

## **Report of the Executive Board to the Annual General Meeting on Item 7**

We propose to the Annual General Meeting that the company be authorised to conduct share buybacks and use treasury stock.

Besides making acquisitions on the stock exchange, the company should also be enabled to conduct share buybacks via a purchase offer submitted to all of the holders of shares of the class in question. This will afford the company greater flexibility. The principle of equal treatment set forth in German stock corporation law must be taken into account. If a purchase offer is oversubscribed, the allocation shall be made based on the ratios of the interests held by the shareholders tendering the shares with respect to each other. Commercial rounding shall be used to avoid arithmetic fractions of shares. Therefore, it is permissible to round the number of shares to be purchased from tendering shareholders in order to ensure the purchase of whole shares. Furthermore, a privileged acceptance of small numbers of shares (up to 50 tendered shares per shareholder) may be envisaged. This possibility primarily serves the purpose of avoiding small numbers of remaining shares.

It is proposed that the Annual General Meeting authorise the Executive Board to call shares bought back on the basis of this or an earlier authorisation without further approval from the Annual General Meeting. The proposed authorisation envisions the Executive Board also calling shares without decreasing the company's capital stock, in accordance with Section 237, Paragraph 3, Item 3 of the German Stock Corporation Act. In cases where shares are called without decreasing the company's capital stock, the prorated amount of the other shares in the company's capital stock increases. In such cases, the Executive Board shall be authorised to amend the Articles of Incorporation to reflect the change in the number of shares.

Furthermore, the company seeks to be allowed to offer shares in the company bought back on the basis of this or an earlier authorisation waiving subscription rights as compensation in the event of a merger or the acquisition of a company, part of a company, operation or of a stake in a company. Treasury stock is an important acquisition currency. It can represent an attractive financing option for the company. Sellers often request that they receive them as quid pro quo. If given the corresponding authorisation, the company will be able to rapidly and flexibly complete acquisitions paid for in shares

either in full or in part. Most importantly, it will be able to do so without seeking approval from the Annual General Meeting, which is often impossible due to time constraints. Moreover, the usage of treasury stock as acquisition currency benefits existing shareholders in that their voting rights are not diluted compared to the situation before the company bought back its own shares. At present, there are no plans to make acquisitions in exchange for treasury stock.

Section 71, Paragraph 1, Item 8, Sentence 4 of the German Stock Corporation Act allows the Executive Board to sell shares bought back on the basis of this or an earlier authorisation on the stock exchange. Furthermore, the Executive Board seeks to be authorised by the Annual General Meeting to sell the treasury stock purchased on the basis of this or an earlier authorisation by making an offer to all shareholders or by other means.

The company is also to be put in a position in compliance with Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act to sell treasury stock purchased on the basis of this or an earlier authorisation waiving shareholder subscription rights without selling them on the stock exchange or by making an offer to shareholders in exchange for cash. The primary object is to enable the company to issue shares in the company at short notice. The proposed authorisation thus helps secure that the company has a sufficient amount of equity over the long term. The prerequisite is that the exercise price is not significantly lower than the price of the shares in the company with the same entitlements on the stock market at the time of sale within the meaning of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. In the event of a discount relative to the price of the shares on the stock market at the time of the sale based on prevailing market conditions, the Executive Board will make sure that the discount is as small as possible. The sum accounted for by the shares which are up for sale is limited to 10 % of the company's capital stock. Shares otherwise issued waiving subscription rights during the term of this authorisation in direct or corresponding application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act will be deducted from this cap. Due to the limit imposed on the number of shares and the obligation to ensure that the sales price of the new shares mirrors that of the price of common shares on the stock market as closely as possible, the shareholders are afforded suitable protection from a dilution of their shares. At the same time, this ensures that the compensation sought by the company is reasonable.

To the extent that option or convertible bonds exist, it may be expedient to enable the exercise of rights resulting from such option or convertible bonds to subscribe shares not through a capital increase, but through treasury shares in the company either in full or in part. Therefore, a corresponding use of shares bought back on the basis of this or earlier authorisations waiving subscription rights is envisaged. The share of the capital stock attributable to the shares to be sold may be no more than 10 % as long as the shares are used to exercise option or conversion privileges or to fulfil option or conversion obligations granted or imposed in corresponding application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. Shares issued or sold in direct or corresponding application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act during the term of this authorisation shall be deducted from this 10 % cap. The Executive Board will carefully weigh the interests of the company against those of the shareholders before deciding whether to provide treasury shares in the company or to use conditional or authorised capital.

If treasury stock is sold through an offer to all shareholders, or in the event of a capital increase recognising shareholder subscription rights, it shall be possible to grant holders of option or convertible bonds the right to subscribe shares in the company commensurate to the subscription rights they would have obtained after exercising the option or conversion privileges or fulfilling the option or conversion obligation. The advantage of waiving shareholder subscription rights in this context is that the option or conversion price for option or convertible bonds already issued does not have to be reduced in order to provide protection from dilution. As a result, when option or conversion privileges are exercised or when option or conversion obligations are fulfilled in such a case, the company obtains more funds. Shares transferred on the basis of this authorisation may not account for more than a prorated 10% of the company's capital stock. Shares issued or sold in direct or corresponding application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act during the term of this authorisation shall be deducted from this cap. The Executive Board will use its best judgement to decide whether to exercise the proposed authorisation and use shares bought back.

The company is to be put in a position to use treasury stock waiving subscription rights to fulfil the company's obligations resulting from employee share schemes by offering for sale or transferring the treasury stock purchased on the basis of this or an earlier authorisation to employees qualified to subscribe shares within the scope of the employee

share scheme. The use of treasury stock has the advantage of being affordable and uncomplicated. Furthermore, it makes the company more flexible. It also allows shares bought back to be used to manage the share price risk that would arise otherwise and prevents a dilutive effect that would occur otherwise.

In total, the shares sold and issued waiving subscription rights in exchange for contributions in cash and/or in kind may not exceed a prorated 20 % of the company's capital stock either on the date on which the resolution is passed or on the date on which this authorisation is exercised. This cap of 20 % of the company's capital stock shall be reduced by (i) the shares issued by the Executive Board waiving subscription rights in corresponding application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act or in exchange for contributions in kind during the term of this authorisation and (ii) the prorated portion of the company's capital stock accounted for by shares issued or to be issued in order to redeem option or convertible bonds, which in turn are issued by the Executive Board waiving subscription rights in corresponding application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act or in exchange for contributions in kind during the term of this authorisation.

Therefore, if, for example, shares accounting for 15 % of the company's capital stock have already been issued from authorised capital waiving subscription rights, treasury shares accounting for a maximum of 5% of the company's capital stock may be sold waiving subscription rights corresponding application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act.

The Executive Board will report on the exercise of the authorisation at the Annual General Meeting following such exercise.

Essen, 28. February 2018

RWE Aktiengesellschaft

The Executive Board

(Dr. Rolf Martin Schmitz)

(Dr. Markus Krebber)