

**Explanatory Report**  
**of the Executive Board**  
**of RWE Aktiengesellschaft**

**in accordance with Section 175, Paragraph 2 and Section 176, Paragraph 1**  
**of the German Stock Corporation Act (AktG)**  
**on the Main Characteristics of the Internal Control and Risk Management System**  
**pursuant to Section 289, Paragraph 5 and Section 315, Paragraph 2, Item 5 of the**  
**German Commercial Code (HGB)**  
**as of the Balance Sheet Date, December 31, 2014**

The combined review of operations for RWE Aktiengesellschaft and the Group includes a description of the main characteristics of the accounting-related internal control and risk management system in accordance with Sec. 289, Para. 5 and Sec. 315, Para. 2, Item 5 of the German Commercial Code (HGB). An explanatory report by the Executive Board on this must be made available to the Annual General Meeting.

Risks associated with financial reporting reflect the fact that our annual, consolidated and interim financial statements may contain misrepresentations that could have a significant influence on the decisions made by their addressees. Our accounting-based Internal Control System (ICS) aims to detect potential sources of error and limit the resulting risks. It covers the financial reporting of the entire RWE Group. This enables us to ensure with sufficient certainty that the parent company and consolidated financial statements are prepared in compliance with statutory regulations.

The design of the accounting-related ICS mirrors the organisation of our accounting and financial reporting process. One of the main features of this process is the control over the Group and its operating units. The basis is provided by the target parameters determined by the Executive Board of RWE AG. Building on them and our expectations concerning the operating business trend, we develop our medium-term plan once a year. It includes the figures budgeted for the following fiscal year as well as the figures planned for subsequent years. We prepare forecasts in line with the budget for financial years underway. The Executive Board of RWE AG and the management boards of its major subsidiaries convene regularly in order to evaluate the interim and annual financial statements and update the forecasts.

Last year, we combined major parts of our accounting activities in centres of expertise within RWE Group Business Services. The newly established Shared Service Centre of RWE Group Business Services based in Cracow (Poland) is now responsible for transactional accounting activities. Expert management is handled by the Group Accounting & Tax Department of RWE AG, which is also responsible for the consolidated financial statements of RWE and ensures that the accounting standards comply with statutory regulations.

The CEOs and CFOs or the managing directors of major subsidiaries as well as certain RWE AG department heads must take an internal balance-sheet oath for external half and full-year reporting. In addition, the members of the Executive Board of RWE AG take an external half and full-year balance-sheet oath and sign the responsibility statement. Thereby, they confirm that the prescribed accounting standards have been adhered to and that the figures give a true and fair view of the net assets, financial position and results of operations.

We prepare our financial statements using a groupwide reporting system that we also use to prepare the budgets and forecasts. All fully consolidated subsidiaries use this system. It forms the basis for a standardised data reporting process within the Group. The financial accounting systems are largely maintained by RWE IT GmbH.

We identify risks in financial reporting at the divisional level on the basis of quantitative, qualitative and process-related criteria. The foundations of the ICS are our generally binding guidelines and ethical principles, which are also set out in RWE's Code of Conduct. Building on this, the minimum requirements for the major processing steps ensure the integrity of data collection and management. The risks of individual balance-sheet items resulting from subjective discretion or complex transactions are recorded in a groupwide risk and control matrix. Once a year, we prove that the necessary controls have actually been implemented and carried out properly. This is done by external auditors, or the management in charge of performing the controls.

When in session, the Audit Committee of the Supervisory Board regularly concerns itself with the effectiveness of the accounting-related ICS. Once a year, representatives of RWE AG's finance function present to the Committee on the risks of financial reporting. They also explain which control measures were taken and how the proper implementation of the controls was verified.

The ICS proved effective once again in connection with the assessments and audits conducted in 2014. However, this merely reduces the risk of gross misrepresentations in accounting, as this cannot be eliminated completely.

Essen, 25 February 2015

RWE Aktiengesellschaft

The Executive Board

(Terium)

(Dr. Schmitz)

(Dr. Günther)

(Tigges)