

# CORPORATE GOVERNANCE REPORT 2018

**In the long term, a company's success is largely dictated by the manner in which it is run and the controls to which its management bodies are subjected. The German Corporate Governance Code, to which we orientate ourselves, provides good guidelines for this. With just one exception, last year we followed all of the Code's recommendations. The rule book is set to be subjected to a fundamental reform in 2019. We aim to comply with as many recommendations of the Code as possible thereafter.**

**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 regularly reviewed the Code against the backdrop of national and international developments, adapting it where necessary.

**Fundamental reform of the Code planned.** On 6 November 2018, the Commission presented a completely revised draft of the Code. The Commission made the Code leaner, restructured it and improved its legibility, with a view to increasing its relevance and acceptance among companies and investors. The new draft largely renounced reproducing excerpts from the law. Instead, the Commission prefaces the recommendations and suggestions with binding principles, which concisely paraphrase major statutory regulations and standards for good and responsible corporate governance. In the future, the supervisory and managing boards must explain how they apply the ground rules according to the new 'apply and explain' principle. By contrast, companies must report on compliance with the Code's recommendations according to the 'comply or explain' principle. In addition to these fundamental changes, the Code includes new recommendations, for instance regarding the tenure of managing and supervisory board members, management board remuneration and the maximum number of supervisory board offices held per member. The new Code is scheduled to be published in the German Federal Gazette in the summer of 2019, thereby entering into force. Thereafter, the Executive Board and the Supervisory Board of RWE AG will study the new rule book in detail and decide amongst themselves on how to implement it. Our goal is to fully comply with the new recommendations of the Code.

**Statement of compliance.** Last year, RWE was nearly fully compliant with the recommendations of the version of the Code published on 24 April 2017. The only exception was the recommendation in Item 4.2.3, Paragraph 2, Sentence 8 of the GCGC, which forbids retrospective changes to the performance targets and reference parameters concerning executive board remuneration. The deviation from this recommendation was due to the envisaged asset swap with E.ON and the adjustments to the determination of Group figures made to comply with International Financial Reporting Standards (IFRS). As a result of these changes, certain target figures are no longer calculated based on their previous definition. Therefore, the Supervisory Board adopted new target figures in September 2018 and published an ad-hoc release on the deviation from the Code. Detailed information can be found in the statement of compliance dated 12 December 2018, which has been reproduced at the end of this report.

Our operationally independent subsidiary innogy also conducts its corporate governance following the guidelines of the GCGC. The company provides information on the implementation of the Code's recommendations as well as on deviations therefrom.

**Aspects of corporate governance at RWE.** We present our corporate governance practice in more detail herein below. Further details can be found on our website at [www.rwe.com/corporate-governance](http://www.rwe.com/corporate-governance). It includes our Articles of Incorporation, information on the Supervisory Board and the Executive Board (including the Rules of Procedure for both corporate bodies), RWE's Code of Conduct, all of our Corporate Governance Reports and statements of compliance as well as the Corporate Governance Declarations in accordance with Sections 289f and Section 315d of the German Commercial Code. We also provide information on material aspects of corporate governance in our Annual Report and in the Corporate Responsibility Report (CR Report). These publications are also available online at [www.rwe.com/annual-report](http://www.rwe.com/annual-report) and [www.rwe.com/CR-Report](http://www.rwe.com/CR-Report), respectively.

**Fundamentals.** Essen-based RWE AG ranks among Europe's leading energy utilities. In line with statutory regulations, RWE is subject to the two-tier governance system. This system is characterised by the strict personal separation between the management board as managing body and the supervisory board as monitoring body. It is in a company's interests for these two corporate bodies to co-operate constructively and trustingly, which is the case at RWE. More detailed information on the collaboration of the two boards in our company (e.g. information sharing) can be found in the Rules of Procedure for the Executive Board and the Corporate Governance Declaration.

The management of the operating divisions (segments) is in the remit of the subsidiaries of RWE AG. In the Lignite & Nuclear segment, this task is performed by RWE Power AG and RWE Nuclear GmbH, with the latter being managed by the former; in the European Power segment by RWE Generation SE, and in the Supply & Trading segment by RWE Supply & Trading GmbH. The aforementioned subsidiaries are connected to the parent company through control and profit- and loss-pooling agreements and are subject to instructions received from the Executive Board of RWE AG. innogy SE, which specialises in renewable energy, grids and retail, ties into the organisation differently, as RWE holds a 76.8% stake in it. The company can act independently in economic terms. RWE manages it as a financial investment and exerts its influence as majority shareholder exclusively via the legally mandated corporated bodies, i.e. the Supervisory Board and the Annual General Meeting. The cornerstones of the co-operation between RWE AG and innogy SE have been established in a comprehensive agreement signed by the two companies in 2016 in the run-up to the public listing of innogy.

- **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 shareholders do not have voting rights. The Chairman of the Annual General Meeting endeavours to limit the event to six hours. However, it was impossible to achieve this goal in the last few years, as a large number of submissions was made. We post the Invitation to the Annual General Meeting along with the necessary documents and reports on 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.

- **Executive Board.** RWE's Executive Board currently consists of two members, Rolf Martin Schmitz (Chairman) and Markus Krebber. We have provided information on both of these gentlemen including their CVs on our website and on pages 7 and 200 of the 2018 Annual Report. Our website also includes information on offices held by the Executive Board members on other corporate bodies. They may only accept offices with the approval of RWE's Supervisory Board.

Rolf Martin Schmitz's appointment to the Executive Board of RWE AG runs until 30 June 2021, and the appointment of Markus Krebber runs until 30 September 2024. In addition, Rolf Martin Schmitz has been the Labour Director since 1 May 2017. Item 5.1.2, Paragraph 2, Sentence 1 of the GCGC stipulates that initial appointments of management board members be limited to three years. RWE complied with this in the past. In view of the Executive Board's current members Messrs. Schmitz and Krebber and their appointments, it is inevitable that the women's quota on this corporate body will probably be zero in the coming years. This has been considered by the Supervisory Board of RWE AG by following the recommendation of the GCGC to establish a target quota: at its meeting on 23 June 2017, this corporate body set the figure at zero for the five-year period ending in the middle of 2022. Nevertheless, this figure may be exceeded if the Executive Board is enlarged or one of its two current members resigns early.

Assessing diversity in relation to the staffing of executive boards is not representative when limited to RWE AG, which as parent company does not have operating activities and therefore only needs a small executive board. It is important to also assess diversity considering the management teams of the subsidiaries in charge of the operating activities. Separate, ambitious diversity targets have been established for them, which are being fully achieved. On the whole, the current staffing of the RWE Group's managing boards mostly satisfies the diversity requirements. Nevertheless, we plan to increase diversity even further when staffing management positions.

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 its value. 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. At RWE, the Executive Board has given itself Rules of Procedure, which include provisions governing the offices for which each of the Executive Board members is responsible and the passage of resolutions. Information on the work practices of the Executive Board can be found in our Corporate Governance Declaration.

In line with statutory regulations, 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 page 73 et seqq. of our 2018 Annual Report.

RWE also takes compliance very seriously. It is important to us that the work done in our company is in order. First and foremost, this means that we strictly comply with statutory regulations. To us, compliance also involves adhering to ethical standards and principles to which the company subjects itself voluntarily. Our Code of Conduct provides the guidelines for this. The principles of this Code lean heavily on those of the United Nations Global Compact and thus also help ensure responsible and legally compliant action within the RWE Group.

RWE has established a comprehensive compliance management system, which is described in further detail at [www.rwe.com/compliance](http://www.rwe.com/compliance) and in our CR Report. Suspected and actual legal violations can be reported to superiors or compliance officers through various channels. An independent external contact can also be involved. This contact is not only at the disposal of employees, but also accepts leads from individuals outside the company, e. g. business partners.

Our Executive Board remuneration system, which we have presented on page 61 et seqq. of the 2018 Annual Report, is in line with the GCGC. 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 remuneration system up for a vote ('say on pay') amongst our shareholders, who approved it by an 81.25% majority of the capital represented.

- **Supervisory Board.** RWE AG's Supervisory Board consists of 20 members and is equally staffed by shareholder and employer representatives, in line with the German Co-determination Act. We have provided information on the members of the Supervisory Board and their CVs on our website and on page 196 et seqq. of the 2018 Annual Report.

The Supervisory Board advises the Executive Board in managing the Company and monitors its work. It is involved in all decisions of fundamental importance to RWE. Moreover, it regularly discusses the development of business, the Executive Board's planning, and the strategy and its implementation. The Supervisory Board 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 Statement. 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 shareholder representatives and the employee representatives meet separately before every Supervisory Board meeting.

The Supervisory Board has given itself Rules of Procedure, which include provisions governing collaboration on the Board and the establishment of committees. At present, there are six standing committees of the Supervisory Board: the Executive Committee, the Mediation Committee in accordance with Section 27, Paragraph 3 of the German Co-determination Act, the Personnel Affairs Committee, the Audit Committee, the Strategy Committee and the Nomination Committee. The tasks of the standing committees and their composition are set out in detail in Section 10 et seqq. of the Rules of Procedure. The committee chairmen regularly report to the Supervisory Board on the work of the committees. Further details can be found in the Corporate Governance Declaration. In this context, reference is also made to the Supervisory Board Report on page 8 et seqq. of the 2018 Annual Report, which contain an overview of the members' attendance at the meetings of this corporate body and its committees, broken down by individual.

- 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. For example, at least 12 of the 20 members must be classified as independent, including six shareholder representatives. In the Supervisory Board's current composition, all ten shareholder representatives satisfy this criterion: They do not have any personal or business relations to Group companies, the corporate bodies of RWE AG or its main shareholders which would substantiate a material, non-temporary conflict of interest and thus dependency within the meaning of Item 5.4.2 of the GCGC. In the run-up to Supervisory Board elections, we provide information in the invitation to the Annual General Meeting on candidates who have relations that could substantiate dependency. We have also done this in the past.

The requirement and skills matrix for the Supervisory Board was recently supplemented by the requirement that the corporate body must possess an appropriate level of expertise in the field of digitisation. In its current composition, the Supervisory Board of RWE AG fully complies with the skills matrix. Collectively, the members of this corporate body possess all of the knowledge, skills and experience needed in order to perform their tasks in an orderly manner. They cover a wide range of knowledge in the fields of expertise that are of special importance to RWE. Furthermore, the Supervisory Board possesses sufficient experience on the international level as it includes individuals from outside Germany and some of its German members have experience working abroad.

The skills matrix also includes a diversity concept on which we provided information in earlier Corporate Governance Reports. 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 therefore does not exceed the legal requirement. The shareholder and employee representatives make equal contributions to the fulfilment of this target quota.

The members of the Supervisory Board are responsible for ensuring their own basic and advanced training as required to perform their tasks. 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 remuneration of the members of the Supervisory Board is governed by our Articles of Incorporation. As recommended by the GCGC, its level is fixed and it is therefore 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. Details on this can be found on page 61 et seq. of the 2018 Annual Report, where we also provide a breakdown of remuneration by Supervisory Board member.

- **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 Executive or Supervisory Board members may lead to conflicts of interest. Such conflicts of interest may arise in the RWE Group also if individuals sitting on the Executive Board or the Supervisory Board of RWE AG also sit on the Supervisory Board of innogy SE. Dual offices have been focused on due to the asset swap agreed with E.ON. Conflicts of interest which could have been triggered by impending decisions on this transaction by these corporate bodies in 2018 were disclosed beforehand. Dr. Erhard Schipporeit and Monika Krebber are holders of dual offices who notified the company of a conflict of interest and therefore renounced participating in the debates and passing of resolutions. Otherwise, we did not receive any notifications of potential conflicts of interest. Furthermore, no Supervisory Board members or their related parties concluded a contract with RWE.

Executive and Supervisory Board members are obliged to inform the public if they intend to buy or sell RWE shares. In 2018, 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 Regulation.

Under RWE's employee share ownership plan, we enabled employees of German and UK Group companies to take shares in RWE on preferential terms in 2018. Qualifying individuals were afforded the opportunity to buy a limited number of common shares (in Germany 30 or 60 shares) and received a free share for every three purchased shares. On top of this, our executives receive benefits under the Strategic Performance Plan, the level of which depends on the development of the price of RWE common shares. For details on this plan, please turn to page 69 et seq. of the 2018 Annual Report.

- **Accounting and financial statement audits.** RWE prepares annual and interim financial statements in compliance with IFRS which are published within the time limits set forth in Item 7.1.2 of the GCGC. The separate financial statements of RWE AG, which are decisive for the dividend, are prepared in accordance with the German Commercial Code. Above and beyond this, once a year we publish a CR Report containing extensive information on sustainability issues while meeting the requirements imposed on non-financial statements in accordance with Sections 315b and 315c of the German Commercial Code.

The Audit Committee of the Supervisory Board monitors the audit of the financial statements and sees to it that it meets the applicable quality standards. It verifies the independence of the auditors and examines the additional services rendered by the independent auditors. Furthermore, it prepares the proposal for the election of the independent auditors to the Annual General Meeting and gives a corresponding recommendation, issues the audit award and agrees supplementary focal points of the audit and the fees of the independent auditors. The Chairman of the Audit Committee is in constant contact with the independent auditors during the audit and discusses the contents of the audit of the financial statements with them.

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 appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC for short) independent auditors for fiscal 2018, in accordance with the proposal of the Supervisory Board. To comply with the current statutory regulations, 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.

Before the Audit Committee makes a recommendation on the election of the independent auditors, it obtains a statement from the audit firm 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. The independent auditors 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 fees paid to PwC in fiscal 2018 are reported on page 157 of the 2018 Annual Report. As is evident from the overview, non-audit consulting fees did not account for more than 30 % of the total audit fees.

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

"Since the submission of the last declaration of compliance on 14 December 2017 and the update to it on 21 September 2018, RWE Aktiengesellschaft has fully complied with the recommendations of the Government Commission of the German Corporate Governance Code in the 24 April 2017 version of the Code published by the German Federal Ministry of Justice in the official section of the German Federal Gazette – with the exception of the recommendation in Item 4.2.3, Paragraph 2, Sentence 8 of the GCGC. The company explained the deviation from this recommendation in the update of 21 September 2018. The company aims to fully comply with all Code recommendations once again in the future.

Item 4.2.3, Paragraph 2, Sentence 8 of the GCGC forbids retrospective changes to the performance targets and reference parameters concerning executive board remuneration. On 21 September 2018, the company's Supervisory Board decided to adjust the company bonus targets (as a component of one-year variable compensation) for fiscal 2018 and for the 2018 and 2019 tranches of the

Strategic Performance Plan (SPP) retroactively. The adjustment was necessary and mandated by stock corporation law against the backdrop of the asset swap agreed between RWE and E.ON: the former target figures (adjusted EBIT for the company bonus; adjusted net income for the SPP) had been determined on the basis of the planning for the RWE Group. This planning had considered innogy SE, in which RWE Aktiengesellschaft holds a 76.8% stake, as a fully consolidated subsidiary. It is envisaged that the majority stake in innogy be transferred to E.ON as part of the asset swap. This required a change in reporting in 2018: The parts of innogy, which will be transferred to E.ON over the long term via the transfer of the majority interest – primarily the grid and retail business – are being stated and accounted for as ‘discontinued operations’ until they are transferred. Therefore, the reporting figures necessary to measure target achievement related to the company bonus and for the SPP ceased to exist in fiscal 2018. Instead, RWE figures are now being used to measure performance. These figures consider innogy as a pure financial investment, deviating from International Financial Reporting Standards (IFRS) (also see the commentary on page 60 of the 2017 Annual Report of the RWE Group).”

RWE Aktiengesellschaft

On behalf of the Supervisory Board

On behalf of the Executive Board



Dr. Werner Brandt



Dr. Rolf Martin Schmitz



Dr. Markus Krebber

Essen, 8 March 2019