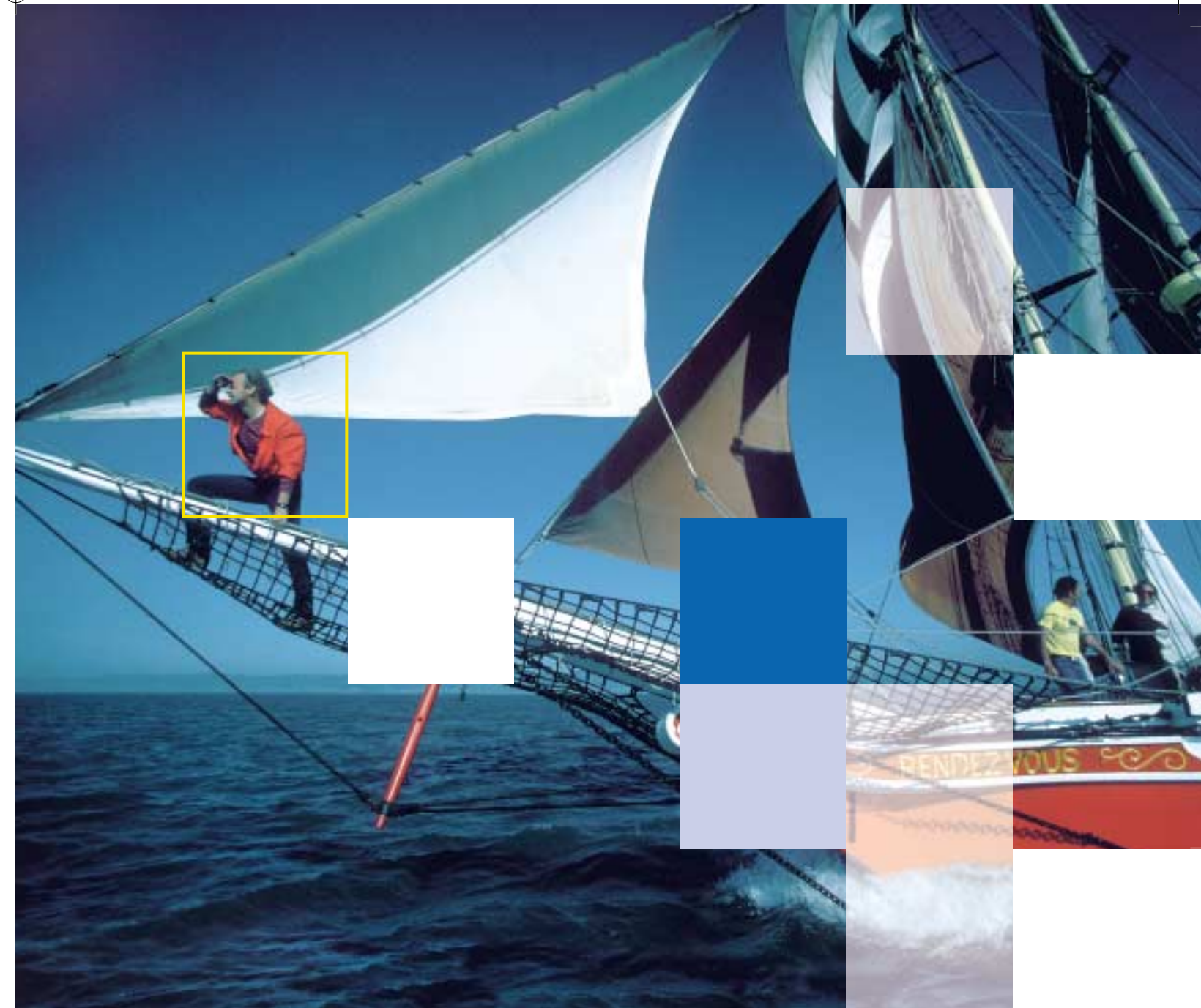
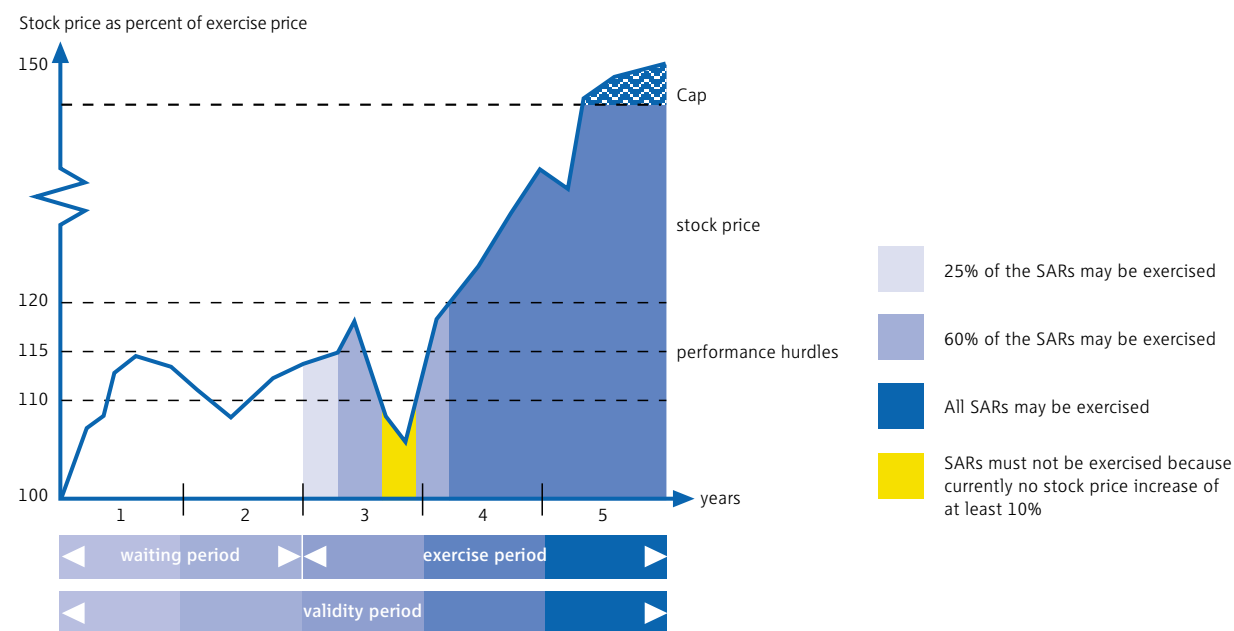
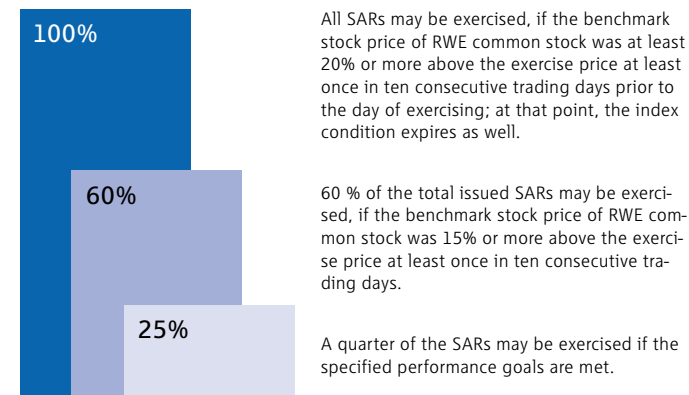
The first requirement is the increase in value of the company measurable in absolute terms. A target increase in the stock exchange price of RWE common stock of at least 10% was determined as a minimum performance goal for exercising SARs. As long as this goal is not met during the exercise period, the SARs basically cannot be exercised. This threshold will



be exceeded when the stock price of RWE common stock exceeds the exercise price of the SARs by at least 10% on the last trading day prior to the exercise date. The benchmark stock price for calculation is the stock price of the RWE common stock in the closing auction of XETRA Trading at the Frankfurt Stock Exchange.

In addition, there is another performance hurdle to clear. RWE common stock must have outperformed the Dow Jones STOXX Utility Price Index once from the issuing date to the exercise date for 10 days in a row. Using this so-called relative performance goal, the LTIP is deliberately seeking a benchmark comparison with international competitors in the utility company segment, thereby anchoring the strategic target of international market leadership. This additional performance hurdle will, however, disappear if the stock price increase in RWE shares has already exceeded 20%

during the exercise period. The number of SARs issued to individual participants that become exercisable upon meeting the performance goals depends ultimately on the price movement of RWE common stock from the date of issue up to a given exercise date. If the specified performance goals are met, one quarter of the total number issued may be exercised. The number of exercisable SARs increases to 60% of the total issued if the benchmark stock price of RWE common stock was 15% or more above the exercise price at least once in ten consecutive trading days. If a 20% or more increase in stock price occurs, all SARs issued may be exercised.



## 8. Exercising SARs

Exercise of SARs must be declared in writing. The authorized participants will receive a form that they must complete and send to the company or to an administrator, if the company has appointed one. This can also be done by fax or e-mail. The conditions for the exercise declaration taking effect are that the waiting period has expired, there are no exercise black-outs in place and the exercise requirements in the form of performance goals have been met.

The date the exercise declaration reaches the company or the administrator will serve as the exercise date. If the exercise declaration arrives after 7:00 p.m. local time in Essen, Germany, the following day will count as the exercise date.

## 9. What Can You Achieve with the New LTIP?

Your potential profit is tied fundamentally to the success of the company (i.e., to the increase in company value of RWE AG). Thus, as a senior executive, you are contributing in two ways to a healthy company and a long-term successful performance strategy.

Your potential profit is determined by the number of SARs that were issued to you, the achievement of performance goals, and the difference between the exercise price and the closing price of RWE stock on the last trading day prior to exercise. Keep in mind, however, your potential profit is limited to a maximum of 50% of the exercise price.

## 10. Tax Treatment of SARs

All amounts that are paid out in connection with exercising SARs are treated as salary payments in Germany. Payouts will therefore occur as a net amount after taxes and, if applicable, other deductions made by the employer.

Other conditions apply outside Germany. For more information, please inquire about these conditions with your senior management counselor or tax advisor.

## 11. Special Circumstances

The possibility of exercising SARs issued under the new LTIP is tied to active employment in the RWE Group. When an eligible participant leaves employment with the group, the SARs (after expiration of the waiting period and subject to any exercise blackouts) may be exercised only until the end of the contractual employment relationship. Thereafter, the SARs will lose any and all compensatory value.

If an eligible participant switches to an affiliate that also participates in the LTIP, the SARs issued will remain in effect.

In case of death, insofar as the SARs are eligible for exercise and the performance goals have been fulfilled, the corresponding SARs are “automatically” exercised, effective with the date of death.

## 12. Further Information

If you have other questions regarding the LTIP at RWE AG or the exercise conditions, please inquire with your contact in Senior Management Administration. You will find more information shortly on the RWE Intranet.

If you are an active employee of the RWE Group or at one of our companies outside of Germany, your assigned HR Manager will be available to answer any of your questions.



