

## 2.3 COMPENSATION REPORT

For us, transparent reporting on Executive and Supervisory Board compensation is one of the core elements of good corporate governance. In the following passages, we have provided information on the principles of the compensation system as well as on the structure and the payments. The 2008 Compensation Report takes into account the provisions of the version of the German Commercial Code and fully complies with the recommendations of the German Corporate Governance Code. The Compensation Report is part of the Combined Review of Operations and the Corporate Governance Report.

### Executive Board Compensation

**Compensation structure.** The compensation of Executive Board members is determined by the Personnel Affairs Committee, and its structure is established by the Supervisory Board and reviewed on a regular basis. The existing compensation system ensures that Executive Board members are compensated in a manner commensurate with their activities and responsibilities. It takes into account not only their personal performance, but also the company's business situation, 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. If the degree to which targets have been achieved is 100%, 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%. The company bonus is based on the Group's value added. 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 150%. The personal bonus depends on the degree to which the goals agreed between the Chairman of the Supervisory Board and each Executive Board member at the beginning of the financial year have been achieved. 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. This income is added to the variable compensation.

The short-term compensation components paid to members of the Executive Board for fiscal 2008 are as follows:

Short term Executive Board compensation in 2008 € '000	Non-performance-based compensation		Performance-based compensation		Non-cash and other remuneration		Payment for exercise of mandates <sup>1</sup>		Other payments		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Dr. Jürgen Großmann	2,700	675	4,315	959	47	11	20	23	2,000	0	9,082	1,668
Dr. Leonhard Birnbaum (since Oct 1, 2008)	170	0	307	0	5	0	0	0	0	0	482	0
Berthold Bonekamp	720	680	1,254	1,058	62	68	47	85	0	0	2,083	1,891
Alwin Fitting	680	587	1,174	925	17	17	52	61	0	0	1,923	1,590
Dr. Ulrich Jobs	680	300	1,084	487	23	14	148	17	0	0	1,935	818
Dr. Rolf Pohlig <sup>2</sup>	700	700	1,232	1,155	33	29	40	35	0	480	2,005	2,399
<b>Total</b>	<b>5,650</b>	<b>2,942</b>	<b>9,366</b>	<b>4,584</b>	<b>187</b>	<b>139</b>	<b>307</b>	<b>221</b>	<b>2,000</b>	<b>480</b>	<b>17,510</b>	<b>8,366</b>

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

2 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.

Instead of a pension commitment, the Chairman, Dr. Jürgen Großmann receives an annual €2,000,000, which was paid for the first time in 2008.

The short-term compensation components include a total of €317,000 which was paid for the exercise of management board mandates at subsidiaries. These sums were paid by the respective subsidiaries.

**Long-term incentive compensation.** In addition—with the exception of the Chairman of the Executive Board, Dr. Jürgen Großmann, and Dr. Leonhard Birnbaum, who was only appointed to the Executive Board effective October 1, 2008—performance shares were awarded to members of the Executive Board as part of the Beat 2005 long-term incentive plan (“Beat” for short). Performance shares are granted on condition that the Executive Board members invest in RWE shares a sum, which 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.

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 is better than 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. Consequently, 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 for Executive Board members is limited to three times the value of the performance shares as of the grant date for the 2005 tranche, and one-and-a-half times this value for all subsequent tranches.

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

Long-term incentive share-based payment	Beat: 2008 tranche	
	No.	Fair value upon grant € '000
Berthold Bonekamp	22,472	500
Alwin Fitting	33,708	750
Dr. Ulrich Jobs	33,708	750
Dr. Rolf Pohlig	33,708	750
<b>Total</b>	<b>123,596</b>	<b>2,750</b>

The long-term incentive 2005 Beat tranche was paid out as follows in the year under review:

Long-term incentive share-based payment	Beat: 2005 tranche payout € '000
Berthold Bonekamp	3,000
Alwin Fitting	559
<b>Total</b>	<b>3,559</b>

Executive Board members still hold performance shares from the Beat programme's 2006 and 2007 tranches from Executive Board activity in previous years. These allocations are not part of total compensation for the 2008 financial year. Instead, they are part of total compensation for fiscal 2006 and 2007 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: 2006 tranche	
	No.	Fair value upon grant € '000
Berthold Bonekamp	57,208	1,000
Alwin Fitting	57,208	1,000
<b>Total</b>	<b>114,416</b>	<b>2,000</b>

Long-term incentive share-based payment	Beat: 2007 tranche	
	No.	Fair value upon grant € '000
Berthold Bonekamp	30,012	750
Alwin Fitting	30,012	750
Dr. Ulrich Jobs	30,012	750
Dr. Rolf Pohlig	30,012	750
<b>Total</b>	<b>120,048</b>	<b>3,000</b>

German Accounting Standard (DRS) 17 mandates that the portion of the total expense recognized for share-based payments allocable to Executive Board members must be disclosed and itemized. The following expenses were recognized for long-term incentive share-based payments in the period under review:

Allocation to expenses for long-term incentive share-based payments 2006/2007/2008 tranches	2008 € '000	2007 € '000
Dr. Leonhard Birnbaum <sup>1</sup>	71	0
Berthold Bonekamp	1,551	1,669
Alwin Fitting	1,640	672
Dr. Ulrich Jobs	663	226
Dr. Rolf Pohlig	477	185
<b>Total</b>	<b>4,402</b>	<b>2,752</b>

<sup>1</sup> The allocation to expenses was made for the period prior to his appointment to the Executive Board.

**Total compensation.** In total, the Executive Board received €17,510,000 in short-term compensation components in fiscal 2008. In addition to this, long-term compensation components from the 2008 tranche of the Beat programme amounting to €2,750,000 were allocated. Total compensation of the Executive Board for fiscal 2008 thus amounts to €20,260,000.

**Employment termination benefits.** Benefits due in the event of a termination of Executive Board activity are detailed below.

**Pension commitments.** The members of the Executive Board—with the exception of its Chairman, Dr. 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 of 60 (retirement age), 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 by the duration of service are 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 benefits for members of the Executive Board is 60% of the last qualifying income on the day before they reach the retirement age. 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, they start receiving pension payments when they leave the company, but no earlier than on completion of their 55<sup>th</sup> year of age. In the event of a non-extension or early termination of an employment contract, 50% of income earned through other activities until the end of the Executive Board member's 60<sup>th</sup> year of age or the beginning of the member's occupational disability is credited to the pension payments.

The current service cost of pension commitments in fiscal 2008 totalled €436,000. As of the end of the year under review, the present value of the defined benefit obligation was €11,048,000. The following is a breakdown of service costs and the present value of pension benefits, taking into account both age and years of service.

Pensions	Age	Predicted annual pension on reaching the agreed retirement age (60) <sup>1</sup>		Current service cost		Defined benefit obligation	
		€ '000		€ '000		€ '000	
		2008	2007	2008	2007	2008	2007
Dr. Leonhard Birnbaum (since Oct 1, 2008)	42	245	0	0	0	402	0
Berthold Bonekamp	58	324	324	131	152	3,617	3,218
Alwin Fitting	55	283	283	140	134	2,696	2,658
Dr. Ulrich Jobs	55	245	156	101	116	2,784	1,717
Dr. Rolf Pohlig <sup>2</sup>	56	252	252	64	73	1,549	1,511
				436	475	11,048	9,104

1 Based on compensation qualifying for pensions as of December 31, 2008.

2 Past service cost for 2007: €1,438,000.

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.

**Change of Control.** Executive Board members have a special right of termination in the event that the company loses its independence as the result of control being taken over by shareholders or third parties. In such cases, they have the right to retire from the Executive Board within six months of the time at which the change of control becomes known and to request that their employment contract be terminated in combination with a one-off payment. To the extent necessary to ensure the company's survival, however, the Supervisory Board can demand that the Executive Board member remain in office until the end of the six-month period.

A change of control as defined by this provision occurs when a shareholder or a group of shareholders acting jointly, or third parties acting jointly (the applicable version of Section 29 of the German Securities Transfer Act (WpÜG)) acquire at least 30% of the voting rights in a company, or if any of the aforementioned can exert a controlling influence on the company in another manner. A controlling influence may also exist if one or several jointly acting shareholders or third parties hold more than half of the voting stock represented at three consecutive Annual General Meetings. The aforementioned provisions do not apply if the change of control puts the control of the company in the hands of individual or jointly acting cities or communities or companies which are majority-owned by an entity under public law in the Federal Republic of Germany.

On termination of their employment contracts, Executive Board members receive a one-off payment in the amount of the compensation due until the end of the duration of the contract originally agreed, which shall not be higher than three times their total contractual annual compensation and shall not be less than twice their total contractual annual compensation.

As regards benefits, effective as of the end of the employment contract's agreed duration, Executive Board members are treated as if the company had not extended their employment contracts at that time, without there being a material reason in the sense of Section 626 of the German Civil Code (BGB).

The Chairman of the Executive Board, Dr. Jürgen Großmann, was granted a special right of termination before the last amendment to the German Corporate Governance Code. On exercise of his special right of termination, Dr. Großmann shall receive a one-time payment that covers all of the remuneration due until the expiry of his employment contract, including the amount contractually agreed instead of a pension commitment.

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 performance shares granted, pro-rated up to the date of the merger.

**Severance cap.** If an Executive Board mandate is otherwise terminated early without due cause, Executive Board members shall receive a severance payment of no more than two total annual compensations and no more than the compensation due until the end of the employment contract. Total annual compensation is the sum resulting from the fixed component and the value of payment in kind at the time of the termination as well as the company bonus and the personal bonus of the past financial year. This provision applies to all new employment contracts and contract extensions and for the first time to Dr. Leonhard Birnbaum.

**Other commitments.** By mutual agreement, Berthold Bonekamp ended his mandate as member of the Executive Board early, as of December 31, 2008. As contractually agreed, Berthold Bonekamp will receive all the payments and benefits due to him from his employment contract, which will end on March 31, 2009, consisting of fixed compensation and bonus. 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 March 31, 2009, amounts to €180,000. The bonus for this period amounts to €341,000. From April 1, 2009, onwards, Berthold Bonekamp is entitled to an early company pension in accordance with the contractual arrangements. The performance shares granted until the agreed exit date shall remain valid, in line with the plan conditions.

## Supervisory Board compensation

The compensation of the Supervisory Board is set forth in the Articles of Incorporation 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	2008 base compensation		2008 committee compensation		Total	
	Fixed	Variable	Fixed	Variable	2008	2007
Dr. Thomas R. Fischer, Chairman	120	297	0	0	417	326
Frank Bsirske, Deputy Chairman	80	198	0	0	278	217
Dr. Paul Achleitner	40	99	20	50	209	163
Werner Bischoff	40	99	20	50	209	163
Carl-Ludwig von Boehm-Bezing	40	99	40	99	278	218
Heinz Büchel	40	99	20	50	209	163
Dieter Faust	40	99	20	50	209	163
Simone Haupt (until Nov 30, 2008)	37	91	18	45	191	163
Andreas Henrich (since Apr 1, 2008)	30	74	0	0	104	0
Heinz-Eberhard Holl	40	99	20	50	209	163
Dr. Gerhard Langemeyer	40	99	20	50	209	163
Dagmar Mühlenfeld	40	99	20	50	209	125
Erich Reichertz (until Mar 31, 2008)	10	25	0	0	35	109
Dr. Wolfgang Reiniger	40	99	0	0	139	136
Günter Reppien	40	99	20	50	209	163
Karl-Heinz Römer	40	99	0	0	139	27
Dagmar Schmeer	40	99	1	3	143	109
Dr. Manfred Schneider	40	99	20	50	209	163
Dr.-Ing. Ekkehard D. Schulz	40	99	20	50	209	163
Uwe Tigges	40	99	20	50	209	163
Prof. Karel Van Miert	40	99	0	0	139	109
Manfred Weber (since Dec 1, 2008)	3	8	0	0	11	0
<b>Total</b>	<b>920</b>	<b>2,277</b>	<b>279</b>	<b>697</b>	<b>4,173</b>	<b>3,169</b>

In total, the emoluments of the Supervisory Board amounted to €4,173,000 in fiscal 2008. Additionally, certain Supervisory Board members were paid compensation totalling €256,000 for exercising mandates at subsidiaries.