

# CORPORATE GOVERNANCE REPORT 2017

**Effective, responsible corporate governance is the foundation for business success and the long-term existence of a company. This is why we ascribe it great importance. Our guiding principles are set out in the most recent version of the German Corporate Governance Code. Last year, its provisions were subjected to a series of adjustments and supplements. RWE already complies with all of the new recommendations. As in prior years, we can therefore issue an unqualified declaration of compliance in accordance with Section 161 of the German Stock Corporation Act.**

**The German Corporate Governance Code.** Corporate governance is the term used to designate the framework of rules applied to manage and monitor companies. It is generally understood that the Code sets out a framework within which executive and supervisory boards can ensure a company's subsistence and long-term value creation in line with the principles of the social market economy. Recommendations and suggestions for achieving this goal in managing and monitoring companies are included in the German Corporate Governance Code (GCGC). The object of the Code, which we observe, is to strengthen the trust of investors, customers, employees and the public in German listed companies. It is submitted by the Government Commission of the German Corporate Governance Code, which published the first version of the Code in February 2002. Since then, the Commission has reviewed the Code every year against the backdrop of national and international developments, adapting it where necessary.

**New recommendations of the Code and how they are implemented at RWE.** On 7 February of last year, the Commission adopted some changes to the Code, which are explained in detail in the following. The current version of the Code was published in the electronic version of the German Federal Gazette on 24 April 2017. RWE has taken all the measures necessary to implement the new requirements of the Code.

- **Management board compensation.** Item 4.2.3, Paragraph 2 GCGC sets out that variable compensation components must generally have a multi-year basis of assessment, which must essentially be forward-looking. RWE AG already meets this requirement through its new Executive Board compensation system, which was adopted in 2016. The same applies to the new suggestion included in Item 4.2.3, Paragraph 2 GCGC envisaging that multi-year variable compensation components not be paid out early. More detailed information can be found in the compensation report, which we have published in the Group's 2017 Annual Report.
- **Investor communications.** A new suggestion in Item 5.2, Paragraph 2 GCGC envisages that supervisory board chairs should be willing to speak to investors on issues specific to the supervisory board within reason. The

Chairman of the Supervisory Board of RWE AG has been holding such talks as part of investor communications for a long time. The Supervisory Board of RWE AG has formalised the suggestion made by the Code by including a corresponding provision in its Rules of Procedure. They now also include a provision stipulating that the Chairman of the Supervisory Board must inform the Supervisory Board of the investor talks.

- **Implementation of the competency profile and the diversity goals.** A new recommendation in Item 5.4.1 GCGC envisages supervisory boards not only stating specific goals regarding their composition and providing information on the degree to which these goals are achieved, but also creating a requirement profile for the board as a whole and reporting on its implementation as well. In December 2011, the Supervisory Board of RWE AG approved such a requirement profile, which included the expertise required from the Board as a whole, and has since updated it continuously. In view of the changes to the Code, in 2017 the Supervisory Board made some minor additions to the profile and renamed it the 'competency and requirement profile'. It also includes the diversity goals. The profile thus also encompasses the diversity concept for the Supervisory Board, on which we furnished information in earlier corporate governance reports.

In its current composition, the Supervisory Board of RWE AG meets all the requirements of its competency and requirement profile. The members of this corporate body possess the requisite technical and personal qualifications and, collectively, they have all of the knowledge, skills and experience needed in order to perform their tasks in an orderly manner. In its current composition, the Supervisory Board covers a wide range of knowledge in particular in the fields of expertise that are of special importance to RWE. Furthermore, the corporate body possesses sufficient experience on the international level as it also includes individuals from outside Germany and some of its German members have several years of professional experience at the international level.

Diversity has also been considered to an appropriate degree on the Supervisory Board. The female quota of 30% called for by law and recommended by the Code was

reached for the first time in the new elections to the Supervisory Board in 2016. Our current diversity goal is at least 30% and is thus in line with statutory regulations. The shareholder and employee representatives make equal contributions to the fulfilment of this quota. In the past financial year, the 20-member corporate body held by-elections for a female candidate for shareholder representative, who had already been appointed by a court, and re-staffed two positions, which, however, did not change the female quota.

- **Independence of supervisory board members.** New recommendations in Item 5.4.1, Paragraph 4 and Item 5.4.2, Sentence 1 GCGC envisage not only that the Supervisory Board provide information about the number of independent shareholder representatives which it deems appropriate, but that it also publish the names of the members in question. In addition, the Supervisory Board is obliged to consider the company's ownership structure when setting targets for the total number of its independent members. RWE's goal is for the corporate body as a whole to have at least twelve independent members. In the year under review, this objective was supplemented to stipulate that the independence criterion be fulfilled by at least six shareholder representatives. This has been achieved by virtue of the following shareholder representatives: Dr. Werner Brandt, Ute Gerbaulet, Prof. Dr.-Ing. Dr.-Ing. E. h. Hans-Peter Keitel, Mag. Dr. h. c. Monika Kircher, Dr. Erhard Schipporeit and Dr. Wolfgang Schüssel. Based on the Supervisory Board's assessment, the four municipal representatives on the Supervisory Board – Peter Ottmann, Dagmar Mühlenfeld, Günther Scharz and Ullrich Sierau – can be classified as independent. They have no personal or commercial relationships with the company, its boards or committees, or a shareholder with a significant stake, which may give rise to a material conflict of interest that is not just temporary as defined by Item 5.4.2 GCGC. As a matter of precaution, we provide information on the existing relations of candidates for election to the Supervisory Board. We also did this in the past.
- **CVs and overviews of the activities of supervisory board members.** Item 5.4.1, Paragraph 5 GCGC now recommends that proposals of candidates for election to a supervisory board be annexed with a CV containing information on relevant knowledge, expertise and experience. It also envisages that the CV be supplemented by an overview of the main activities in addition to the supervisory board mandate and that it be published and updated on the company's website once a year for every supervisory board member. RWE complies with this recommendation. We publish the recommended information for both new and

by-elections to the Supervisory Board. This information remains available and is updated once a year at for all of the individuals on this corporate body ([www.rwe.com/supervisory-board](http://www.rwe.com/supervisory-board)).

- **Compliance.** The Code was also supplemented with recommendations for complying with statutory regulations and in-house policies. According to Item 4.1.3, Sentence 2 GCGC, a management board must ensure that measures are taken to address its company's risk exposure (compliance management system) and must disclose its principles. The Code further recommends that employees be provided an appropriate way to report legal infractions within the company anonymously. This recommendation also applies to third parties. RWE has run an extensive compliance management system for years. Further details can be found in our Corporate Responsibility (CR) Report, the new edition of which will appear in April 2018 and will be accessible on the internet at [www.rwe.com/cr-report](http://www.rwe.com/cr-report). Employees can send notices of legal infractions to their superior or compliance officer over various channels. In addition, an independent external contact may be involved. Such external contacts may be used by employees, but they can also receive notices from individuals or legal entities who or which do not belong to the company, e. g. from business partners.

**Unqualified statement of compliance.** Even since the adjustments were made to the Code, RWE has complied with all of the recommendations of the GCGC and a large portion of the suggestions contained therein. At the end of 2017, we were thus able to issue an unqualified statement of compliance, the wording of which can be found at the end of this report.

Our new Group company innogy SE has been listed on the stock exchange since October 2016. It also implements the GCGC. innogy provides information on deviations from the recommendations of the Code in its statement of compliance.

**The fundamentals of corporate governance at RWE.** We present individual aspects of our corporate governance practices in the following. Details can be found on our website at [www.rwe.com/corporate\\_governance](http://www.rwe.com/corporate_governance). This website also provides access to our Articles of Incorporation, information on the Supervisory Board and the Executive Board (along with their Rules of Procedure), RWE's Code of Conduct, all the corporate governance reports and statements of compliance as well as the corporate governance declaration in accordance with Section 289f of the German Commercial Code and Section 315d of the German Commercial Code. We also provide

information on material aspects of corporate governance in our Annual Report ([www.rwe.com/annual-report](http://www.rwe.com/annual-report)) as well as in the aforementioned CR Report.

- **Shareholders and Annual General Meeting.** Our shareholders exercise their rights primarily by asking questions and passing resolutions at the Annual General Meeting. Each common share confers one vote, whereas preferred shares do not bear voting rights. The Chairman of the Annual General Meeting endeavours to limit the event to six hours. However, as a large number of submissions is made time and again, it was impossible to achieve this goal in the last few years. We post the Invitation to the Annual General Meeting along with the necessary documents and reports to the Internet at [www.rwe.com/agm](http://www.rwe.com/agm). Our shareholders may also exercise their voting rights by transferring them to proxies appointed by the company, who are bound to the instructions issued to them. Furthermore, they may use our Web-based system for issuing authorisations and instructions both before and during the Annual General Meeting. The Annual General Meeting is simulcast on the Web until the beginning of the Q&A session. We refer to the Internet address indicated above for further information on our Annual General Meeting.
- **Co-operation between the Executive Board and the Supervisory Board.** As a German stock corporation, RWE is subject to the dualistic management system. This system distinguishes between the management board as managing body and the supervisory board as monitoring and supervising body. Both corporate bodies are characterised by strict personal and functional separation. Irrespective of this, at RWE, the relationship between the Executive Board and the Supervisory Board is characterised by trusting cooperation in the interests of the company and its stakeholders. Further information on this – in particular regarding the provision of information to the Supervisory Board by the Executive Board – can be found in the Rules of Procedure of the Executive Board and the Corporate Governance Declaration.
- **Executive Board.** The Executive Board of RWE AG manages the company on its own responsibility. In its actions, it is obliged to serve the company's interests and to increase the company's value sustainably. The members of the Executive Board are jointly responsible for business management. They make decisions on fundamental matters of business policy and strategy as well as on the annual and medium-term planning. Information on the work practices of the Executive Board can be found in our Corporate Governance Declaration.

The Executive Board has given itself Rules of Procedure, which include provisions governing the passage of resolutions and the offices for which each of the Executive Board members is responsible.

A core element of our corporate governance is our responsible handling of risks. In its capacity as governing body, the Executive Board ensures that RWE has a professional risk management system. We have reported on the design of this system and the development of our risks and opportunities on pages 74 to 82 of our 2017 Annual Report.

We also take compliance seriously. It is important to us that the work done in our company is in order. Of course, first and foremost this means that all entrepreneurial activity must be in accordance with statutory regulations. However, to us compliance also involves observing ethical principles to which the company has subjected itself voluntarily. The decisive factors in this respect are the rules contained in our groupwide Code of Conduct. We provide information on the principles of RWE's compliance management system at [www.rwe.com/compliance](http://www.rwe.com/compliance) and in our CR Report.

In accordance with the recommendation of the GCCG, when staffing managerial positions, the Executive Board takes account of diversity and strives in particular to consider women appropriately. It has set itself the goal of achieving a female quota of 30 % at the first management level below the Executive Board by 30 June 2022. A target quota of 20 % was established for the second management level. Further commentary on this subject can be found in our Corporate Governance Declaration.

Our Executive Board compensation system, which we have presented on page 63 et seqq. of the 2017 Annual Report, is also in line with the GCCG. The same applies to the manner in which we report on it. We enlisted the services of an independent consultancy, hkp/// group, in order to obtain a better assessment of the appropriateness of the remuneration of our Executive Board. At the Annual General Meeting on 27 April 2017, we put the approval of the compensation system up for a vote amongst our shareholder representatives ('say on pay'). We achieved an approval rate of 81.25 % of the capital represented.

We have provided information on the members of the Executive Board and their CVs on our website and on pages 6 and 7 of our 2017 Annual Report. We also indicate the duration of the appointment of each Executive Board member, with their first appointment generally lasting

three years. Our website also includes information on mandates held by the Executive Board members on other corporate bodies. Such mandates may only be accepted with the approval of the Supervisory Board of RWE AG.

- **Supervisory Board.** The Supervisory Board monitors and advises the Executive Board in its management of the company. It discusses the business performance and planning as well as the strategy and its implementation at regular intervals. It reviews the financial statements of RWE AG and the Group, the combined review of operations for RWE AG and the Group, the proposal regarding the appropriation of distributable profit, and the Group's separate Non-Financial Report. It adopts and approves the consolidated financial statements, taking account of the results of the preliminary audit by the Audit Committee and the audit reports of the independent auditors. Furthermore, it passes a resolution on the Executive Board's proposal for the appropriation of distributable profit and approves its Report to the Annual General Meeting.

The Supervisory Board has given itself Rules of Procedure, which include provisions governing the passage of resolutions and the establishment of committees. They have been published on our website.

Votes are cast for every single candidate in the elections to the Supervisory Board. This corporate body has created a requirement and competency profile which must be observed when it is staffed. One of the requirements is that at least twelve of the total of 20 members must be classified as independent. As mentioned earlier, the profile was updated in 2017. Further information on this can be found in our Corporate Governance Declaration.

The remuneration of the members of the Supervisory Board is governed by our Articles of Incorporation. As recommended by the GCGC, its level amounts to x and it is thus not influenced by the company's profits or the dividend. Compensation components are added to the fixed remuneration of the Chairman of the corporate body, his or her Deputy and for seats held on committees. We have commented on details of this on page 64 of the 2017 Annual Report, where we also state the emoluments received by each member of the Supervisory Board.

The members of the Supervisory Board are obligated to take basic and advanced training measures required to perform their tasks on their own responsibility. This has always been the case in the past. They receive assistance from the company in doing so. For example, RWE regularly holds 'information forums' at which the members of the

Supervisory Board can receive training on topics of importance to them.

The Supervisory Board reviews the efficiency of its work at regular intervals. The last review of this kind occurred in 2017. The focal points and findings of the efficiency audit have been documented in the Supervisory Board Report, which can be found on page 8 et seqq. of the 2017 Annual Report.

We have provided information on the members of the Supervisory Board and their CVs on our website and on page 185 et seqq. of our 2017 Annual Report. Details of the acts of the Supervisory Board and its committees in the financial year that just ended can also be found in the Supervisory Board Report and in the Corporate Governance Declaration. The Supervisory Board Report also includes an overview of attendance at the meetings of the corporate body and its committees by the members of the Supervisory Board, broken down by individual.

- **Transparency 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 or Supervisory Board may lead to conflicts of interest. None of the members of either body notified us of such conflicts of interest. Dual offices have also been focussed on since the Group's reorganisation: individuals sitting on the Executive Board or the Supervisory Board of RWE AG also sit on the Supervisory Board of innogy SE: However, in 2017 no decisions had to be taken and no resolutions had to be passed, which could have led to a conflict of interest for these dual offices. Furthermore, no Supervisory Board members or their related parties concluded a contract with RWE AG.

Executive and Supervisory Board members are obliged to inform the public if they intend to buy or sell RWE shares. In 2017, purchases were only reported by members of the Supervisory Board; there were no notifications of sales. The members of the Supervisory Board imposed on themselves the obligation to spend 25% of the fixed compensation agreed (unless it is relinquished) to buy RWE shares and to hold these shares for the duration of their membership of the Supervisory Board. The share purchases they conducted last year largely served the purpose of meeting this self-imposed obligation. All of the share transactions concluded by Supervisory Board members were announced throughout Europe in notifications pursuant to Article 19 of the EU Market Abuse Directive.

Under RWE's employee share ownership plan, we enabled employees of German Group companies to take shares in RWE on preferential terms. Each individual was afforded the opportunity to buy 40 or 80 common shares at a price of €13.77 each. The employees must hold these shares at least until the end of 2018. In 2017, there was a separate programme based on innogy shares for the first time for employees of innogy SE and its German subsidiaries. In addition to this, our executives receive payments under the Strategic Performance Plan, the level of which depends on the development of the price of RWE shares. For the details of this plan, we refer to page 70 et seq. of our 2017 Annual Report.

- **Accounting and financial statement audits.** In addition to the annual and half-year financial statements, RWE also publishes quarterly reports. The consolidated financial statements and the interim reports comply with International Financial Reporting Standards (IFRS) and are published within the time limits stipulated by Item 7.1.2 GCGC. The separate financial statements of RWE AG, which are decisive for the dividend, are prepared in accordance with the German Commercial Code.

Before the Supervisory Board commissions the independent auditors, it obtains a statement from them on whether and the extent to which commercial, financial, personal or other relationships exist between the auditing firm, its bodies and audit heads on the one hand and the audited RWE companies and its bodies on the other, which may substantiate doubts about the independence of the auditors. Pursuant to an agreement, the auditors must immediately inform the Chairman of the Audit Committee as soon as the audit reveals issues that may substantiate the partiality of the auditors or their dismissal and cannot be resolved immediately. They also undertake to report to the Supervisory Board on all issues material to

their tasks, of which they learn during the audit of the financial statements. Moreover, the independent auditors are obliged to inform the Supervisory Board and/or document in the audit report any findings that contradict the company's statement of compliance.

The independent auditors are elected by the Annual General Meeting for a year at a time, in accordance with statutory regulations. Last year, the Annual General Meeting of RWE AG appointed Pricewaterhouse-Coopers GmbH Wirtschaftsprüfungsgesellschaft independent auditors for 2017, in accordance with the proposal of the Supervisory Board. To satisfy the legal requirements and obligation to rotate pursuant to Sections 319 and 319a of the German Commercial Code, we may commission PwC to conduct the audit for the last time for fiscal 2023.

Above and beyond this, PwC ensures through internal rotation that the audit actions are conducted with due neutrality in relation to the company.

**Declaration of compliance in accordance with Section 161 of the German Stock Corporation Act.** After an orderly audit, the Executive Board and the Supervisory Board of RWE Aktiengesellschaft issued the following declaration of compliance on 14 December 2017:

Since the submission of the last declaration of compliance on 15 December 2016, RWE Aktiengesellschaft has fully complied with the recommendations of the Government Commission of the German Corporate Governance Code in the 12 June 2015 version of the Code published by the German Federal Ministry of Justice in the official section of the German Federal Gazette. RWE Aktiengesellschaft complies with all of the recommendations of the new version of the Code issued on 24 April 2017 and will also do so in the future.

RWE Aktiengesellschaft

On behalf of the Supervisory Board

Dr. Werner Brandt

Essen, 7 March 2018

On behalf of the Executive Board

Dr. Rolf Martin Schmitz

Dr. Markus Krebber