

2.3 COMPENSATION REPORT

For us, transparent reporting on Executive and Supervisory Board compensation is one of the core elements of good corporate governance. On the following pages, we have provided information on the principles of RWE AG's compensation system as well as on its structure and the payments. The 2009 Compensation Report takes into account all statutory regulations and fully complies with the recommendations of the German Corporate Governance Code. It is part of the combined review of operations and the corporate governance report.

Executive Board compensation

Compensation structure. The compensation structure and amount of compensation of Executive Board members are determined 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 and is in line with common practice within the Group and on the external market. It takes into account not only their personal performance, but also the company's business situation, its performance and prospects for the future.

In light of the German Act on the Appropriateness of Management Board Compensation (VorstAG) which came into force on August 5, 2009, the Supervisory Board reviewed the compensation and will adapt it as necessary. Most importantly, the compensation structure will be brought more in line with sustainable business development. Once it has been updated, the Supervisory Board will present the compensation system to the Annual General Meeting for approval. The compensation system valid for the year under review is presented in the following passages.

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 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 figure budgeted for the fiscal year in question is 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. All this income is deducted from the variable compensation and therefore does not increase the total compensation.

The short-term compensation components paid to members of the Executive Board for fiscal 2009 were as follows:

Short-term Executive Board compensation in 2009 € '000	Non-performance-based compensation		Performance-based compensation		Non-cash and other remuneration		Payment for exercise of mandates ¹		Other payments		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Dr. Jürgen Großmann ²	2,700	2,700	4,431	4,315	24	47	7	20	2,000	2,000	9,162	9,082
Dr. Leonhard Birnbaum	680	170	1,259	307	22	5	0	0	0	0	1,961	482
Alwin Fitting	680	680	1,246	1,174	16	17	13	52	0	0	1,955	1,923
Dr. Ulrich Jobs	760	680	1,282	1,084	23	23	125	148	0	0	2,190	1,935
Dr. Rolf Pohlig	760	700	1,340	1,232	31	33	67	40	0	0	2,198	2,005
Dr. Rolf Martin Schmitz (since May 1, 2009)	453	0	742	0	12	0	97	0	0	0	1,304	0
Total	6,033	4,930	10,300	8,112	128	125	309	260	2,000	2,000	18,770	15,427

¹ Income from the exercise of mandates is part of variable compensation.

² Dr. Jürgen Großmann receives an annual €2,000,000 instead of a pension commitment.

Long-term incentive compensation. 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). 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 were 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 allocated in the fiscal year consists of the conditional right to receive a payout 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 in the fiscal year corresponds to the average RWE share price during the last 20 trading days prior to the expiry of the programme, the number of conditionally allocated performance shares, and the payout factor. Payment for Executive Board members is limited to one-and-a-half times the value of the performance shares at grant.

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

Long-term incentive share-based payment	Beat: 2009 tranche	
	No.	Fair value upon grant € '000
Dr. Leonhard Birnbaum	62,867	750
Alwin Fitting	62,867	750
Dr. Ulrich Jobs	62,867	750
Dr. Rolf Pohlig	62,867	750
Dr. Rolf Martin Schmitz	62,867	750
Total	314,335	3,750

In the year under review, the long-term incentive 2006 Beat tranche was paid out as follows:

Long-term incentive share-based payment	Beat: 2006 tranche
	payout € '000
Alwin Fitting	1,500
Dr. Ulrich Jobs	297
Total	1,797

Executive Board members still hold performance shares from the Beat programme's 2007 and 2008 tranches from Executive Board activity in previous years. These allocations are not part of total compensation for the 2009 financial year. Instead, they are part of total compensation for fiscal 2007 and 2008 and, as such, are presented in the compensation reports for these two prior years.

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

Allocation to expenses for long-term incentive share-based payments 2007/2008/2009 tranches	2009 € '000	2008 € '000
Dr. Leonhard Birnbaum ¹	433	71
Alwin Fitting	941	1,640
Dr. Ulrich Jobs	941	663
Dr. Rolf Pohlig	941	477
Dr. Rolf Martin Schmitz	319	0
Total	3,575	2,851

1 The allocation to expenses in 2008 was made for the period prior to his appointment to the Executive Board.

Total compensation. In total, the Executive Board received €18,770,000 in short-term compensation components in fiscal 2009. In addition to this, long-term compensation components from the 2009 tranche of the Beat programme amounting to €3,750,000 were allocated. Total compensation of the Executive Board for fiscal 2009 thus amounted to €22,520,000.

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 or their surviving dependants 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 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 changes in 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 55th year of age. In the event of a non-extension or early termination of an employment contract, only 50% of income earned through other activities until the end of the Executive Board member's 60th year of age or the beginning of the member's occupational disability is taken into account in determining the pension payments.

The service cost of pension commitments in fiscal 2009 totalled €439,000. At the end of the year under review, the present value of the defined benefit obligation was €14,203,000. 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 company age limit (60 years) ¹		Service cost		Defined benefit obligation	
		€ '000		€ '000		€ '000	
		2009	2008	2009	2008	2009	2008
Dr. Leonhard Birnbaum	43	245	245	85	0	635	402
Alwin Fitting	56	283	283	136	140	3,935	2,696
Dr. Ulrich Jobs	56	274	245	155	101	3,761	2,784
Dr. Rolf Pohlig	57	274	252	63	64	2,159	1,549
Dr. Rolf Martin Schmitz ²	52	370	0	0	0	3,713	0
				439	305	14,203	7,431

1 Based on compensation qualifying for pensions as of December 31, 2009.

2 Dr. Schmitz's expected pension includes pension benefit entitlements from former employers. €1,152,000 in provisions were transferred to RWE to cover this.

As regards Executive Board members, vested pension benefits from earlier employment and years of service for previous employers which have been recognised, 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, 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 amendment to the German Corporate Governance Code with effect from June 6, 2008. On exercise of his contractually secured 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 previous financial year. This provision applies to all new employment contracts and contract extensions and for the first time to the conclusion of Dr. Birnbaum's employment contract.

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 after 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 compensation and the committee chairperson receives twice the 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	2009 base compensation		2009 committee compensation		Total	
	Fixed	Variable	Fixed	Variable	2009	2008
€ '000						
Dr. Thomas R. Fischer, Chairman until April 30, 2009	66	127	0	0	193	417
Dr. Manfred Schneider, Chairman since May 1, 2009	100	192	0	0	292	209
Frank Bsirske, Deputy Chairman	80	154	0	0	234	278
Dr. Paul Achleitner	40	77	20	38	175	209
Werner Bischoff	40	77	20	38	175	209
Carl-Ludwig von Boehm-Bezing	40	77	40	77	234	278
Heinz Büchel	40	77	20	38	175	209
Dieter Faust	40	77	20	38	175	209
Andreas Henrich	40	77	0	0	117	104
Heinz-Eberhard Holl	40	77	20	38	175	209
Hans-Peter Lafos (since Oct 28, 2009)	7	14	0	0	21	0
Dr. Gerhard Langemeyer	40	77	20	38	175	209
Dagmar Mühlenfeld	40	77	20	38	175	209
Dr. Wolfgang Reiniger	40	77	0	0	117	139
Günter Reppien	40	77	20	38	175	209
Karl-Heinz Römer (until Sep 30, 2009)	30	57	0	0	87	139
Dagmar Schmeer	40	77	20	38	175	143
Dr.-Ing. Ekkehard D. Schulz	40	77	20	38	175	209
Uwe Tigges	40	77	20	38	175	209
Prof. Karel Van Miert (until June 22, 2009)	19	36	0	0	55	139
Manfred Weber	40	77	0	0	117	11
Dr. Dieter Zetsche (since July 16, 2009)	19	35	0	0	54	0
Total	921	1,770	260	495	3,446	3,947

In total, the emoluments of the Supervisory Board amounted to €3,446,000 in fiscal 2009. Additionally, certain Supervisory Board members were paid compensation totalling €296,000 for exercising mandates at subsidiaries.