

Supervisory Board report



“Our shareholders benefit from a renewed RWE becoming the pacesetter of the energy transition. But most importantly, this benefits all of society and therefore all of us.”

*Dear Shareholders,
Ladies and Gentlemen*

Mahatma Gandhi once said, “Be the change you want to see in the world.” At RWE, we have taken this to heart. As a result of the asset swap agreed with E.ON in March 2018, the company has become one of the world’s leading producers of electricity from renewables. In the process, the company is supporting climate protection policies and opening itself up to promising prospects. Fiscal 2019 was a pivotal year for the ‘new’ RWE. On 17 September, the European Commission gave the go-ahead to the asset swap, which the company began to implement the day after. E.ON received a majority stake in innogy, and RWE received E.ON’s renewable energy business soon thereafter. These and several other transactions have since been completed. The final step involves the legal transfer of some innogy operations to RWE, including the renewable energy business. This is scheduled to happen as soon as possible this year.

Management announced the future course of the new RWE in September 2019. The key message was that the company wants to have converted enough of its electricity generation to achieve its goal of being carbon neutral by 2040, ten years earlier than envisaged by the EU. Playing on Gandhi’s quote, our company is changing faster than the world around it. This holds true not only for the future, as demonstrated by the following comparison: in the last seven years, RWE has reduced its carbon emissions by 51%. This is roughly twice as much as what Europe has accomplished since 1990.

RWE will expand its renewable energy production rapidly with a view to becoming carbon neutral. The second building block of our emission reduction strategy is an accelerated coal phaseout. Until recently, the German government and industry have been negotiating the details of this exit intensively. The starting point was the concept presented by the Growth, Structural Change and Employment Commission (‘Structural Change Commission’ for short) in January 2019, which envisages gradually putting an end to electricity generation from coal by 2038. It was clear early on that the initial burdens of the lignite phaseout would primarily be shouldered by RWE. After months of talks with policymakers, an agreement was reached in January 2020 on the roadmap for the power plant closures and the level of compensation. However, the compensation of €2.6 billion pledged by the government will not be enough to fully offset RWE’s burdens. At short notice, we convened a Supervisory Board meeting at which the Executive Board provided us with information on the compromise reached. What is important is that we now have clarity and the people affected know what they are up against. First and

foremost, this makes me think of the 10,000 people working in the Rhenish lignite mining region: they now have certainty and can rest assured that the coal phaseout will not put them at a loss.

Now let me go into the work we did on the Supervisory Board last year. 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 as well as in between meetings. We passed the resolutions required of us by German 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, allowing us to discuss major developments without delay.

Main points of debate of the Supervisory Board meetings. Last year, the Supervisory Board convened for five ordinary and two extraordinary meetings, the subject matter of which I will outline in more detail later on. In our sessions, we were informed by the Executive Board in great detail of current affairs of significance to RWE. We also discussed matters in the absence of the Executive Board. The shareholder and the employee representatives on the Supervisory Board always met separately before these meetings, so that they had the opportunity to consult on agenda items and establish joint positions where necessary in advance of the plenary sessions.

Our consultations centred on the recommendations of the Structural Change Commission and the talks between government and industry on implementing them in the Rhenish lignite mining area. The legislative process regarding the Dutch coal phaseout, the uphill battle for an orderly Brexit and the events concerning the British capacity market were also among the issues on which we concentrated. The asset swap with E.ON also drew the Supervisory Board's special attention. We followed the approval procedure and the steps taken to execute the deal very closely. In addition, we discussed the RWE Group's future strategy and its ambitious climate-protection goals.

The following issues were discussed at our meetings:

- Last year, our first meeting took place on 5 February. After the Structural Change Commission published its recommendations regarding Germany's coal phaseout, we convened an extraordinary session in which we discussed the recommendations and their potential effects on RWE and the people working in the Rhenish lignite mining region. The compensation for RWE and the measures for a socially acceptable redundancy scheme were among the issues addressed.
- At our ordinary meeting on 8 March 2019, we discussed and approved the 2018 financial statements of RWE AG, the consolidated financial statements, and the separate consolidated non-financial report. Furthermore, we adopted the agenda of the Annual General Meeting of 3 May 2019, at which a resolution was passed to convert RWE preferred shares to common shares. As the conversion required the convocation of a Preferred Shareholders Meeting, we also had to approve the agenda of that meeting. In our March session, we again discussed the final report of the Structural Change Commission. Moreover, I reported on the talks on corporate governance matters that I regularly conduct with major institutional investors. The last exchanges of this kind occurred at the end of 2018 and the beginning of 2019. Executive Board remuneration, the composition of the Executive Board and the Supervisory Board as well as succession planning were among the topics discussed.

- The ordinary meeting on 3 May 2019 centred on the last steps to prepare the Annual General Meeting and the Preferred Shareholders Meeting held on the same day, which I mentioned earlier.
- At our ordinary meeting on 11 July 2019, we decided to subject the work of the Supervisory Board to an efficiency audit with the help of the business consultants Russell Reynolds Associates. In addition, we informed ourselves of how the most recent amendments to the German Corporate Governance Code (GCGC) will affect the system of remunerating RWE's Executive Board. Furthermore, we debated the succession planning for the Executive Board and the Group's position on completion of the asset swap with E.ON.
- On 6 September 2019, we convened for another extraordinary meeting because a tender procedure for Polish offshore wind projects was about to be held and RWE's participation was subject to Supervisory Board approval. Although other companies placed the winning bids on this occasion, the Group succeeded in entering the Polish offshore wind market in 2019, securing a project pipeline in the Baltic Sea with a total installed capacity of more than 1.5 GW.
- Two weeks later, on 20 September, we met at an ordinary Supervisory Board meeting where we again discussed the succession plan for the Executive Board. One of the issues addressed was the general procedure followed in selecting and appointing new Executive Board members. We decided to seek the assistance of an external consultant in the future. RWE's new strategy and new brand appearance were highlights of our deliberations. In addition, the Executive Board kept us abreast of the developments relating to the asset swap with E.ON.
- We reviewed and adopted the company's planning for fiscal 2020 at our ordinary meeting on 18 December 2019. We also dealt in depth with the new version of the GCGC. Together with the Executive Board, we approved an updated statement of compliance as well as the corporate governance declaration along with the Corporate Governance Report. Another topic of discussion was the German law on the implementation of the Second Shareholder Rights Directive (ARUG II), which entered into force on 1 January 2020 and introduces a series of new regulations affecting management board compensation, transactions with related parties, and the transparency duties of institutional investors, among other things. We analysed the outcome of the efficiency audit of our work that began in July in great depth and debated how Supervisory Board work can be even more effective in the future. I will report on this in more detail later on.

Supervisory Board committees. Last year, the Supervisory Board had six standing committees, the members of which are listed on page 210. 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 is informed of the work of the committees by their chairs at every ordinary meeting. In the year under review, a total of 14 committee meetings were held, about which I would now like to inform you.

- The **Executive Committee** convened three times. In two extraordinary sessions, it discussed details concerning the execution of the asset swap with E.ON, which it had been authorised to do by the Supervisory Board in March 2018. As usual, the Committee discussed the company's planning for fiscal 2020 as well as the outlook for the two subsequent years at its December meeting.
- 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, the report for the first half of the year, the quarterly statements and the consolidated non-financial report. The Committee discussed the financial statements 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. In doing so, it also paid attention to the quality of the financial statement audits. Furthermore, the body submitted a recommendation to the Supervisory Board regarding the election of the independent auditors for fiscal 2019, prepared the grant of the audit award to the independent auditors including the fee agreement, and set the priorities of the audit. As usual, the Committee was informed of the effectiveness of the accounting-related Internal Control System (ICS). This did not reveal any issues that would call the effectiveness of the ICS into question. Moreover, the Committee discussed the spot check performed by the German Financial Reporting Enforcement Panel on the financial

statements of RWE AG and the Group for fiscal 2018, which did not reveal any errors. Furthermore, the Committee dealt with 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, compliance matters as well as legal and tax issues. The independent auditors attended all of the Audit Committee meetings and also exchanged information with the Committee Chairman in between meetings. In-house experts were consulted when necessary.

- The **Personnel Affairs Committee** held four meetings during the year being reviewed. The debates focused on the level of Executive Board compensation and the design of the Executive Board's remuneration system as well as the future effects of ARUG II and the new GCGC on said system. In addition, the Committee concerned itself with planning for the successor to the CEO Rolf Martin Schmitz, whose contract expires in the middle of 2021.
- The **Nomination Committee** convened twice in 2019. Both meetings focused on the new elections of the shareholder representatives to the Supervisory Board scheduled for 2021. A key issue, which I will revisit in more detail later on, was the requirement and skills matrix of the Supervisory Board, which is considered when selecting candidates. Another topic of discussion was the consequences of the German law on the implementation of ARUG II and the new GCGC recommendations for the elections. The Committee thoroughly debated whether to shorten and stagger the tenures of the shareholder representatives. The Nomination Committee and the Supervisory Board endorse this. So far, as is customary in Germany, RWE's shareholder representatives have been elected simultaneously for five years at a time. We will make a case for limiting their tenures to a maximum of three years covering various periods. This will result in a certain degree of fluctuation every year. The advantage of this is that the Supervisory Board's staffing could be adapted more rapidly to new requirements. This would also prevent too many people from leaving the Committee at the same time, resulting in a loss of valuable experience.
- The members of the **Strategy Committee** held one session. This meeting focused on RWE's earnings prospects and growth opportunities in renewable energy.
- The **Mediation Committee** pursuant to Section 27, Paragraph 3 of the German Co-Determination Act did not have to meet in 2019.

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. In March 2018, Monika Krebber and Erhard Schipporeit, who sat 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. These conflicts of interest remained in 2019. Therefore, Ms. Krebber and Mr. Schipporeit 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. Monika Krebber also had a conflict of interest as it became apparent to her that she would transfer to E.ON due to the sale of the shareholding in innogy. Therefore, she requested not to be informed about RWE's plans to reduce its financial investment in E.ON in September 2019.

Efficiency audit. The Supervisory Board is obligated to review the efficiency of its work on a regular basis. This is mandated by the GCGC. We conducted such an audit in 2019 with the assistance of Russell Reynolds Associates. One of the aspects scrutinised was whether we as a body possess the expertise required to effectively monitor the new RWE. The efficiency audit found that, on the whole, our work procedures are goal-oriented and effective. The same applies to our co-operation with the Executive Board. However, certain measures were established to help us further improve the quality of our work on the Supervisory Board, which is already high. For example, we will expand the requirement matrix that will be applied when new candidates are selected for the Supervisory Board to include certain skills, in particular relating to technology and digitisation, as well as international experience. Furthermore, we want to place greater emphasis on know-how in the energy business, in particular with regard to renewable energy.

Attendance. The table below contains an overview of Supervisory Board member attendance at the meetings of this corporate body and its committees. As the Mediation Committee did not convene in 2019, it has been omitted from this table. Here is an example of how to interpret the numbers: '3/4' means that the individual attended three of a body's meetings although their tenure on the body would have allowed them to attend four of them. As can be seen from the overview, absences were an exception, and the rare cases of absence were for good reasons (e.g. a conflict of interest).

Attendance at meetings in fiscal 2019 by Supervisory Board member	Supervisory Board	Executive Committee	Audit Committee	Personnel Affairs Committee	Nomination Committee	Strategy Committee
Dr. Werner Brandt, Chairman	7/7	3/3	4/4 ¹	4/4	2/2	1/1
Frank Bsirske, Deputy Chairman	7/7	3/3		4/4		1/1
Michael Bochinsky	7/7		4/4			
Reiner Böhle (until 18 Sep 19)	5/5			2/2		
Sandra Bossemeyer	7/7	3/3				
Martin Bröker	7/7					
Anja Dubbert (since 27 Sep 19)	1/1					
Matthias Dürbaum (since 27 Sep 19)	1/1					
Ute Gerbaulet	7/7					
Prof. Dr. Hans-Peter Keitel	6/7	3/3			2/2	1/1
Dr. h. c. Monika Kircher	7/7		3/3 ²			
Monika Krebber (until 18 Sep 19)	4/5	0/2 ³				
Harald Louis	7/7			4/4		
Dagmar Mühlenfeld	7/7	3/3				
Peter Ottmann	7/7			4/4	2/2	
Günther Schartz	7/7					1/1
Dr. Erhard Schipporeit	6/7		4/4			
Dr. Wolfgang Schüssel	7/7	3/3	1/1 ⁴	3/4		
Ullrich Sierau	6/7		3/4			
Ralf Sikorski	7/7		2/4			1/1
Marion Weckes	7/7		4/4			
Leonhard Zubrowski	7/7	3/3				1/1

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

2 Dr. Monika Kircher has been a member of the Audit Committee since 1 April 2019.

3 Monika Krebber did not attend either of the meetings of the Executive Committee during her tenure due to potential conflicts of interest.

4 Dr. Wolfgang Schüssel resigned from the Audit Committee as of the end of 31 March 2019.

Personnel matters. There were two changes in personnel on the Supervisory Board in the year under review: Monika Krebber and Reiner Böhle, both of whom were employee representatives, resigned from the Board on 18 September. Given that they are innogy employees, they left the Group when the company was acquired by E.ON, which forbade them by German law from remaining on the Supervisory Board of RWE AG. Anja Dubbert and Matthias Dürbaum were appointed their successors by the Essen District Court on 27 September. On behalf of the Supervisory Board, I thank Ms. Krebber and Mr. Böhle for their valuable work and for their commitment to RWE.

The staffing of some of our committees also changed. Wolfgang Schüssel resigned the mandate he held on the Audit Committee effective at the close of 31 March. Monika Kircher was appointed his successor per a Supervisory Board resolution dated 8 March. The resignations of Monika Krebber and Reiner Böhle from the Supervisory Board also required their seats on the Executive Committee and the Personnel Affairs Committee to be filled. In addition, Leonhard Zubrowski resigned from the Executive Committee at the close of 17 December. In its session on 18 December, the Supervisory Board elected Anja Dubbert and Matthias Dürbaum to the Executive Committee and Leonhard Zubrowski to the Personnel Affairs Committee.

Financial statements for fiscal 2019. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited and issued an unqualified auditor's opinion on the 2019 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, the combined review of operations for RWE AG and the Group, and the accounts, which were prepared pursuant to Section 315a of the German Commercial Code in compliance with International Financial Reporting Standards (IFRS). 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 3 May 2019 and commissioned by the Supervisory Board to audit the financial statements of RWE AG and the Group.

The 2019 Annual Report and the audit reports 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 6 March 2020. 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 5 March 2020, 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.

The Supervisory Board reviewed the financial statements of RWE AG and the Group, the combined review of operations, the Executive Board's proposal regarding the appropriation of distributable profit, and the consolidated 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 2019 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 €0.80 per share.

Thanks to the employees of RWE. The changes we are experiencing at RWE present everyone involved with huge challenges which demand courage and tenacity as well as flexibility and creativity. RWE's employees demonstrated that they can adapt to change, even if it has serious consequences for them. They therefore deserve the utmost respect. I would like to take this opportunity to express my sincere gratitude to them for this on behalf of the entire Supervisory Board. I have absolutely no doubt that RWE is on the right path. Proof of this can be found on the stock market: an investment in RWE common shares at the end of 2017 yielded a total return of over 100% by the end of January 2020. Our shareholders benefit from a renewed RWE becoming the pacesetter of the energy transition. But most importantly, this benefits all of society and therefore all of us. With this motivation, we will also rise to the challenges that will inevitably arise in the future.

On behalf of the Supervisory Board



Werner Brandt
Chairman

Essen, 6 March 2020