

## 2.3 COMPENSATION REPORT

Part of good corporate governance involves making the remuneration of management and supervisory boards transparent. The principles of RWE AG's compensation system as well as its structure and payments are presented on the following pages. As in preceding years, RWE 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 structure and amount of Executive Board member compensation are determined by the Supervisory Board and reviewed on a regular basis. The existing compensation system, which was approved by the 2010 Annual General Meeting, ensures that the structure and amount of Executive Board member compensation is in line with common practice within the Group and on the market. It takes into account not only personal performance, but also RWE's business situation, performance and prospects for the future.

The Executive Board's total remuneration is essentially made up of short-term components such as the base pay and bonus as well as a long-term share-based component ('performance shares'). With target fulfilment at 100%, base pay, the bonus and the performance shares account for approximately 30%, 40% and 30% of total remuneration, respectively. The compensation components are presented in further detail hereinafter.

**Short-term compensation components.** Executive Board members receive cash compensation made up of a base salary, which is independent of performance, as well as a performance-based bonus, which is therefore variable.

The baseline bonus contractually agreed in addition to the fixed compensation consists of a company bonus and an individual component, with a 70:30 split. The company bonus is based on the degree to which the value added agreed at the beginning of the fiscal year has been achieved. If the actual and target figures are identical, the degree to which the target has been achieved is 100%, and the company bonus is identical to the contractually agreed baseline amount. Depending on the value added, the

company bonus can range between 0% and 150% of the baseline bonus amount. The personal bonus depends on the degree to which an Executive Board member achieves the performance goals agreed with the Chairman of the Supervisory Board at the beginning of the financial year. The maximum degree to which this target can be achieved is 130%.

Since fiscal 2010, RWE has been paying only 75% of the bonus. The remaining 25% is withheld for a period of three years. A review based on what is termed a 'bonus malus factor' is conducted by the Supervisory Board at the end of the three-year period, in order to determine whether the Executive Board has managed the company sustainably. Only if this applies is the retained part of the bonus paid.

The development of the Group's value added determines 45% of the bonus malus factor. Another 45% is determined on the basis of a company-specific Corporate Responsibility (CR) Index, which builds on the sustainability reporting that has been a fixture at RWE for many years and reflects RWE's environmental and social activity. The remaining 10% of the bonus malus factor is determined by the Group's internal Motivation Index, which measures employee commitment and satisfaction. Before the three-year period, the Supervisory Board establishes binding target figures for value added, the CR Index, and the Motivation Index. At the end of the period, these target figures are compared to the figures actually achieved. The result of this comparison determines whether the retained part of the bonus is paid as well as its amount. The better the figures actually achieved, the higher the bonus malus factor. It may vary between 0% and 130%.

In line with statutory regulations, the rules governing the bonus retention and the bonus malus factor do not apply to the President and CEO, Dr. Jürgen Großmann.

In addition to a base salary and bonus, Dr. Jürgen Großmann is entitled to an annual pension capital contribution instead of a pension commitment.

Peter Terium receives as a pension benefit an annual pension instalment corresponding to 15% of his target cash compensation, i.e. his base salary and the target bonus. In the year under review, the pension instalment amounted to €85,000, of which €2,000 was turned into a pension commitment of equal value through a gross compensation conversion. The pension concept introduced with effect from

1 January 2011 is presented in further detail in the section on pensions on page 112.

In addition, all Executive Board members receive both non-cash and other remuneration, consisting primarily of the use of company cars 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 bonus and therefore does not increase the total remuneration.

The short-term components of Executive Board compensation for fiscal 2011 were as follows:

Short-term Executive Board compensation in 2011 € '000	Non-performance-based compensation		Performance-based compensation		Non-cash and other remuneration		Payment for exercise of mandates <sup>1</sup>		Other payments		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Dr. Jürgen Großmann <sup>2</sup>	2,700	2,700	3,708	3,898	35	30	0	37	2,000	2,000	8,443	8,665
Dr. Leonhard Birnbaum	750	750	694	779	24	24	40	0	0	0	1,508	1,553
Alwin Fitting	796	769	756	794	10	18	20	3	0	0	1,582	1,584
Peter Terium <sup>3</sup>	250	0	245	0	1	0	0	0	85	0	581	0
Dr. Rolf Pohlig	840	840	759	809	29	32	60	60	0	0	1,688	1,741
Dr. Rolf Martin Schmitz	750	750	574	543	17	20	160	236	0	0	1,501	1,549
<b>Total</b>	<b>6,086</b>	<b>5,809</b>	<b>6,736</b>	<b>6,823</b>	<b>116</b>	<b>124</b>	<b>280</b>	<b>336</b>	<b>2,085</b>	<b>2,000</b>	<b>15,303</b>	<b>15,092</b>

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.

3 Peter Terium receives a pension instalment corresponding to 15% of his targeted cash compensation instead of a pension commitment.

The retained bonus is not included in the compensation because it does not have an impact on remuneration until the end of the three-year period and only affects it if the

necessary prerequisites are met. To convey a complete picture of the compensation components, the retained bonus has been presented in the following table voluntarily.

Bonus retention € '000	2011	2010
Dr. Jürgen Großmann	0	0
Dr. Leonhard Birnbaum	245	260
Alwin Fitting	259	266
Peter Terium	82	-
Dr. Rolf Pohlig	273	290
Dr. Rolf Martin Schmitz	245	260
<b>Total</b>	<b>1,104</b>	<b>1,076</b>

**Long-term incentive compensation.** In addition to the short-term remuneration components, performance shares are awarded to members of the Executive Board, excluding the President and CEO Dr. Jürgen Großmann, as part of the Beat 2010 long-term incentive plan ('Beat' for short). This long-term incentive compensation component aims to reward executives for the sustainability of the contribution they make to the company's success.

Performance shares are granted on condition that the Executive Board members invest in RWE common shares a sum which is equal to one-third of the value of the grant after taxes. The shares must be held for the respective Beat tranche's entire waiting period.

Performance shares consist of the conditional right to receive a payout in cash following a waiting period of four (optionally five) years. However, a payout only takes place if, on conclusion of the waiting period, the total return on the RWE common share – consisting of the return on the share price, dividend and subscription right – is better than the performance of at least 25% of the peer group companies

included in the Dow Jones STOXX Utilities Index. When performance is measured, the latter are given the same weighting as they had at the inception of the corresponding Beat tranche. 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. If RWE outperforms 25% of the index weighting, 7.5% of the performance shares are paid out. The proportion of performance shares that is paid out increases by 1.5% for every further percentage point by which the index weighting is exceeded.

Payment is based on the payout factor as determined above, on the average RWE share price during the last 60 trading days prior to the expiry of the programme, and on the number of allocated performance shares. Payment for Executive Board members is limited to one-and-a-half times the value of the performance shares at grant.

Beat allocations in the year under review break down as follows:

Long-term incentive share-based payment	Beat 2010: 2011 tranche	
	No.	Allocation value at grant € '000
Dr. Leonhard Birnbaum	44,092	750
Alwin Fitting	44,092	750
Dr. Rolf Pohlig	44,092	750
Dr. Rolf Martin Schmitz	44,092	750
<b>Total</b>	<b>176,368</b>	<b>3,000</b>

In the year under review, the 2008 long-term incentive tranche of the Beat 2005 programme was paid out as follows:

Long-term incentive share-based payment	Beat 2005: 2008 tranche	
	payout € '000	
Dr. Leonhard Birnbaum	150	
Alwin Fitting	563	
Dr. Rolf Pohlig	563	
<b>Total</b>	<b>1,276</b>	

Due to the development of RWE's share price, no expenses were recognised for share-based payments in 2011.

Instead, provisions were released as follows:

Release of provisions for long-term incentive share-based payments 2009/2010/2011 tranches	2011 € '000	2010 € '000
Dr. Leonhard Birnbaum	241	65
Alwin Fitting	241	161
Dr. Rolf Pohlig	241	161
Dr. Rolf Martin Schmitz	241	29
<b>Total</b>	<b>964</b>	<b>416</b>

**Total compensation.** In total, the Executive Board received €15,303,000 in short-term compensation components in fiscal 2011. In addition to this, long-term compensation components from the 2011 tranche of the Beat programme amounting to €3,000,000 were allocated. Total compensation of the Executive Board for fiscal 2011 therefore amounted to €18,303,000.

**Pension and employment termination benefits.** Executive Board members receive the following benefits from RWE when they retire from the Board:

**Pensions.** With effect from 1 January 2011, the former pension model was replaced by a defined-contribution pension scheme. New Executive Board members now receive a pension instalment amounting to 15% of their target cash compensation in each year of active service. Every year, they can choose whether the sum is paid in cash or retained for inclusion in a pension benefit later on. In the latter case, the funds are turned into a pension commitment of equal value through a gross compensation conversion. A reinsurance policy is concluded to finance the pension commitment. The pension commitment benefits correspond to the benefits guaranteed by the reinsurance policy. The amassed capital may be drawn upon in the form of a one-off payment or in a maximum of nine instalments on retirement, but not before the Executive Board member turns 60.

Executive Board members and their surviving dependants do not receive any further benefits. Vested retirement benefits from earlier activities remain unaffected by this.

The pension commitments to the Executive Board members Dr. Leonhard Birnbaum, Alwin Fitting, Dr. Rolf Pohlig and Dr. Rolf Martin Schmitz were made before the introduction of the new model and will remain unchanged. The aforementioned Executive Board members are entitled to life-long retirement or surviving dependants' benefits in the event of retirement upon reaching the age of 60 (company age limit), 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. The ceiling for pension benefits for members of the Executive Board is 60% of the last qualifying income before they reach 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 pension benefits do not expire. The amount of the 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 not before they turn 55. Fifty percent of the income earned by an Executive Board member until they turn 60 or the beginning of the member's occupational disability is taken into account in determining early retirement payments.

The vested pension benefits of Executive Board members from earlier activities or years of service with previous employers which have been recognised are deducted by contractual arrangement from the pension payments made by RWE.

The service cost of pension commitments in 2011 totalled €725,000. At the end of the year, the present value of the defined benefit obligation was €14,161,000. 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) <sup>1</sup>		Service cost		Defined benefit obligation	
		€ '000		€ '000		€ '000	
		2011	2010	2011	2010	2011	2010
Dr. Leonhard Birnbaum	45	270	270	134	111	1,090	889
Alwin Fitting	58	312	312	210	188	5,046	4,648
Dr. Rolf Pohlig	59	302	302	103	84	2,995	2,733
Dr. Rolf Martin Schmitz <sup>2</sup>	54	408	408	278	244	5,030	4,486
				<b>725</b>	<b>627</b>	<b>14,161</b>	<b>12,756</b>

1 Based on compensation qualifying for pensions as of 31 December 2011.

2 Dr. Rolf Martin Schmitz's projected pension includes pensions due from former employers.

**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 the company, or if any of the aforementioned can exert a controlling influence on the company in another manner.

On termination of their employment contracts, Executive Board members receive a one-off payment equal to the compensation due until the end of the duration of their contract: this amount 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 from 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.

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 6 June 2008. On exercise of his contractually secured special right of termination, Dr. Großmann shall receive a one-off 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.

In the event of a change of control, the Executive Board's retained bonuses are valued early and, if applicable, paid out. The amount shall be in line with the average bonus malus factor for the three preceding years.

**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.

**Other commitments.** In agreement with the company, Dr. Jürgen Großmann's positions as member of the Executive Board and its Chairman, which were scheduled to expire as of 30 September 2012, will end early with effect from 30 June 2012. He will receive his base salary, bonus and pension capital for the period from 1 July 2012 to 30 September 2012 in sums corresponding to those established in his contract. Dr. Jürgen Großmann will not receive a pension.

## Supervisory Board compensation

The compensation of the Supervisory Board is set out 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 are awarded one-and-a-half times the compensation and the committee chairperson 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 € '000	2011 base compensation		2011 committee compensation		Total	
	Fixed	Variable	Fixed	Variable	2011	2010
Dr. Manfred Schneider, Chairman	40	43	80	86	249	350
Frank Bsirske, Deputy Chairman	40	43	40	43	166	234
Dr. Paul Achleitner	40	43	20	21	124	175
Werner Bischoff	40	43	20	21	124	175
Carl-Ludwig von Boehm-Bezing	40	43	40	43	166	234
Heinz Büchel	40	43	20	21	124	175
Dieter Faust	40	43	20	21	124	175
Roger Graef (since 20 Apr 2011)	28	30	0	0	58	0
Andreas Henrich (until 20 Apr 2011)	12	13	0	0	25	117
Manfred Holz (since 20 Apr 2011)	28	30	14	15	87	0
Frithjof Kühn	40	43	20	21	124	160
Hans-Peter Lafos	40	43	0	0	83	117
Dr. Gerhard Langemeyer (until 20 Apr 2011)	12	13	6	6	37	175
Christine Merkamp (since 20 Apr 2011)	28	30	0	0	58	0
Dagmar Mühlenfeld	40	43	20	21	124	175
Dr. Wolfgang Reiniger (until 20 Apr 2011)	12	13	0	0	25	117
Günter Reppien (until 20 Apr 2011)	12	13	6	6	37	175
Dagmar Schmeer	40	43	20	21	124	175
Dr.-Ing. Ekkehard D. Schulz	40	43	20	21	124	175
Dr. Wolfgang Schüssel	40	43	0	0	83	98
Ullrich Sierau (since 20 Apr 2011)	28	30	14	15	87	0
Uwe Tigges	40	43	20	21	124	175
Manfred Weber	40	43	14	15	112	117
Dr. Dieter Zetsche	40	43	0	0	83	117
<b>Total</b>	<b>800</b>	<b>860</b>	<b>394</b>	<b>418</b>	<b>2,472</b>	<b>3,411</b>

In total, the emoluments of the Supervisory Board amounted to €2,472,000 in fiscal 2011. Additionally, certain Supervisory Board members were paid compensation totalling €192,000 for exercising mandates at subsidiaries.