

2.2 CORPORATE GOVERNANCE

Responsible and transparent corporate governance is one of the cornerstones of our sustained success. Our guiding principle is always the most up-to-date version of the German Corporate Governance Code, which was introduced in 2002. In recent years, we have always issued an unconditional statement of compliance. New recommendations were included in the Code in May 2010, and we intend to continue complying with them entirely in the future.

The German Corporate Governance Code. 'Corporate governance' defines the responsible and transparent management and monitoring of a company, focused on long-term commercial success. RWE allows itself to be judged by this. We use the recommendations of the German Corporate Governance Code (hereinafter referred to as the 'Code') as the main benchmark for this. The Code aims to increase the confidence placed by domestic and international investors, customers, employees and the public in German listed companies. The Government Commission of the German Corporate Governance Code submitted the first version of the Code in February 2002. Since then, the Commission has reviewed the Code every year against the backdrop of domestic and international developments and adapted it whenever necessary.

New Code recommendations. The German Corporate Governance Code was again refined last year. In its plenary session on 26 May 2010, the Government Commission added various details to the diversity recommendations for management and supervisory board members. In addition, new recommendations were adopted in order to render supervisory boards more professionally qualified. The new version of the Code was announced in the electronic edition of the German Federal Gazette on 2 July 2010.

- **Diversity in supervisory and management boards.** The recommendation concerning diversity in German supervisory boards (Item 5.4.1) was amended to require supervisory boards to establish specific goals regarding their composition. Taking into account the company's situation, the objectives must consider the company's international activity, potential conflicts of interest of the supervisory board members and diversity, as well as specifying an age limit. In particular, women are to be represented appropriately. The Code further recommends that companies report on their goals concerning the composition of their supervisory boards and the status of their implementation in future corporate governance reports (cf. Item 5.4.1, Para 3). With respect to the staffing of management boards, supervisory boards are to ensure compliance with diversity requirements, with due regard to the appropriate representation of women (Item 5.1.2). The same recommendation was issued to management boards in relation to the staffing of management positions (Item 4.1.5).
- **Rendering supervisory boards more professional.** In addition to the focus on diversity, Code amendments also dealt with the qualifications of supervisory board members. The statutory obligation for supervisory board members to independently implement the continued education and advanced training measures necessary to perform their duties was included in the Code, in order to emphasise the importance of such measures. The new rule also requires companies to provide the board members with adequate support in this context (Item 5.4.1, Para. 4). Pursuant to another recommendation, supervisory board members sitting on the management board of a listed company may exercise no more than three mandates in listed companies outside their group of

companies. In the future, the limitation will be expanded to include mandates in supervisory bodies of companies, subject to comparable requirements (Item 5.4.5).

RWE welcomes the Code's new diversity recommendations, but has complied with them only to a limited extent so far. Another recommendation that we did not fully adhere to for a certain time relates to the cap on the number of supervisory board mandates. Additional commentary on the deviations has been provided in the statement of compliance (see below). Otherwise, we comply with all of the recommendations of the current version of the Code and take up its suggestions, with a few exceptions.

Our listed Group company Lechwerke AG is also putting the Code into practice. However, the specifics of membership in the Group must be taken into account in this context. Lechwerke AG has included information on the deviations from the Code's recommendations in its statement of compliance.

Directors' dealings and potential conflicts of interest. Transparency is a core element of good corporate governance. It is indispensable, especially in cases where transactions concluded by the Executive Board may lead to conflicts of interest. We would like to highlight the following aspects of RWE's corporate governance practice:

- Material transactions concluded between RWE or a Group company and an Executive Board member or related party were in line with prevailing market standards. No conflicts of interest of members of the Executive Board going above and beyond this were notified. No Supervisory Board member concluded a contract with RWE AG.
- Executive Board members, related parties and one member of the Supervisory Board purchased RWE shares in the year under review. No sales were notified to us. We published information on transactions notified to us in accordance with Sec. 15a of the German Stock Corporation Act (WpHG) throughout Europe.

The RWE shares and related financial instruments directly or indirectly held by members of the Executive and Supervisory Boards account for less than 1% of the shares issued by RWE.

We publish further information on our corporate governance practices on the internet at www.rwe.com/investorrelations. This web page also provides access to our Articles of Incorporation, the bylaws of the Supervisory Board and the Executive Board, RWE's code of conduct, all the corporate governance reports and statements of compliance as well as the corporate governance declaration in accordance with Sec. 289a of the German Commercial Code.

Statement of compliance in accordance with Sec. 161 of the German Stock Corporation Act. After an orderly audit, the Executive and Supervisory Boards of RWE AG issued the following declaration of compliance:

Since its last statement of compliance on 23 February 2010 and until 2 July 2010, RWE Aktiengesellschaft complied with all of the recommendations of the Government Commission of the German Corporate Governance Code issued in the 5 August 2009 version of the Code. Since

3 July 2010, RWE Aktiengesellschaft has complied with all of the recommendations of the version of the Code issued on 2 July 2010, with the following exceptions:

- The diversity recommendations set out in Item 5.1.2, Sentence 1 and Item 5.4.1, Paras. 2 and 3 are not being fully complied with at present. Ensuring diversity is already common practice throughout the Group. Among other things, we have had diversity programmes tailored to increase the share of women in managerial positions for quite a while. However, an overall concept for achieving diversity goals when staffing the Executive Board is yet to be created. The same applies to the staffing of the Supervisory Board. As before, the Nomination Committee and the plenary session of the Supervisory Board considered the issue of diversity, RWE's international operations, potential conflicts of interest, and the established age limit for Supervisory Board members when selecting the candidates for the election of the shareholder representatives scheduled for 20 April 2011. However, no specific goals existed that could have been considered or presented in the Annual Report, and they are still yet to be established. The Supervisory Board of RWE AG is of the opinion that creating an overall concept for the diversity of members of the Executive and Supervisory Boards and determining specific goals regarding the composition of the Supervisory Board requires extensive preparatory work and in-depth discussions, which should be left to the Supervisory Board, which will have been recomposed after this year's Annual General Meeting. Only in this manner can one ensure that all material aspects be considered and that both the concept and the goals prove themselves in practice. In the current financial year, the Supervisory Board will deal with the issue extensively and provide information in accordance with statutory regulations on any corresponding adjustments to RWE's corporate governance.

- RWE Aktiengesellschaft followed the recommendation in Item 5.4.5 to a limited extent from 3 July 2010 to 21 January 2011. Until the end of this period, Dr. Ekkehard Schulz was Chairman of the Executive Board of ThyssenKrupp AG and sat on the supervisory boards of two listed companies as well as of a non-listed company with similar requirements concurrently to his membership in the Supervisory Board of RWE. As he has retired from the Executive Board of ThyssenKrupp, we comply with the Code's recommendation unconditionally once again. It is the view of the Supervisory Board of RWE AG that it was in the company's best interest to keep Dr. Schulz on the RWE board. This opinion is based on Dr. Schulz's years-long tenure on RWE's Supervisory Board as well as on the extensive expertise and experience he possesses by virtue of his leading positions in companies with international activities. Moreover, the deviation from the Code's recommendation only lasted for a very short period.

RWE Aktiengesellschaft

On behalf of the Supervisory Board

On behalf of the Executive Board

Dr. Manfred Schneider

Dr. Jürgen Großmann

Dr. Rolf Pohlig

Essen, 22 February 2011