

SUPERVISORY BOARD REPORT



“After the reorganisation that took place in 2016, the task at hand last year was to bring the Group’s new structure to life and sharpen the profiles of both RWE and innogy. We accomplished this wonderfully.”

*Dear Shareholders,
Ladies and Gentlemen*

Fiscal 2017 was the first full financial year for the RWE Group in its new organisational structure: the RWE subsidiary innogy looked after the renewable energy, grids and retail businesses, while the parent company focused on conventional power generation and energy trading. RWE AG was very happy with the way last year went. The starting point was the company’s refinement of its strategy. RWE AG has summed up its business model nicely: ‘Powering. Reliable. Future.’ RWE is a guarantor of a reliable supply of electricity. This topic is still not considered sufficiently in debates on the energy industry, but it will become more important, as security of supply is a product with a future – and those who offer such products have a future themselves. One of the positive developments last year was the continued recovery of German wholesale electricity forward prices. This has made the long-term earnings prospects in conventional electricity generation more favourable, despite the persistent uncertainties surrounding energy policy. In addition, RWE’s financial position improved. This was predominantly because the government had to refund the nuclear fuel tax RWE had paid in earlier years. Operational factors also played a role, e.g. the continued cost reductions and the revitalised trading business. They were instrumental in the Group meeting – and in some cases beating – its profit targets. This positive accomplishment is rounded off by the encouraging development of our share price: RWE common stock was among the top performers in the DAX in 2017.

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 between meetings.

We passed the resolutions required of us by law or the Articles of Incorporation. Where necessary, we did so by circular. As Chairman of the Supervisory Board, I was constantly in touch with the Chairman of the Executive Board, enabling us to discuss events of material significance to the Group's situation and development without any delay.

Last year, the Supervisory Board convened for five ordinary meetings. The shareholder and employee representatives on the Supervisory Board consulted 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 2017 by Supervisory Board member ¹	Supervisory Board	Executive Committee	Audit Committee	Personnel Affairs Committee	Nomination Committee	Strategy Committee
Dr. Werner Brandt, Chairman	5/5	1/1	5/6 ²	4/4	1/1	2/2
Frank Bsirske, Deputy Chairman	5/5	1/1		4/4		2/2
Reiner Böhle	2/5			1/4		
Sandra Bossemeyer	5/5	1/1				
Ute Gerbault (since 27 April)	3/3					
Reinhold Gispert (since 27 April)	3/3		3/3			1/1
Arno Hahn (until 27 April)	2/2		3/3			1/1
Andreas Henrich	4/5					
Prof. Dr. Hans-Peter Keitel	4/5	1/1			1/1	2/2
Dr. h. c. Monika Kircher	4/5					
Martina Koederitz (until 27 April)	0/2					
Monika Krebber	5/5	1/1				
Harald Louis	5/5			4/4		
Dagmar Mühlenfeld	5/5	1/1				
Peter Ottmann	5/5			4/4	1/1	
Günther Schartz	5/5					2/2
Dr. Erhard Schipporeit	5/5		6/6			
Dr. Wolfgang Schüssel	5/5	1/1	6/6	4/4		
Ullrich Sierau	5/5		5/6			
Ralf Sikorski	5/5		6/6			2/2
Marion Weckes	5/5		5/6			
Leonhard Zubrowski	5/5	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 Werner Brandt was no longer a member of the Audit Committee in 2017, but attended meetings as a guest.

Main points of debate of the Supervisory Board meetings. In all five meetings we were informed by the Executive Board of RWE's financial situation as well as of major political and economic developments relevant to the company, and assisted the Board by providing advice. Now I would like to address the main points of our sessions in more detail.

- We dedicated our meeting on 8 March 2017 to RWE AG's future strategic orientation within the operating activities for which the company is responsible. The Executive Board informed us about this extensively and presented us with RWE's new motto 'Powering. Reliable. Future.' Other subjects discussed were the financial statements of the parent company for fiscal 2016, the agenda of the Annual General Meeting of 27 April 2017, and the appointment of the independent auditors for fiscal 2017.

- At the second meeting, which was held on the day before the Annual General Meeting, the Executive Board reported on matters of energy policy, e. g. the new EU limits for nitrous oxide and mercury emissions of power plants and the German Act on the Modernisation of the Grid Fee Structure. More detailed commentary on this can be found on page 34 et seq. We were also informed thoroughly of the development of economic framework conditions such as wholesale electricity prices, and of the capital market's view of our company and its strategy.
- Current developments in nuclear energy were the focus of our third meeting, which took place on 23 June 2017. We concerned ourselves in detail with the law on the reorganisation of responsibility for nuclear waste disposal, which had entered into force a week before. Also on the agenda was the public law contract occasioned by the aforementioned law between RWE and the Federal Republic of Germany that envisages legally securing the transfer of liability for interim and final storage costs to the federal government. In this context, we also explored proposals made by the Executive Board to reorganise RWE's nuclear energy business and charged it with implementing the presented concept. Another topic was the German Constitutional Court's ruling that the German nuclear fuel tax was null and void. In this matter, we advised the Executive Board on the use of the refunded taxes.
- In our fourth session, which took place on 22 September 2017, we addressed non-financial reporting. This became legally mandatory for German listed companies with more than 500 employees for financial years beginning after 31 December 2016. We concerned ourselves extensively with the new legal requirements, determined the contents of RWE's non-financial report, and passed the resolution to submit it to an external auditor. A further important subject was the conditions in Colombia's hard coal mines and RWE's involvement in the Bettercoal initiative, which promotes improvement in the global supply chain. In the same meeting, we also discussed the new recommendations of the German Corporate Governance Code (GCGC), which were published in the German Federal Gazette on 24 April 2017. RWE has previously essentially met the additional requirements. Nevertheless, we took the changes to the Code as an opportunity to introduce a provision into our Rules of Procedure on the Chairman of the Supervisory Board's communication with investors. Furthermore, we refined the competency profile for members of the Supervisory Board, establishing that at least six shareholder representatives have to be independent. More detailed information on this can be found in our latest Corporate Governance Report, which has been published on the internet at www.rwe.com/corporate_governance. The statement of compliance issued by the Executive Board and the Supervisory Board of RWE AG on 14 December 2017 can also be found there. RWE fully complied with the recommendations of the version of the Code before and after its amendment in 2017.
- One of the recommendations of the GCGC is that the Supervisory Board regularly subject its work to an efficiency audit. We conducted such a test in the fourth quarter of 2017, and its results were the topic of our fifth meeting, which was held on 14 December 2017. The audit confirmed that we work together very constructively and trustingly. However, it also highlighted room for improvements, the implementation of which we debated extensively. Another point of focus of that meeting was the Executive Board's planning for 2018 and its outlook for the two following fiscal years. The members of the Executive Board answered our questions in this regard and explained important issues clearly. We adopted the company's planning following a thorough review.

Supervisory Board committees. Last year, the Supervisory Board had six standing committees and the project-related NewCo IPO Committee, which was created at the end of 2015 in order to assist in the placement of innogy shares in the capital market. These committees are charged with preparing topics and resolutions for Supervisory Board meetings. In certain cases, they exercise decision-making powers conferred on them by the Supervisory Board. The committee chairmen regularly informed the Supervisory Board of their work. In the year under review, a total of 14 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 2018 as well as the outlook for 2019 and 2020 in depth and prepared their adoption by the Supervisory Board.

- The **Audit Committee** was in session six times. It concerned itself extensively with the interim and annual financial statements of RWE AG and the Group, together with the combined review of operations. The Committee discussed the financial statements in detail with the Executive Board before they were published. The independent auditors participated in the debates and reported on the results of their audit and/or audit-like review; at all times, the Committee was vigilant that quality standards were adhered to. It submitted a recommendation to the Supervisory Board regarding the election of the independent auditors for fiscal 2017 by the Annual General Meeting. Furthermore, it prepared the grant of the audit award to the independent auditors including the fee agreement and set the priorities of the audit for fiscal 2017. The Committee was regularly 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 compliance and with the schedule and results of the internal audit. In this context, the Committee held consultations on the new legal requirements imposed on the non-financial reporting of companies and prepared a resolution by the Supervisory Board on this matter. New policies introduced by International Financial Reporting Standards (IFRS) were also on the agenda. The Committee was regularly informed about the spot checks performed by the German Financial Reporting Enforcement Panel (DPR) on the financial statements of the parent company and the Group for the period ending on 31 December 2016. The DPR did not find any errors. In addition, the Committee discussed the risk situation of the RWE Group in the wake of the German Corporate Control and Transparency Act (KonTraG), data protection, cyber security as well as legal and tax issues. In-house experts were consulted when necessary.
- During the year being reviewed, the **Personnel Affairs Committee** held four meetings, at which the staff-related decisions of the Supervisory Board were prepared. Amongst the matters discussed were the level of bonuses and share-based payments granted to the Executive Board.
- The members of the **Nomination Committee** convened in one session, in which they consulted on the candidates for the by-elections to the Supervisory Board to be proposed at the Annual General Meeting on 27 April 2017.
- The **Strategy Committee** held two meetings. At the beginning of 2017, it assisted in the work performed by company management on the continued development of the strategy, the results of which were presented to the Supervisory Board in its March session. At its second meeting at the end of the year, the Committee was informed by the Executive Board about the implementation of the new strategy.
- The **Mediation Committee** pursuant to Section 27, Paragraph 3 of the German Co-Determination Act did not have to meet in 2017.
- The **NewCo IPO Committee** did not convene last year, either.

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. No such notifications were made in the year under review.

Financial statements for fiscal 2017. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft scrutinised and issued an unqualified auditor's opinion on the 2017 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 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 was elected independent auditor by the Annual General Meeting on 27 April 2017 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 2017 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 7 March 2018. 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 6 March 2018, 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 meeting on 7 March 2018, 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 2017 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 €1.50 per share bearing dividend entitlements. The sum consists of two components: the regular dividend of €0.50 and a one-time special payment of €1.00 through which we would like RWE shareholders to benefit from the refund of the nuclear fuel tax by the government.

Personnel changes in the Supervisory Board and Executive Board. In the year under review, we bade farewell to Martina Koederitz and Arno Hahn, who left the Supervisory Board. They both retired from their office with effect from the end of the Annual General Meeting on 27 April 2017. The Essen District Court appointed Reinhold Gispert to the Supervisory Board to succeed Arno Hahn as employee representative. The Annual General Meeting appointed Ute Gerbaulet to the Supervisory Board as shareholder representative in place of Martina Koederitz. Another staff matter concerned Monika Kircher, who had been appointed to the Supervisory Board by court order in October 2016. This appointment was replaced by an AGM resolution. There was also a personnel change on the Executive Board of RWE AG: Uwe Tigges, who was responsible for human resources and held the post of Labour Director, resigned from his office on the Executive Board as of the end of the day on 30 April 2017. Responsibility for human resources was assumed by the Chairman of the Executive Board Rolf Martin Schmitz. The Supervisory Board appointed Rolf Martin Schmitz new Labour Director with effect from 1 May 2017. On behalf of the Supervisory Board, I want to thank Martina Koederitz, Arno Hahn and Uwe Tigges for their commitment to the company and wish them all the best for their future professional endeavours.

A good fiscal year – thanks to our employees. Having reported on our work in detail, I would now like to turn my attention to RWE's employees, whose dedication, motivation and skills played their part in the commercial success of the company yet again in 2017. I would like to express my heartfelt thanks to you all – also on behalf of my colleagues. After the reorganisation that took place in 2016, the task at hand last year was to bring the Group's new structure to life and sharpen the profiles of both RWE and innogy. We accomplished this wonderfully. Thanks to the 60,000 staff members throughout the Group, we can look back on a good 2017 and look forward with confidence.

On behalf of the Supervisory Board



Dr. Werner Brandt
Chairman

Essen, 8 March 2017