

## 2.1 SUPERVISORY BOARD REPORT

*Dear Shareholders,*

In fiscal 2010, the Supervisory Board fulfilled all of the duties imposed on it by German law and the company's Articles of Incorporation. We regularly advised the Executive Board on running the company and monitored its measures. In so doing, we were consulted on all fundamental decisions. The Executive Board informed us of all the material aspects of business developments, major events and transactions regularly, extensively and in a timely manner, both in writing and verbally. We were kept abreast of the earnings situation, risks and risk management in an equally thorough manner.

The Supervisory Board convened four ordinary meetings in the year under review. None of the Board members attended less than half of the meetings. The average participation rate was 95%. We took our decisions on the basis of detailed reports and draft resolutions submitted by the Executive Board. We were also informed of projects and transactions of special importance or urgency between meetings. The Supervisory Board passed the resolutions required of it by law or the Articles of Incorporation. Where necessary, it also did so when in session. As Chairman of the Supervisory Board, I was constantly in touch with the Chairman of the Executive Board in order to immediately discuss events of material importance to the RWE Group's situation and development.

**Main points of debate.** One of the central topics of our consultations in fiscal 2010 were the developments on the international gas market and German energy policy. Extensive debates were held on the extension of nuclear power plant lifetimes and the introduction of a tax on nuclear fuel, as these measures have significant influence on the RWE Group's earnings. The Executive Board informed us about these steps in detail and analysed their implications. In addition, we repeatedly concerned ourselves with the Group's new organisational structure, the status of new-build power plant projects and financing activities. We closely monitored the establishment of RWE Technology, the progress of RWE Innogy's projects and the integration of Essent, which was acquired in 2009, into the RWE Group.

The Supervisory Board also held in-depth debates on the German Act on the Appropriateness of Management Board Compensation (VorstAG), which entered into force in August 2009, and on its effects on the company. Due to the VorstAG, it became necessary to make adjustments to the Executive Board compensation system, for which the Supervisory Board passed a resolution at its meeting on 23 February 2010.

Need for action also arose from the German Accounting Modernisation Act (BilMoG), which took effect on 29 May 2009. The BilMoG tightened the requirements for the qualification of the supervisory boards of listed corporations. Pursuant to Sec. 100, Para. 5 of the German Stock Corporation Act (AktG), at least one independent individual possessing expertise in the field of accounting or financial statement audits must be appointed to the supervisory board. In its February session, the Supervisory Board designated Mr. von Boehm-Bezing as its independent financial expert.



Dr. Manfred Schneider, Chairman of the Supervisory Board of RWE AG.

By introducing the BilMoG, the German legislator defined the requirements to be fulfilled with respect to the establishment and activity of an audit committee. To do even better justice to these requirements, we adapted the Supervisory Board's bylaws at our September meeting.

Supervisory Board members disclosed potential conflicts of interest in some cases in the period under review. In one case, this led to the Supervisory Board member in question abstaining from influencing the relevant debates and refraining from casting a vote during the passage of the corresponding resolution.

The Executive Board regularly informed us of the revenue and earnings, measures to reduce costs, and price developments on energy markets. In our session on 17 December 2010, following in-depth consultations, we adopted the Executive Board's planning for 2011 and the forecast for 2012 and 2013. We received detailed commentary in cases where there were deviations from plans and goals established previously.

**Committees.** The Supervisory Board has five committees. Their members are listed on page 235. These committees are charged with preparing issues and resolutions of the Supervisory Board meetings. In certain cases, they exert decision-making powers conferred on them by the Supervisory Board. The committee chairmen regularly informed the Supervisory Board of their work.

The **Executive Committee** convened two ordinary meetings in the 2010 financial year. Among other things, it did preparatory work for the Supervisory Board debates concerning the 2009 financial statements of RWE Aktiengesellschaft and the Group, as well as the planning for fiscal 2011 and forecasts for 2012 and 2013.

The **Audit Committee** convened five times. It discussed the quarterly financial reports, the financial statements for the first half and the annual financial statements at length. In addition, it prepared the award of the audit contract to the independent auditor, including the priorities of the audit and the fee agreement. Special attention was also paid to the Group's risk management and the accounting-related internal controlling system. Furthermore, the committee dealt with compliance issues and the audit results of the internal audit department as well as its audit schedule. Further topics of debate in fiscal 2010 were the implementation of the BilMoG in accounting terms, the internal control system of RWE Supply & Trading, the implementation of the capital expenditure programme, as well as the economic development of Essent and its integration into the Group.

The annual and interim financial statements were each discussed at length with the Executive Board and the independent auditor before they were published. The independent auditor was present at all of the Committee meetings, participated in the debates, and reported on his audit and/or his audit-like review.

The **Personnel Affairs Committee** held three meetings. Debates primarily addressed the compensation system, the amount of Executive Board remuneration, the company pension scheme as well as the new requirements of the German Act on the Appropriateness of Management Board Compensation (VorstAG). Furthermore, the Committee prepared the Supervisory Board's personnel-related decisions.

The **Nomination Committee** was in session once, in order to prepare the appointment of Dr. Wolfgang Schüssel to the Supervisory Board. A focal point of the committee's work in-between sessions was the identification of suitable candidates for potential replacements on the Supervisory Board.

In the financial year that just ended, there was no reason to convene the **Mediation Committee**, which complies with Sec. 27, Para. 3 of the German Co-Determination Act (MitbestG).

**Financial statements for fiscal 2010.** The financial statements of RWE Aktiengesellschaft, which were prepared by the Executive Board in compliance with the German Commercial Code (HGB), the financial statements of the Group, which were prepared in compliance with International Financial Reporting Standards (IFRSs) pursuant to Sec. 315a of the German Commercial Code (HGB), the combined review of operations for RWE Aktiengesellschaft and the Group, and the accounts were scrutinised by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and were issued an unqualified auditor's opinion. In addition, the independent auditor found that the Executive Board had established an appropriate early risk detection system. The auditors were

elected by the Annual General Meeting on 22 April 2010 and commissioned by the Supervisory Board to audit the financial statements of RWE AG and the Group. Documents supporting the annual financial statements, the annual report and the auditor's report were submitted to all the members of the Supervisory Board in good time. The Executive Board also commented orally on the documents in the Supervisory Board's balance sheet meeting of 22 February 2011. The responsible independent auditors reported at this meeting on the material results of the audit and were available to provide supplementary information. The Audit Committee had previously concerned itself in depth with the financial statements of RWE Aktiengesellschaft and the Group, as well as audit reports, during its meeting on 21 February 2011, with the auditor present. It recommended that the Supervisory Board approve the financial statements as well as the appropriation of profits proposed by the Executive Board.

The Supervisory Board thoroughly reviewed the financial statements of RWE Aktiengesellschaft and the Group, the combined review of operations for RWE Aktiengesellschaft and the Group, and the proposed appropriation of distributable profit. No objections were raised as a result of this review. As recommended by the Audit Committee, the Supervisory Board approved the auditor's results of the audit of both financial statements and adopted the financial statements of RWE Aktiengesellschaft and the Group for the period ending 31 December 2010. The 2010 annual financial statements are thus adopted. The Supervisory Board concurs with the appropriation of profits proposed by the Executive Board, which envisages a dividend payment of €3.50 per share.

**Changes in personnel on the Supervisory and Executive Boards.** With effect from 1 February 2010, Frithjof Kühn was appointed to succeed Heinz-Eberhard Holl as member of the Supervisory Board by court decree. Furthermore, as of 1 March 2010, Dr. Wolfgang Schüssel was appointed by court decree successor to Dr. Thomas Fischer as member of the Supervisory Board.

Dr. Ulrich Jobs retired from the company's Executive Board with effect from the end of the day of 30 September 2010. On behalf of the Supervisory Board, I would like to take this opportunity to thank him again for all the work he has done over the years.

I thank the RWE Executive Board and all the Group's employees for the work they did in the financial year that just came to a close. Their dedication and expertise made a decisive contribution to the company's commercial success.

On behalf of the Supervisory Board



Dr. Manfred Schneider  
Chairman

Essen, 22 February 2011