

## SUPERVISORY BOARD REPORT



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*Dear Shareholders,  
Ladies and Gentlemen*

Following the founding and the IPO of innogy in 2016, another landmark decision was taken last year, which will fundamentally change the RWE Group. An extensive asset swap was agreed with our German competitor E.ON, which is scheduled to be completed in 2019. This will make RWE Europe’s No. 3 in renewable energy, with E.ON strengthening itself through the addition of innogy’s grid and retail businesses. My fellow Supervisory Board members and I welcome the transaction. In renewable energy, RWE will receive a business characterised by stable income, attractive growth options and widespread public acceptance. As a result, the company will take a major step forward. This assessment is apparently shared by the capital market: buoyed by the new operating prospects, the RWE common share earned a total return of 20% last year, impressively bucking the market’s negative trend.

RWE’s share performance would probably have been even better, if the temporary halt to the clearance of Hambach Forest ordered by the Münster Higher Administrative Court had not abruptly reminded us of the risks to which RWE remains exposed in conventional power generation. The ruling handed down in October 2018 will curtail the operation of the Hambach opencast lignite mine considerably and weigh on earnings. Following the occasionally heated debate on the clearance of the forest and the future of electricity production from coal in Germany, one can only hope that these topics are once again addressed with less bias and more far-sightedness in the future. The recommendations of the Growth, Structural Change and Employment Commission submitted in January 2019 could make an important contribution to this end. The Commission, which was established by the government, is in favour of Germany taking further coal-fired power stations offline by the end of 2022 and phasing out electricity generation from coal entirely by no later than 2038 (also see page 33 of this annual report). We thoroughly discussed the Commission’s recommendations at an extraordinary Supervisory Board meeting on 5 February 2019. It is likely that there will be serious consequences for RWE’s lignite business. The recommendations harbour both risks and opportunities. They can give policymakers a basis for providing planning certainty to companies, employees and the regions. In doing so, it must be ensured that those affected are not put at a disadvantage.

Now let me go into the work we did on the Supervisory Board in the financial year that just ended. Once again, we fulfilled all of the duties imposed on us by German law and the Articles of Incorporation. We advised the Executive Board on running the company and monitored its actions attentively. Moreover, we were consulted on all fundamental decisions. The Executive Board informed us of all material aspects of business developments, the earnings situation as well as the risks and the management thereof both verbally and in writing. This was done regularly, extensively and in a timely fashion. Decisions were taken on the basis of detailed reports and draft resolutions submitted by the Executive Board. The Supervisory Board had ample opportunity to concern itself with these in its plenary sessions and its committees. We were also informed by the Executive Board of projects and transactions of special importance or urgency in several extraordinary meetings and between meetings. We passed the resolutions required of us by law or the Articles of Incorporation. Occasionally, we did so by circular. As Chairman of the Supervisory Board, I was constantly in touch with the Executive Board. This allowed us to discuss events of material importance to the Group's situation and development without delay.

Last year, the Supervisory Board convened for five ordinary and three extraordinary meetings. The shareholder and the employee representatives on the Supervisory Board consulted separately on the agenda items of the plenary sessions in advance. The following table provides an overview of the attendance of the members of the corporate bodies at the meetings of the Supervisory Board and its committees:

Attendance at meetings in fiscal 2018 by Supervisory Board member <sup>1</sup>	Supervisory Board	Executive Committee	Audit Committee	Personnel Affairs Committee	Strategy Committee
Dr. Werner Brandt, Chairman	8/8	1/1	3/4 <sup>2</sup>	3/3	1/1
Frank Bsirske, Deputy Chairman	6/8	1/1		3/3	1/1
Michael Bochinsky (since 1 August)	3/3		2/2		
Reiner Böhle	8/8			3/3	
Sandra Bossemeyer	7/8	1/1			
Martin Bröker (since 1 September)	3/3				
Ute Gerbaulet	7/8				
Reinhold Gispert (until 31 July)	5/5		2/2		
Andreas Henrich (until 31 August)	5/5				
Prof. Dr. Hans-Peter Keitel	7/8	1/1			1/1
Dr. h. c. Monika Kircher	8/8				
Monika Krebber	6/8 <sup>3</sup>	1/1			
Harald Louis	8/8			3/3	
Dagmar Mühlendorf	8/8	1/1			
Peter Ottmann	8/8			3/3	
Günther Scharz	7/8				1/1
Dr. Erhard Schipporeit	6/8 <sup>3</sup>		4/4		
Dr. Wolfgang Schüssel	8/8	1/1	4/4	3/3	
Ullrich Sierau	8/8		3/4		
Ralf Sikorski	7/8		4/4		1/1
Marion Weckes	8/8		4/4		
Leonhard Zubrowski	8/8	1/1			1/1

1 Attendance is indicated by the ratio of the number of meetings attended by the Supervisory Board member to the total number of meetings during the individual's term as a member of the corporate body in question. Only the committees that convened in the year under review are listed.

2 Dr. Werner Brandt attended meetings of the Audit Committee as a guest.

3 Due to potential conflicts of interest, Monika Krebber and Dr. Erhard Schipporeit, who also sit on the Supervisory Board of innogy SE, did not attend the extraordinary Supervisory Board meetings on 11 and 12 March 2018, at which the envisaged asset swap with E.ON was discussed.

**Main points of debate of the Supervisory Board meetings.** We were informed by the Executive Board very thoroughly of current events of importance to RWE in the ordinary sessions. A focal point of regular reporting was the political debate concerning Germany's coal phase-out and the work of the Growth, Structural Change and Employment Commission. We also discussed the German Environmental Ministry's initial ideas on how to translate the new EU clean air standards for power stations into national law. The Executive Board also kept us abreast of the developments in energy policy in neighbouring countries, e. g. the coal phase-out planned in the Netherlands. In addition to these and other issues, Brexit was also addressed. We only discussed special topics in our extraordinary meetings. Now I would like to address the main points of our sessions in more detail:

- At its ordinary meeting on 7 March 2018, the Supervisory Board discussed and approved the financial statements for fiscal 2017 and the agenda of the Annual General Meeting of 26 April 2018. Furthermore, we consulted about the talks that I conducted with major institutional investors on corporate governance matters (Executive Board remuneration, composition of the Supervisory Board, etc.) and on RWE's climate protection strategy. This dialogue was received very positively by investors and is scheduled to be continued once a year.
- The main topic at two extraordinary meetings, which took place on 11 and 12 March 2018 was the asset swap planned between RWE and E.ON through which the two companies will have a fundamentally new setup. We gave the go-ahead to the transaction on 12 March after intensive debates. The asset swap was contractually agreed on the same day.
- At the ordinary meeting on 26 April 2018, we discussed how politicians will translate the new EU clean air standards for power plants into national law. By then, the German Environmental Ministry had already presented its first concepts regarding the matter. In addition, we made the final preparations for the Annual General Meeting, which was held on the same day.
- Our ordinary meeting on 6 July 2018 was dedicated to IT security. The state and industry are exposed to the ever greater risk of cyber attacks. Both the frequency and severity of such attacks have increased. In our meeting we discussed the protective measures that had already been taken and the next steps necessary in order to continue guaranteeing the security of RWE's IT infrastructure in the future.
- At the ordinary meeting on 21 September 2018, we focused on the capital market's view of RWE. The Executive Board informed us of the positive feedback from investors on the envisaged asset swap with E.ON. We addressed in great detail whether RWE should maintain the preferred shares in the long run. On international capital markets, it is customary for every share to have a vote. Together with the Executive Board, we discussed various possible actions and features, including the conversion of preferred shares to common shares.
- On 14 October 2018, the Supervisory Board convened for an extraordinary session at which it concerned itself with the preliminary halt to the clearance of Hambach Forest ordered by the Münster Higher Administrative Court. The Executive Board informed us about the far-reaching consequences that the Court's ruling could have for the opencast mining operations and the company's earnings and consulted with us regarding the next steps.
- We reviewed and adopted the planning for fiscal 2019 at an ordinary meeting on 12 December 2018. As usual, we also discussed the recommendations of the German Corporate Governance Code (GCGC) which were unchanged from 24 April 2017, and approved an updated statement of compliance together with the Executive Board. Another focal topic was digitisation and its increasing importance to the corporate world. We agreed that expertise in this area should be considered expressly in the Supervisory Board's competence and skills matrix and expanded it accordingly. During the meeting, we also discussed the ruling of the General Court of the Court of Justice of the European Union on the UK capacity market, which led to a suspension of capacity payments. We conducted an in-depth debate on the United Kingdom's impending exit from the EU and its possible effects on RWE. Furthermore, we received a report from the Executive Board on the increasingly critical views that banks and insurance companies have of coal. However, to date this has hardly affected the business relations between RWE and financial institutions.

**Supervisory Board committees.** Last year, the Supervisory Board had five standing committees, the members of which are listed on page 199. These committees are charged with preparing topics and resolutions for plenary sessions. Occasionally, they exercise decision-making powers conferred on them by the Supervisory Board. The Supervisory Board was informed of the work of the committees by their chairmen at every ordinary meeting. In the year under review, a total of nine committee meetings were held, on which I would like to report in more detail. Attendance by individual is presented in the table on page 9.

- The **Executive Committee** convened once. Its members discussed the company's planning for fiscal 2019 as well as the outlook for 2020 and 2021 in depth and prepared their adoption by the Supervisory Board.
- The **Audit Committee** was in session four times. It concerned itself in particular with the financial statements of RWE AG and the Group, together with the combined review of operations, as well as with the report for the first half of the year and the quarterly statements. The Committee discussed the financial statements in detail with the Executive Board before they were published and received reports on the outcome of the audits and audit-like reviews from the independent auditors. It paid special attention to the quality of the financial statement audits. The Committee also engaged in dialogue with the independent auditors via its chairman in between sessions. Furthermore, the body submitted a recommendation to the Supervisory Board regarding the election of the independent auditors for fiscal 2018, prepared the grant of the audit award to the independent auditors including the fee agreement, and set the priorities of the audit. Non-financial reporting was also on the agenda: analyses and comparisons to other companies prove that RWE has a high level of transparency in this area. As usual, the Committee was informed of the effectiveness of the accounting-related internal control system. This did not reveal any issues that would call the effectiveness of the control system into question. Furthermore, the Committee dealt with the design of the compliance management system, the planning and findings of the internal audit, the RWE Group's exposure to risk pursuant to the German Corporate Control and Transparency Act, data security as well as legal and tax issues. In-house experts were consulted when necessary.
- The **Personnel Affairs Committee** held three meetings during the year being reviewed. Amongst other things, the corporate body discussed the adjustments to the target figures for the variable remuneration of the Executive Board and executives necessary due to the envisaged asset swap with E.ON. Detailed information on the changes can be found on page 64 et seqq. Moreover, the Committee prepared the Supervisory Board resolution on the renewed appointment of Markus Krebber as member of the Executive Board of RWE AG.
- The **Nomination Committee** did not convene in 2018.
- The members of the **Strategy Committee** held one session. This meeting focused on the asset swap agreed with E.ON. The Executive Board explained the key points of its future strategy for the renewable energy business. In addition, it informed the Committee of the measures taken to prepare the integration of the business activities that will be transferred to RWE as part of the transaction.
- The **Mediation Committee** pursuant to Section 27, Paragraph 3 of the German Co-Determination Act did not have to meet in 2018.

**Conflicts of interest.** The members of the Supervisory Board are obliged by law and the GCGC to immediately disclose any conflicts of interest they have. Last year, Monika Krebber and Erhard Schipporeit, who sit on the Supervisory Board of both RWE AG and innogy SE, filed notifications of conflicts of interest in respect of the decisions regarding the envisaged asset swap with E.ON. Therefore, they did not receive any of the preparatory documents in relation to the relevant agenda items and did not participate in the relevant consultations or passing of resolutions.

**Financial statements for fiscal 2018.** PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft scrutinised and issued an unqualified auditor's opinion on the 2018 financial statements of RWE AG, which were prepared by the Executive Board in compliance with the German Commercial Code, the financial statements of the Group, which were prepared in compliance with International Financial Reporting Standards (IFRS) pursuant to Section 315a of the German Commercial Code, the combined review of operations for RWE AG and the Group, and the accounts. In addition, PricewaterhouseCoopers found that the Executive Board had established an appropriate early risk detection system. The company had been elected independent auditor by the Annual General Meeting on 26 April 2018 and commissioned by the Supervisory Board to audit the financial statements of RWE AG and the Group.

The annual report and the audit reports for 2018 as well as documents supporting the annual financial statements were submitted to the members of the Supervisory Board in good time. Furthermore, the Executive Board commented on the documents in the Supervisory Board's balance sheet meeting of 8 March 2019. The 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 AG and the Group, as well as audit reports, during its meeting on 7 March 2019, with the auditors present. It recommended that the Supervisory Board approve the financial statements as well as the appropriation of profits proposed by the Executive Board.

At its balance-sheet meeting, the Supervisory Board reviewed the financial statements of RWE AG and the Group, the combined review of operations for RWE AG and the Group, and the Executive Board's proposal regarding the appropriation of distributable profit and the Group's separate non-financial report. No objections were raised as a result of this review. As recommended by the Audit Committee, the Supervisory Board approved the results of the audits of the financial statements of RWE AG and the Group and approved both financial statements. The 2018 financial statements are therefore adopted. The Supervisory Board concurs with the Executive Board's proposal regarding the appropriation of profits, which envisages paying a dividend of €0.70 per share.

**Changes in personnel on the Supervisory Board.** There were two staffing changes on the Supervisory Board in the year under review. Reinhold Gispert and Andreas Henrich, both of whom were employee representatives, resigned from the corporate body with effect from the end of the day on 31 July and 31 August, respectively. The Essen District Court appointed Michael Bochinsky to replace Reinhold Gispert on the Supervisory Board with effect from 1 August 2018. As of 1 September, Andreas Henrich was succeeded by Martin Bröker, who had been elected Mr. Henrich's successor by the Employees Delegate Assembly on 2 March 2016. On behalf of the Supervisory Board, I thank Messrs. Gispert and Henrich for their valuable work in our corporate body and dedication to RWE.

**Thanks to the employees of RWE.** In keeping with tradition, I would like to dedicate the last few lines of my report to those who made the most important contribution to RWE's success and continued development: the employees. As in the past, in 2018, they proved once again that a great deal can be accomplished with expertise and commitment. My colleagues and I really appreciate this and would like to express our sincere gratitude to them for this. Last year, the groundwork was laid for a new RWE, which will stand for both stability and growth. Our company's journey will lead to a promising future, but might also be difficult at times. I am convinced that with the support of its staff, RWE will navigate this course successfully and master the huge challenges along the way.

On behalf of the Supervisory Board



Werner Brandt  
Chairman

Essen, 8 March 2019