

1.3 Supervisory Board report



“In the midst of the coronavirus pandemic, RWE set the stage for an even faster expansion of renewable energy, thus overachieving its goal for the year.”

*Dear Shareholders,
Ladies and Gentlemen*

Who could have imagined at the beginning of 2020 the unusual challenges the year would have in store for us all. The coronavirus pandemic caught modern civilisation off guard and demonstrated how shockingly vulnerable we are despite all the progress we make. I hope, dear reader, that you stay healthy and manage to cope with the negative effects of the lockdown measures. Unfortunately, the latter cannot be said for many companies. We have seen entire sectors fall into an existential crisis. Based on expert estimates, 2020 saw Germany experience its biggest drop in growth since the financial crisis of 2008 / 2009.

RWE definitely bucked the trend! Like a sailboat staying its course in choppy waters, the company continued its transformation that began with the E.ON transaction almost without losing steam. The asset swap, which was completed in legal terms in the middle of 2020, advanced us to the ranks of the world's leading renewable energy companies. Now RWE is rapidly transitioning its electricity generation portfolio to renewable sources and intends to become carbon neutral by 2040 as a result. This course is widely endorsed by the general public and the capital market in particular, as evidenced by our share's strong performance. Despite the coronavirus pandemic, RWE shareholders earned a 30 % return on their investment in 2020. This put our share among the DAX frontrunners for the fourth time in a row.

And there was more good news last year: the company made rapid progress in the expansion of renewable energy despite the coronavirus pandemic. In 2020, RWE completed wind and solar farms with a total capacity of more than 800 MW. Only in isolated cases were there delays due to COVID-19, but none lasted more than a few months. I would also like to highlight the capital increase in August and the acquisition of Nordex's European development business – two transactions that were not foreseeable at the beginning of 2020, which will help drive the company's growth further. This means that, in the midst of the coronavirus pandemic, RWE set the stage for an even faster expansion of renewable energy, thus exceeding its target for the year.

RWE also tackled the second major challenge – the coal phaseout – with determination. Both of the company's German hard coal units placed winning bids in the first shutdown auction conducted by the Federal Network Agency. These blocks were shut down at the end of 2020. But let us not forget that electricity production from hard coal was the driver of RWE's charge to become Germany's leading power utility after it was founded over 120 years ago. This business is now part of Germany's history. At the same time, RWE is implementing the legally mandated lignite phaseout. The first unit was taken off the grid at the end of December although the compensation regulations are still pending EU approval.

I think that this sends an important signal: RWE is moving fast to protect the climate – and is doing much more than is legally required. What other company out there can claim to have reduced its carbon dioxide emissions by 62% in just eight years without selling major parts of its business? I don't know of a single one. Our fast track towards reducing emissions proves that RWE is acting in line with the Paris climate targets. This was recently confirmed by the Transition Pathway Initiative and the Science Based Target Initiative, both of which are proponents of a low-emission economy over the long term.

Looking back at 2020, I must highlight two issues directly relating to the Supervisory Board's work. The first matter is the new composition of the Executive Board. Rolf Martin Schmitz will step down as CEO at the end of April 2021. We made early arrangements for his succession and have found what I believe to be a very good solution: Markus Krebber, our current CFO, will spearhead the company in the future. We expect him to continue the current strategy, keeping RWE on course for success. He will receive assistance from Michael Müller and Zvezdana Seeger, who we appointed to the Executive Board as of 1 November 2020. More on this later. The second matter, which was a premiere for my fellow Supervisory Board members and me, was the first completely virtual Annual General Meeting ever held in RWE AG's history. The corona pandemic didn't give us a choice. Although this involved working under new legal and organisational conditions, the Annual General Meeting went smoothly. The employees in charge at RWE proved extremely professional and flexible. In my capacity as Chairman of the Annual General Meeting, I would like to express my sincere gratitude for this. I would also like to thank our shareholders, who would have loved to visit us at the Grugahalle in Essen, but were understanding of the fact that it was impossible to hold an in-person event. We hope that they will also be understanding of our holding a completely virtual Annual General Meeting in 2021 as well.

Now I would like to tell you about some of the formal aspects of the Supervisory Board's work in 2020. As usual, 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 with great care. Moreover, we were involved in 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.

We took our decisions on the basis of detailed reports and draft resolutions submitted by the Executive Board, which we discussed in depth in our plenary sessions and committees. We were also informed by the Executive Board of projects and transactions of special importance or urgency in extraordinary meetings as well as between meetings. We passed the resolutions required of us by German law or the Articles of Incorporation, occasionally 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. The company helped us to acquire the expertise we needed to fulfil our tasks by organising in-house informational events on topics of special relevance. This is noteworthy given that the German Corporate Governance Code (GCGC) requires supervisory board members to ensure that they take their basic and advanced training into their own hands.

Main points of debate of the Supervisory Board meetings. Last year, the Supervisory Board convened for five ordinary and two extraordinary meetings. Due to the COVID-19 social distancing restrictions, we conducted our sessions strictly online from April onwards. However, this was not to the detriment of the quality of our work on the Supervisory Board. In our meetings, we were informed by the Executive Board in great detail of transactions and events of significance to RWE. We discussed certain agenda items without involving the Executive Board. The shareholder and employee representatives always met separately before Supervisory Board meetings, so that they had the opportunity to consult on matters and establish joint positions where necessary in advance of the plenary sessions.

When in session, we concerned ourselves with RWE's transformation into a leading renewable energy company both frequently and in great depth. Further focal points of debate were the effects of the corona crisis, the restaffing of the Executive Board and the German coal phaseout. The following issues were discussed at our meetings:

- Our first session last year took place on 17 January. We convened an extraordinary meeting to debate the shutdown roadmap for our German lignite-fired power plants envisaged by the government as well as the compensation offered. At the time, the talks between the federal and state administrations and businesses regarding the details of the lignite phaseout had nearly come to a conclusion. We encouraged the Executive Board to accept the compromise that was becoming apparent. Soon thereafter, on 29 January, the federal government adopted the draft law on the coal phaseout.
- At our ordinary meeting on 6 March, we discussed and approved the 2019 financial statements of RWE AG, the consolidated financial statements, and the separate consolidated non-financial report. In addition, we approved the agenda for the Annual General Meeting, which was originally scheduled for 28 April. The Executive Board updated us on the legislative process regarding the German coal phaseout and on the acquisition of the King's Lynn power station in the UK, which had just been completed. We thoroughly deliberated RWE's strategy. The goal of becoming carbon neutral by 2040 and the path envisaged to reach it met with our full approval. Effective incentives for implementing the strategy are provided by the new Executive Board remuneration system, the details of which were another topic of debate. Furthermore, we adopted the new skills matrix for the members of our corporate body, which we had refined in 2019. In so doing, we drew on the findings obtained when reviewing the efficiency of our work. The former matrix was supplemented by several skills, to which we accord increasing importance, e.g. know-how in the fields of renewable energy and digitisation. The skills matrix must be taken into account when selecting candidates for appointment to the Supervisory Board. Therefore, it will be accorded great importance in 2021 as the corporate body will be restaffed in April.
- Our ordinary meeting on 28 April was dominated by the coronavirus pandemic and the first lockdown. This was precisely the day on which the 2020 Annual General Meeting would have taken place based on our original planning if we had not been forced to postpone it to the end of June due to COVID-19. The Supervisory Board passed a resolution to hold the Annual General Meeting as a purely virtual event in order to protect both employees and shareholders alike. Another item on the agenda was the succession plan for the CEO Rolf Martin Schmitz.
- The topics addressed in April were also the focal point of the ordinary session on 25 June. One of the tasks was to prepare the virtual Annual General Meeting, which had been scheduled for the following day. Succession planning for the Executive Board was discussed at length yet again. Furthermore, we were kept abreast of how RWE was dealing with the coronavirus pandemic and approved the new Executive Board remuneration system, which is described in more detail in the invitation to the 2021 Annual General Meeting. The invitation is available at www.rwe.com/agm. Another focal topic was the public law contract between RWE and the German government designed to protect the justified interests of the company with regard to the statutory regulations governing the lignite phaseout.
- Just a month later, on 31 July, we held an extraordinary meeting at which we discussed RWE's plan to acquire the European development business of wind turbine manufacturer Nordex. Since we – just as the Executive Board – were of the opinion that the acquisition of the project pipeline focusing on France harboured attractive potential for RWE to grow, we approved the acquisition. In that session, we also deliberated how to finance the Nordex transaction and the associated accelerated expansion of renewable energy. One of the options on the table was to use authorised capital and issue new RWE shares excluding subscription rights. We transferred to the Executive Committee the right to decide on such a measure. This enabled the company to quickly take advantage of a favourable situation on the capital market without having to again involve the entire Supervisory Board. Thanks to this flexibility, RWE managed to increase its capital by €2 billion at very short notice in August 2020.
- At our ordinary meeting on 18 September, we debated the succession planning for the Executive Board once again. Given that Rolf Martin Schmitz would soon retire and Markus Krebber had been appointed the company's future CEO, the positions of CFO, CHRO and Labour Director had to be filled. Against this backdrop, the Supervisory Board appointed Zvezdana Seeger and Michael Müller to the Executive Board. During this session, we also discussed the German Coal Phaseout Act, which had been passed by the Lower and Upper Houses of Parliament on 3 July. Moreover, the Executive Board reported on the significance of hydrogen to RWE as well as on various aspects of the renewable energy business.

- At our ordinary meeting on 11 December, we reviewed and adopted the company's planning for fiscal 2021. In addition, we fulfilled our corporate governance reporting duties. Together with the Executive Board, we adopted an updated statement of compliance pursuant to Section 161 of the German Stock Corporation Act and approved the passages of the corporate governance declaration relating to the Supervisory Board in accordance with Section 289a of the German Commercial Code. These documents can be viewed at www.rwe.com/en/statement-of-compliance-and-reports and www.rwe.com/corporate-governance-declaration. A further point of focus of the meeting was RWE's hydrogen strategy, on which we were informed extensively by the Executive Board. We also discussed the sale of a 49 % stake in the Humber UK offshore wind farm. Following our approval, the transaction was completed on 15 December. We also gave the go-ahead to the partial sale of four Texan onshore wind farms. During the session, we also debated how to handle related party transactions. The German law on the implementation of the Second Shareholders Directive (ARUG II) stipulates that, under certain conditions, these transactions are subject to the approval of a Supervisory Board or one of its committees. We tasked the Audit Committee with performing the review and valuation of such transactions required by law.

Supervisory Board committees. Last year, the Supervisory Board had six standing committees, the members of which are listed on page 230. These committees are charged with preparing topics and resolutions for plenary sessions. In certain cases, they exercise decision-making powers if they have been 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 18 committee meetings were held, which I would like to touch upon in more detail.

- The **Executive Committee** held four meetings, three of which took place in August to prepare and approve the capital increase. The Committee conducted the usual discussion of the company's planning for fiscal 2021 as well as the outlook for the two subsequent years in its fourth session, which took place in December.

- The **Audit Committee** was in session four times, at which all predetermined focal topics were addressed. The Committee was extremely careful in reviewing 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. It 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. Furthermore, the Audit Committee submitted a recommendation to the Supervisory Board regarding the election of the independent auditors for fiscal 2020, prepared the grant of the audit award to the independent auditors including the fee agreement, and set the priorities of the audit. The Committee verified the independence of the auditors and the quality of the audit. In addition, as usual, the Committee was informed of the effectiveness of the accounting-related Internal Control System (ICS). The report did not reveal any issues that would call the effectiveness of the ICS into question. Furthermore, the Committee dealt with the planning and findings of internal audits, the RWE Group's exposure to risk pursuant to the German Corporate Control and Transparency Act, the risk management system of RWE Supply & Trading, 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 between meetings. In-house experts were consulted regularly.
- The **Personnel Affairs Committee** held five meetings during the year being reviewed. Consultations centred on the succession plan for the Executive Board of RWE AG and the new Executive Board remuneration system.
- The **Nomination Committee** convened three times. The focal point was the Supervisory Board elections, scheduled for 2021. In this context, the Committee also discussed procedural matters relating to the planned introduction of staggered tenures for the shareholder representatives. Another point of debate was the remuneration for work done on the committees of the Supervisory Board. We are of the opinion that compensation for these tasks should increase.

- The **Strategy and Sustainability Committee** (formerly the Strategy Committee) held two meetings. In its first session, which was held in February, it dedicated itself to the new Group strategy, which was presented to the public soon thereafter, in mid-March. At its second meeting, the Committee discussed RWE's plans with respect to the hydrogen economy.
- The **Mediation Committee** pursuant to Section 27, Paragraph 3 of the German Co-Determination Act did not have to meet in 2020.

Attendance at meetings in fiscal 2020 by Supervisory Board member	Supervisory Board	Executive Committee	Audit Committee	Personnel Affairs Committee	Nomination Committee	Strategy and Sustainability Committee
Dr. Werner Brandt, Chairman	7/7	4/4	4/4 ¹	5/5	3/3	2/2
Frank Bsirske, Deputy Chairman	7/7	4/4		5/5		2/2
Michael Bochinsky	7/7		3/4			
Sandra Bossemeyer	7/7	4/4				
Martin Bröker	7/7					
Anja Dubbert	7/7	4/4				
Matthias Dürbaum	7/7	4/4				
Ute Gerbaulet	6/7					
Prof. Dr. Hans-Peter Keitel	7/7	4/4			3/3	2/2
Dr. h. c. Monika Kircher	6/7		4/4			
Harald Louis	7/7			5/5		
Dagmar Mühlenfeld	7/7	4/4				
Peter Ottmann	7/7			5/5	3/3	
Günther Scharz	7/7					2/2
Dr. Erhard Schipporeit	7/7		4/4			
Dr. Wolfgang Schüssel	7/7	4/4		5/5		
Ullrich Sierau	7/7		4/4			
Ralf Sikorski	7/7		4/4			2/2
Marion Weckes	7/7		4/4			
Leonhard Zubrowski	6/7			5/5		1/2

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

Attendance. The table on the previous page 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 2020, 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 out of four meetings. As can be seen from the overview, absences were an exception.

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. We were not notified of any such conflict in fiscal 2020.

Financial statements for fiscal 2020. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PWC) audited and issued an unqualified auditor's opinion on the 2020 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 prepared pursuant to Section 315a of the German Commercial Code in compliance with International Financial Reporting Standards (IFRS) as well as the combined review of operations for RWE AG and the Group including the accounts. In addition, PWC subjected the Non-financial Report to a limited assurance audit and found that the Executive Board had established an appropriate early risk detection system. The company had been elected independent auditor by the 2020 Annual General Meeting. Thereafter, the Supervisory Board had commissioned it to audit the aforementioned financial statements and reports.

The 2020 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 10 March 2021. 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 9 March 2021, 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 2020 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 €0.85 per share.

Personnel matters. The composition of the Supervisory Board and of its committees did not change in the past fiscal year. However, there were some major personnel changes on the Executive Board of RWE AG. I told you earlier that Markus Krebber will take over as CEO from Rolf Martin Schmitz. This resolution was passed by circular on 27 July after the Supervisory Board had paved the way for this at its meeting of 28 April. By mutual consent, we shortened the tenure of Mr. Krebber, which would have expired on 30 September 2024, to 30 June 2021 and appointed him an ordinary member of the Executive Board for the period thereafter running from 1 July 2021 to 30 June 2026. As Rolf Martin Schmitz will resign his office at the end of April 2021 – two months earlier than planned – Markus Krebber will take over as CEO as of 1 May 2021. In addition to the succession arrangements for Mr. Schmitz, we took two further personnel-related decisions: in our session on 18 September, we appointed Michael Müller and Zvezdana Seeger to the Executive Board as of 1 November 2020, for an initial term of three years. Michael Müller will succeed Markus Krebber as CFO. Zvezdana Seeger was entrusted with the human resources and IT offices. She has also been the company's Labour Director since 1 November.

Thanks to our new staffing decisions, which we reached following extensive consultations and with the expert support of the Personnel Affairs Committee, we have the right people in the right positions to ensure that the new RWE can continue to chart its course for success. If there is one person to whom this is particularly important, then it has to be Rolf Martin Schmitz, as it was with him as CEO that RWE set out on this course. When he steps down in 2021, he can do so safe in the knowledge that he is passing on a company that reinvented itself in difficult times and transformed itself into a profitable player in the energy transition.

He deserves the utmost recognition for everything he has done for the company. On behalf of the entire Supervisory Board, I would like to take this opportunity to express my heartfelt gratitude to him for his constructive, respectful and extremely successful co-operation.

A strong performance – thanks to the people who are RWE. RWE's impressive development is naturally not solely attributable to any one single individual, but of all of the employees who dedicate their work and lifeblood to this company. They made sure that the new RWE continued its transformation at an unrelenting pace, despite the coronavirus pandemic. The extremely level-headed way in which they dealt with the crisis, their ability to adapt processes and workflow to the unprecedented circumstances – with the virtual Annual General Meeting I mentioned earlier as a shining example – and the strict discipline they display in abiding by the infection control concepts in their daily work have proven that we can always count on the people at RWE. Speaking for the entire Supervisory Board, I would like to express my sincere gratitude to them.

On behalf of the Supervisory Board



Werner Brandt
Chairman

Essen, 10 March 2021