

# Supervisory Board report



Dr. Erhard Schipporeit

Essen, 6 March 2018

*Dear Shareholders,  
Ladies and gentlemen,*

In the past year, the Supervisory Board continuously monitored the management activities of the Executive Board, advised the Board on managing the company and was involved in all fundamental decisions. The Supervisory Board discharged its obligations stipulated by law, the Articles of Incorporation and the Rules of Procedure. Acting in a regular, comprehensive and timely manner, the Executive Board informed the Supervisory Board of material aspects of business development, both verbally and in writing. The Supervisory Board was also thoroughly informed of the earnings situation, risks and risk management. Above and beyond this, the Chief Executive Officer continuously informed the Chairman of the Supervisory Board about the current business situation, material events and upcoming decisions and discussed the long-term outlook and emerging.

**General comments.** Last year, the Supervisory Board held five ordinary meetings, one constituent meeting and one extraordinary meeting. Two of the meetings were attended by all of the Board's members and five meetings were attended by 19 members. In the past year, due to illness, one of the Supervisory Board members was present at only one half or fewer of the meetings of the Supervisory Board or its committees during the member's tenure. The table below presents a breakdown of attendance by member. Members of the Executive Board attended the Supervisory Board meetings, unless the Chairman of the Supervisory Board decided otherwise.

Attendance at meetings in fiscal 2017 <sup>1</sup> by Supervisory Board member	Supervisory Board	Executive Committee	Audit Committee	Personnel Affairs Committee	Strategy Committee	Nomination Committee
Dr. Werner Brandt, Chairman (until 31 Dec 2017)	7/7	1/1		4/4	2/2	2/2
Frank Bsirske, Deputy Chairman	7/7	1/1		2/4	2/2	
Reiner Böhle (until 31 Dec 2017)	3/7			2/4		
Ulrich Grillo	7/7	1/1				2/2
Arno Hahn (until 31 May 2017)	3/3		1/1			
Maria van der Hoeven	7/7					
Michael Kleinemeier	7/7			4/4		
Martina Koederitz	7/7				1/2	
Dr. Markus Krebber	7/7	1/1	5/5			
Monika Krebber (since 9 June 2017)	4/4				1/1	
Hans Peter Lafos (until 31 Dec 2017)	7/7	1/1				
Robert Leyland	6/7	1/1				
Meike Neuhaus	7/7					
Dr. Rolf Pohlig	7/7	1/1	5/5			2/2
René Pöhls	7/7		4/5	4/4		
Pascal van Rijsewijk <sup>2</sup>	7/7	1/1	4/4			
Gabriele Sassenberg	7/7		4/5			
Dr. Dieter Steinkamp	7/7				2/2	
Marc Tüngler	7/7			4/4		
Šárka Vojtková	7/7				2/2	
Deborah Wilkens	7/7		5/5			

<sup>1</sup> Attendance = number of meetings attended by the Supervisory Board member/total number of meetings.

<sup>2</sup> Member of the Audit Committee since 24 April 2017.

As Supervisory Board members, we based our decisions on the comprehensive reports and draft resolutions submitted by the Executive Board. The Supervisory Board had ample opportunity to review the Executive Board's reports and draft resolutions in its plenary sessions and committee meetings. The Executive Board also thoroughly informed the Supervisory 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 also did so by circular resolution. In between the meetings, the Chairman of the Supervisory Board also communicated closely and regularly with the Executive Board, allowing events of material significance to the Group's situation and development to be discussed by the Supervisory Board without any delay.

**Main points of debate.** In the past year, the Supervisory Board regularly discussed the company's strategic orientation with the Executive Board, addressing this issue in detail at the Supervisory Board's strategy meeting held on 22 June 2017 and the meeting of 21 September 2017. The Executive Board reported regularly to the Supervisory Board on the financial condition of the Group and on other important matters, such as securing an independent syndicated credit line for innogy SE and legal risks. The Executive Board also provided the Supervisory Board with detailed information on developments in energy policy, regulatory changes, the current status of legislation and the economic environment. Operational developments in the divisions were presented, for example the evolution of customer figures, the current status of ongoing

construction projects, the concession business in Germany, the development of the UK retail business and current events in e-mobility. The Supervisory Board was informed about the results of the offshore auctions at its June meeting, and the topic of cyber security was discussed in detail at the September meeting.

At the meeting on 13 December 2017, the Supervisory Board unanimously approved the merger of npower with SSE's household energy and energy services business. The Executive Board had already thoroughly informed the Supervisory Board about this transaction prior to the actual decision. At the same meeting, the Supervisory Board also approved the acquisition of a 100% stake in Trireme Energy Development II, LLC, which holds onshore wind projects at varying stages of development at attractive locations in the United States with a total capacity of more than 2 GW.

Moreover, the Supervisory Board thoroughly reviewed the planning for fiscal 2018 submitted by the Executive Board and the preview for the following two fiscal years. The Executive Board presented a detailed explanation of the deviations from the previous plans and goals. After intensive discussions, the Supervisory Board approved the planning and took cognizance of the previews.

In general, the representatives of the shareholder and the employees reviewed the agenda items for the plenary meetings in separate preliminary discussions.

**Conflicts of interest.** The members of the Supervisory Board are obliged to immediately disclose any conflicts of interest they have. When the agenda item 'Information on the possible acquisition of the Belgian electricity and gas retail business of the Italian ENI Group' was discussed on 7 March 2017, Maria van der Hoeven left the meeting, due to her membership of the Supervisory Board of Total S.A.

**Corporate governance.** In 2017, the Supervisory Board also reviewed the implementation of the German Corporate Governance Code and prepared a corporate governance report together with the Executive Board. This report is available at [www.innogy.com/corporate-governance](http://www.innogy.com/corporate-governance). On 13 December 2017, the Supervisory Board also published a statement of compliance, which can be found on the same Internet page. innogy SE is in compliance with the recommendations of the Code in the version published on 24 April 2017 in the official section of the German Federal Gazette.

**Committees.** The Supervisory Board's IPO Committee, which was founded in 2016, was no longer convened in fiscal 2017 and was dissolved on 7 March 2017 following the company's successful IPO in October 2016. Consequently, there were five Supervisory Board Committees in 2017. An overview of the Committees and their members is presented on page 214. The Committees prepare the upcoming topics and resolutions for the individual meetings of the Supervisory Board. In certain cases, they also exercise the decision-making powers conferred on them by the Supervisory Board. The Committee chairs provide the Supervisory Board with regular, comprehensive reports on their work.

The **Executive Committee** held one meeting in fiscal 2017. Its focus was on preparing the Supervisory Board discussion of the planning for fiscal 2018 and the preview through to 2020.

The **Audit Committee** convened five times in the year under review. The auditor and CFO attended all of these meetings. Based on the relevant reports of the auditor, the Audit Committee reviewed innogy's annual financial statements and interim reports and discussed these with the Executive Board. In addition, the Audit Committee submitted a recommendation for the proposal made by the Supervisory Board to the Annual General Meeting regarding the election of the independent auditor for fiscal 2017 and also prepared the contract commissioning the independent auditor, including details of the fee.

The Committee also discussed the new EU regulation on the external rotation of auditors, the new International Financial Reporting Standards (IFRS), the dependency report of innogy SE and the new guidelines on non-financial reporting across the innogy Group (CSR Implementation Directive). It reviewed the Group's non-financial reports and prepared the Supervisory Board debates on this matter. Another regular reporting topic was compliance issues.

Within the framework of reviewing the annual financial statements, the Committee specifically addressed the key audit matters, as part of the auditor's report on the innogy Group's consolidated financial statements for the period ended 31 December 2017.

The agenda of the Audit Committee included numerous other matters, such as the determination of the internal audit schedule; the financial condition and rating of the innogy Group; cyber security; the EU Data Protection Regulation; further separation of innogy SE from RWE AG; the Group's tax situation; the ad-hoc review of the 2016 financial statements by the German Financial Reporting Enforcement Panel (FREP), which was completed without any errors being found; the Internal Control System; the results of the goodwill impairment test pursuant to International Accounting Standard (IAS) 36; and innogy's criteria for capital allocation and project grants. The overall risk management framework and strategy were explained to the Audit Committee, which was also informed about the risk situation and the Group's legal risks. The auditor also held a detailed presentation on its quality assurance system.

The heads of the Group functions were also available at the Audit Committee's meetings for reports and questions on individual points.

The **Strategy Committee** met on two occasions in fiscal 2017 to discuss questions and issues which are of strategic significance for innogy. Among other matters, it concentrated on the ongoing process of developing innogy SE's strategy and prepared the Supervisory Board's strategy meeting in June 2017, along with other topics presented at subsequent meetings of the Supervisory Board.

The **Personnel Affairs Committee** held four meetings in 2017. It prepared the Supervisory Board's resolutions on the Executive Board's personnel matters and unanimously recommended that the Supervisory Board approve the mutual agreement on the resignation of Peter Terium from the Executive Board with immediate effect and appoint Uwe Tigges as interim Chairman of the Executive Board. Furthermore, it reviewed the bonuses and share-based payment of the Executive Board members in the year under review. In relation to this, it made recommendations on the measurement and determination of the targets and criteria for meeting them. The Committee also prepared the resolutions of the Supervisory Board pursuant to the Law on the Equal Participation of Women and Men in Executive Positions.

The **Nomination Committee** was convened twice in fiscal 2017. On one occasion, it met to discuss the election of the Supervisory Board at the Annual General Meeting on 24 April 2017. At the second meeting, it nominated a successor to Dr. Werner Brandt.

**Financial statements for fiscal 2017.** Based on the accounting records, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) scrutinised and issued an unqualified auditor's opinion on the 2017 financial statements of innogy SE, which were prepared by the Executive Board in compliance with the German Commercial Code; the consolidated financial statements of the Group, which were prepared in compliance with IFRS pursuant to Section 315e of the German Commercial Code; and the combined review of operations for innogy SE and the Group. In addition, PwC found that the Executive Board had established an appropriate early risk detection system, which is fit for purpose. PwC was elected independent auditor by the Annual General Meeting on 24 April 2017 and commissioned by the Supervisory Board to audit the financial statements of innogy SE and the Group.

Documents supporting the annual financial statements, the annual report and the audit reports were submitted to the members of the Supervisory Board for review in good time. Furthermore, the Executive Board commented on the documents at the Supervisory Board's balance sheet meeting of 6 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 thoroughly reviewed the financial statements of innogy SE and the Group, as well as the audit reports, at its meeting on 5 March 2018, with the auditors present. It had 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 6 March 2018, the Supervisory Board reviewed the annual financial statements of innogy SE, the consolidated financial statements, the combined review of operations for innogy SE and the Group, the dependency report for innogy SE, the non-financial report for the innogy Group and the Executive Board's proposal regarding the appropriation of distributable profit. As recommended by the Audit Committee, the Supervisory Board approved the audits of both financial statements and adopted the annual financial statements of innogy SE and the Group. The 2017 annual financial statements were thus adopted. The Supervisory Board concurred with the Executive Board's proposal regarding the appropriation of profits, which envisages paying a dividend of €1.60 per share.

**Dependency report for fiscal 2017.** RWE Downstream Beteiligungs GmbH, a subsidiary wholly owned by RWE AG, holds a stake of about 76.8% in innogy SE. As there is no control and/or profit and loss-pooling agreement between the companies, the Executive Board of innogy SE prepared a report on the company's relations to affiliates ('dependency report') for the period from 1 January to 31 December 2017, in accordance with Section 312 of the German Stock Corporation Act. The dependency report was audited by the independent auditor appointed by the company. The independent auditor did not raise any objections and issued the following statement in accordance with Section 313 of the German Stock Corporation Act: 'In line with the audit award, we audited the report of the Executive Board in accordance with Section 312 of the German Stock Corporation Act on relations to affiliates pursuant to Section 313 of said Act for the reporting period from 1 January to 31 December 2017. As there are no objections to the final outcome of our audit, we hereby issue the following audit certification in accordance with Section 313, Paragraph 3, Sentence 1 of the Stock Corporation Act: Based on our dutiful audit and assessment, we confirm that 1) the statements actually made in the report are correct, 2) that the company's consideration for the legal transactions mentioned in

the report was not unduly high, 3) that the measures mentioned in the report do not speak in favour of an assessment that differs materially from that of the Executive Board.'

The dependency report and the audit report of the auditor were made available to the Audit Committee and the Supervisory Board. The review did not lead to any objections. Likewise, the Supervisory Board did not raise any objections against the declarations of the Executive Board concerning the relations to affiliates.

**Personnel changes in the Supervisory Board.** With the completion of the Annual General Meeting on 24 April 2017, the tenure of the members of the Supervisory Board came to an end. All of the representatives of the shareholders and the employees were re-elected at the Annual General Meeting. At the subsequent constituent meeting, the Supervisory Board elected Dr. Werner Brandt as the Chairman of the Supervisory Board and Frank Bsirske as the Deputy Chairman. New members were also appointed to the committees. The Supervisory Board found that Dr. Rolf Pohlig fulfilled the legal requirements (Article 9, Paragraph 1, Item c) ii) SE-VO in connection with Section 100, Paragraph 5 and Section 107, Paragraph 4 of the German Stock Corporation Act) and appointed him as a member of the Supervisory Board and Audit Committee with specialised professional expertise in the fields of accounting and auditing.

As of 31 May 2017, Arno Hahn left the Supervisory Board. His successor, Monika Krebber, was appointed by court order dated 2 June 2017, effective from 9 June 2017. Dr. Werner Brandt, Reiner Böhle and Hans Peter Lafos resigned as members of the Supervisory Board as of 31 December 2017. The Supervisory Board wishes to thank the departing members for their committed and constructive work for the benefit of the company.

Dr. Erhard Schipporeit, Markus Sterzl and Jürgen Wefers were appointed as members of the Supervisory Board effective from 1 January 2018 by court order dated 27 December 2017. At the meeting of the Supervisory Board on 13 December 2017, Dr. Erhard Schipporeit was elected as the Chairman of the Supervisory Board, effective 1 January 2018 and subject to his appointment by court order which occurred.

**Personnel changes in the Executive Board.** At its extraordinary meeting on 19 December 2017, based on the recommendation of the Personnel Affairs Committee, the Supervisory Board unanimously approved the mutual agreement on the resignation of Peter Terium from the company's Executive Board with immediate effect. The Supervisory Board also appointed Uwe Tigges as interim Chief Executive Officer.

The Supervisory Board wishes to thank Peter Terium for his contributions to the company.

**Appreciation of commitment and loyalty.** On behalf of the Supervisory Board, I would like to express my gratitude to the Executive Board and all of the company's employees for their work in fiscal 2017. Their enormous commitment and loyalty have made a great contribution to the company's success. We would also like to wish Bernhard Günther all the best and a speedy recovery in the wake of the terrible attack in early March.

On behalf of the Supervisory Board



Dr. Erhard Schipporeit  
Chairman

Essen, 6 March 2018